



Rhinebeck Central School District Extra-Classroom Activities

Report of Examination

Period Covered:

July 1, 2015 – April 30, 2017

2017M-135



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
EXTRA-CLASSROOM ACTIVITIES	4
Cash Receipts	5
Records	6
Policy and Oversight	7
Recommendations	8
APPENDIX A Response From District Officials	10
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Rhinebeck Central School District, entitled Extra-Classroom Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Rhinebeck Central School District (District) is located in the Towns of Clinton, Hyde Park, Milan, Red Hook, Rhinebeck and Stanford in Dutchess County. The District is governed by the Board of Education (Board) which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates three schools with approximately 1,100 students and 200 employees. The District's budgeted appropriations for the 2016-17 fiscal year were \$33 million, funded primarily with State aid, real property taxes and grants.

Extra-classroom activities are generally student clubs whose financial support is raised and spent by students. During our audit period, the District had 35¹ extra-classroom activity clubs with recorded receipts of \$160,896 and disbursements of \$146,400.

Objective

The objective of our audit was to review District official's management of extra-classroom activities. Our audit addressed the following related question:

- Did District officials ensure that extra-classroom activity cash receipts and disbursements were properly accounted for?

Scope and Methodology

We examined the District's extra-classroom activity records for the period July 1, 2015 through April 30, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ At July 1, 2015 the District's records indicated there were 35 clubs during the audit period. However, six clubs were subsequently closed and 10 clubs had no financial activity.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and indicated they plan to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Extra-Classroom Activities

The New York State Commissioner of Education's Regulations are intended to safeguard extra-classroom activity funds and provide school districts with the opportunity to teach students good business procedures through participation in handling such funds and operating a successful business. The NYS Department of Education (SED) published a pamphlet that provides guidance and a plan for those responsible for managing and accounting for these funds.² The Board must follow this plan or implement its own plan, which includes rules and regulations for conducting, operating and maintaining extra-classroom activities and safeguarding, accounting for and auditing all money received.

The District has a central treasurer³ who maintains custody of all extra-classroom funds and approximately 30 faculty advisors who guide students in planning extra-classroom activity financial budgets. Faculty advisors also provide oversight for depositing and disbursing money, recordkeeping and verifying that the student treasurers' ledgers are complete and accurate. Student treasurers are more directly involved in receiving and requesting disbursement of money and are responsible for maintaining a ledger showing all receipts and disbursements as well as a daily cash balance.

District officials need to improve internal controls to help ensure that extra-classroom activity cash receipts are properly accounted for. Although the central treasurer maintained accurate records and appropriately withheld sales tax collected, collections were not always deposited timely and student treasurers did not maintain adequate supporting documentation for cash receipts. From an internal control perspective, the best approach is to deposit money as soon as possible. The longer money remains undeposited, the greater the risk that loss or theft can occur. Because student treasurers did not maintain adequate supporting documentation for collections, District officials are unable to ensure that students are remitting funds to the central treasurer in a timely manner.

In addition, student treasurers did not always maintain cash receipt and disbursement ledgers and none of them prepared profit and loss

² *Safeguarding, Accounting, and Auditing of Extra-classroom Activity Funds* pamphlet is available at www.p12.nysed.gov/mgtserv/accounting/docs/ExtraClassroomActivitiesJanuary2015.pdf.

³ The central treasurer position for extra-classroom activities differs from that of a District Treasurer.

statements for fundraising activities. The Board did not adopt an adequate extra-classroom activity policy to provide comprehensive guidance for District officials and students. The Board also did not appoint a faculty auditor to ensure that receipts were issued, disbursements were supported with adequate documentation and student ledgers were maintained and reconciled with the central treasurer's records. Finally, when student treasurers do not maintain club ledgers or prepare profit and loss statements, students miss the opportunity to learn the business aspect of extra-classroom activities.

Cash Receipts

Students are responsible for collecting money and remitting it to the central treasurer for deposit. When collecting money, students should issue duplicate press-numbered receipts or use some other method to document the source, date, amount and purpose of cash collected, such as a daily sales report. When students remit collections to the central treasurer for deposit, student treasurers, with the help of faculty advisors, are required to complete deposit summary statements indicating the composition, source, date and amount of collections including the portion to be allocated for sales tax, if applicable.

Student treasurers should remit collections to the central treasurer as soon as possible and provide adequate documentation to support the amounts collected. Student treasurers are also responsible for retaining copies of all records submitted to the central treasurer and recording all receipt activity in a ledger. The central treasurer should issue duplicate press-numbered receipts to student treasurers to document the transfer of money and retain all supporting documentation for the amounts collected.

We reviewed 50 cash receipts totaling \$58,560, collected by nine clubs,⁴ remitted to the central treasurer for deposit during our audit period, to determine whether the collections were adequately supported, accounted for and deposited intact in a timely manner. All of these collections were accurately accounted for in the central treasurer's ledger and the collections were deposited intact. However, the central treasurer did not always deposit cash collections in a timely manner and adequate supporting documentation was not maintained because student treasurers did not use duplicate press-numbered receipts or sales records to document money received. For example:

- The central treasurer did not deposit 13 receipts totaling \$10,182 in a timely manner. The deposits were made between seven and 24 days after the deposit slips were dated. In

⁴ See Appendix B for information on our sampling methodology

addition, we found the clubs did not remit cash collections in a timely manner⁵ to the central treasurer. Receipts totaling \$14,193, were remitted from six to 51 days after collections.

- The central treasurer issued duplicate press-numbered receipts to the clubs. In addition, the Elementary School advisor⁶ issued duplicate receipts for every yearbook purchased. However, the faculty advisors for the other eight clubs did not ensure that the clubs' student treasurers issued duplicate press-numbered receipts or maintain daily sales reports to document the receipt of 31 collections totaling \$11,758.

Because student treasurers did not maintain adequate supporting documentation for collections, District officials are unable to ensure that students are adequately accounting for all collections or remitting them to the central treasurer in a timely manner. Additionally, when duplicate press-numbered receipts are not issued for all collections, there is an increased risk that errors could occur and not be detected or corrected in a timely manner.

Records

Each extra-classroom activity club⁷ should have a student treasurer and faculty advisor who are responsible for maintaining independent accounting records of receipts and disbursements that include daily running cash balances. It is important for faculty advisors to guide student treasurers in entering information into their ledgers and to periodically check student treasurers' account balances.

In addition, SED recommends that there be a faculty auditor to periodically compare student treasurers' ledgers with the central treasurer' ledgers to determine whether there is agreement between the ledgers and investigate any discrepancies. Student treasurers also should prepare profit and loss statements for all fundraising activities to analyze the profitability of those activities.

We reviewed student treasurers' records for 2015-16 and 2016-17 (up to April 30, 2017) for eight clubs to determine whether the records were adequately maintained and whether profit and loss statements were prepared for fundraising activities. We found that student treasurers' records for the eight clubs lacked supporting documentation, copies of invoices and/or receipts were not attached to check request forms and deposit slips were not attached to copies of

⁵ See Appendix B for information regarding records reviewed

⁶ The District's Elementary School is a K – 5th grade, as per SED guidelines a student treasurer can be a 6th to 12th grade student. Therefore, the faculty advisor is responsible for maintaining the records.

⁷ For students in grades 6 to 12.

the checks or the duplicate receipt received from the central treasurer. In addition, the Board did not appoint a faculty auditor to periodically compare student treasurers' ledgers with the central treasurer ledgers and investigate and resolve differences. Our review identified the following issues:

- Although some faculty advisors prepared informal profit and loss statements for specific fundraisers, these statements lacked supporting sales or disbursement records. Student treasurers did not prepare any profit and loss statements for fundraising activities.
- Faculty advisors were the primary custodians of club ledgers in seven of the eight clubs. We also found the faculty advisors had completed the deposit slips and the check request forms.
- Club records were not complete. Three of nine clubs⁸ did not retain copies of invoices or receipts for disbursements and eight of nine clubs did not retain deposit information such as copies of the deposit slips, sales records for the fundraisers or duplicate receipts.

The District does not have adequate policies that describe how participants in the extra-classroom activity should maintain their records. Without such guidance, it is unlikely that student treasurers will maintain adequate club records.

Policy and Oversight

The Board and District officials are responsible for protecting and providing oversight of extra-classroom activity funds and goods purchased for subsequent fundraising sales. These responsibilities include adopting and implementing policies and procedures that describe the records that District personnel and students must maintain and the duties and procedures they must follow to safeguard money. Having a good system of internal controls helps minimize the risk that errors or irregularities could occur and remain undetected and uncorrected.

Although the Board established a policy in 2002 for the extra-classroom activity funds, this policy has not been updated and is not adequate because it does not provide specific guidance for financial management and recordkeeping. The District's policy does not provide comprehensive rules and regulations for establishing, conducting, operating and maintaining extra-classroom activities

⁸ Includes the records for the elementary school club, which is not allowed to have a student treasurer

or for the safeguarding and accounting of all money received. For example, the policy does not:

- Require that a faculty auditor be appointed to provide oversight of activity funds. Oversight activities should include monitoring fundraising proceeds by comparing the deposited receipts with anticipated sales, comparing the central treasurer's ledger to the student treasurer's ledger and ensuring sufficient documentation is attached to payment order forms.
- Require two sets of independent records (student treasurers' records and central treasurer's records) for each extra-classroom activity to record cash receipts and cash disbursements. These records should then be reconciled to each other to ensure the records' accuracy and maximize the educational benefits to the student treasurers.
- Provide procedures detailing financial management guidance to student treasurers, such as preparing profit and loss statements and maintaining up-to-date activity ledgers and inventory control forms.
- Require extra-classroom activity clubs to issue duplicate press-numbered receipts when club members collect money. Provide detailed procedures for establishing and maintaining a club and the financial management and recordkeeping of activity funds.

Due to the lack of established policies, the central treasurer and the faculty advisor were not provided the guidelines to properly account for and oversee extra-classroom activities. Without such policies, it is less likely that student treasurers will receive a learning experience in business procedures necessary to safeguard the collection, deposit and disbursement of money along with the business aspect of profit and loss and maintenance of the ledger. Additionally, if club ledgers are not maintained or do not agree with the central treasurer's ledger, there is an increased risk that errors or irregularities could occur and remain undetected.

Recommendations

District officials should:

1. Ensure the central treasurer, faculty advisors and student treasurers are adequately informed about the District's cash receipts policies and procedures, follow the specific requirements for the receipt of funds and maintain adequate and appropriate accounting records.

The central treasurer should:

2. Deposit all cash receipts in a timely manner.

Faculty advisors should:

3. Ensure the club members issue duplicate press-numbered receipts or use some other methods to adequately document the source, date, amount and purpose of the collections, such as a daily sales report.
4. Ensure that the central treasurer receives supporting documentation for all extra-classroom activity cash receipts that are remitted for deposit and that the student treasurers properly account for all extra-classroom activity cash receipts.
5. Ensure that student treasurers reconcile final fundraising activity, compare the items purchased and sold to the cash collected and recorded and prepare profit and loss statements.
6. Ensure student treasurers maintain ledgers throughout the year and periodically compare cash balances to the central treasurer's records.

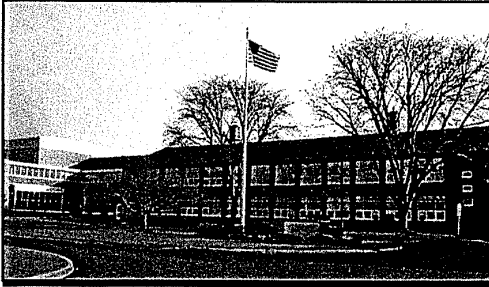
The Board should:

7. Update and amend its extra-classroom activity fund policy to provide specific guidance for the financial management and recordkeeping of the activity fund.
8. Ensure District officials establish written procedures to supplement the Board policy or provide specific guidance for performing day-to-day extra-classroom activities.
9. Appoint a faculty auditor to ensure that the central treasurers, faculty advisors and student treasurers comply with District policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.



Rhinebeck Central School District

Towns of Rhinebeck, Clinton, Milan, Red Hook,
Hyde Park and Stanford
Dutchess County, New York

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JOSEPH L. PHELAN

September 20, 2017

Ms. Tenneh Blamah
Chief Examiner of Local Government and
School Accountability
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Ste. 103
New Windsor, NY 12553

Dear Ms. Blamah:

Rhinebeck Central School District is in receipt of the Draft Audit Report for the period of July 1, 2015 – April 30, 2017 relating to Extra-Classroom Activities. This correspondence also will confirm that an exit interview was held on August 22, 2017 at 4:00 pm in the District Office.

The District would like to thank the Office of the State Comptroller for their time and effort in evaluating the District's fiscal management practices and procedures. We were pleased to note that the audit found no instance of fraud, misuse, or misappropriation of funds. In addition, out of all of the areas of the District's financial operations that were subject to an initial risk assessment by the Comptroller's Audit team, only one area, Extra-Classroom Activities, was selected for additional review. We also appreciate receiving feedback from the Comptroller's Audit team regarding the cooperation and helpful attitude of the members of our school district's Business Office staff.

The District is also grateful to the Comptroller's Audit team for their professionalism, thoroughness, and courtesy in conducting our audit. The District also appreciates the guidance and recommendations afforded to the District to assist us in strengthening our financial practices and oversight. We will take corrective action accordingly to ensure that best practices are implemented in all aspects of the District's fiscal operations.

Please accept this letter as the District's formal response to the Draft Audit findings and recommendations regarding the school district's Extra-Classroom Activities practices and procedures, as follows:

- 1.0 District Officials should ensure that the central treasurer, faculty advisors and student treasurers are adequately informed about the District's cash receipts policies and procedures, follow the specific requirements for the receipt of funds, and maintain adequate and appropriate accounting records.

Ms. Tenneh Blamah
Page 2
September 15, 2017

- 2.0 The Central Treasurer should deposit all cash receipts in a timely manner.
- 3.0 Faculty Advisors should ensure that:
 - 3.1 the club members issue duplicate press-numbered receipts or use some other methods to adequately document the source, date, amount and purpose of the collections, such as a daily sales report;
 - 3.2 the central treasurer receives supporting documentation for all extra classroom activity cash receipts that are remitted for deposit and that the student treasurers properly account for all extra-classroom activity cash receipts;
 - 3.3 student treasurers reconcile final fundraising activity, compare the items purchased and sold to the cash collected and recorded, and prepare profit and loss statements; and
 - 3.4 student treasurers maintain ledgers throughout the year and periodically compare cash balances to the central treasurer's records.
- 4.0 The Board of Education should:
 - 4.1 update and amend its extra-classroom activity fund policy to provide specific guidance for the financial management and recordkeeping of the activity fund;
 - 4.2 ensure that District officials establish written procedures to supplement the Board policy or provide specific guidance for performing day-to-day extra-classroom activities; and
 - 4.3 appoint a faculty auditor to ensure that the central treasurer, faculty advisors, and student treasurers comply with District policy.

As required, the District will develop a corrective action plan (CAP) in response to the above findings, along with an implementation schedule.

In conclusion, the Rhinebeck Central School District appreciates the recommendations included in the draft report by the staff of the State Comptroller's Office. While we continually look for ways to maintain the quality of our District's educational programs while being fiscally responsible to the community, we appreciate the efforts of the Comptroller's audit team in assisting us to reach that goal.

Sincerely,

Joseph L. Phefan
Superintendent of Schools

Deirdre d'Albertis
Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed SED guidance and the District’s policy for safeguarding, auditing and accounting for extra-classroom activity funds.
- We judgmentally selected and reviewed the records of nine extra-classroom activity clubs or 25 percent of all clubs. Our sample consisted of one club from the elementary school, the two clubs from the middle school with the highest cash receipt activity and the five clubs from the high school with the highest cash receipt activity. We randomly selected and reviewed the cash receipts and disbursements of one additional club.
- We compared the clubs’ deposit slips with the central treasurer’s accounting ledger to determine if the information agreed.
- We traced the receipts to the bank statements and tested deposits to determine whether they were made in a timely manner (within five days of the central treasurer receiving money from student treasurers). We traced copies of the checks received by the student treasurer to the deposit slips to determine whether they were made in a timely manner (within five days of the club receiving the money).

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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