



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

June 2016

Luvelle Brown, Superintendent
Members of the Board of Education
Ithaca City School District
400 Lake Street
Ithaca, NY 14850

Report Number: P4-15-55

Dear Dr. Brown and Members of the Board of Education:

A top priority of the Office of the State Comptroller is to help school district officials manage their resources efficiently and effectively and, by so doing, provide accountability for money spent to support educational opportunities. The Comptroller oversees the fiscal affairs of districts statewide, as well as 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 operations and Board of Education (Board) governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

In accordance with these goals, we conducted an audit of six school districts throughout New York State. The objective of our audit was to determine whether the Board ensured that district officials properly accounted for extra-classroom cash receipts and disbursements. We included the Ithaca City School District (District) in this audit. Within the scope of this audit, we examined the policies and procedures of the District and reviewed cash receipts and disbursements for the period July 1, 2013 through May 8, 2015. 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 report of examination letter contains our findings and recommendations specific to the District. We discussed our findings and recommendations with District officials and considered their comments, which appear in Appendix A, in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. At the completion of our audit of the six school districts, we prepared a global report that summarizes the significant issues we identified at all of the districts audited.

Summary of Findings

We found that the Board and the District officials¹ need to strengthen the internal controls over cash receipts and disbursements. Additionally, while some clubs did maintain a complete second set of records as required, others were either missing some records or did not maintain any records. As a result, we could not determine if all cash collections were turned over to the Central Treasurers (Treasurers)² for deposit and were made in a timely fashion and intact. Generally, cash disbursements were properly approved and adequately supported by the Treasurers, although the clubs lacked support for the disbursements.

Background and Methodology

The District is located in the City of Ithaca and parts of the Towns of Caroline, Danby, Dryden, Enfield, Ithaca, Lansing, Newfield and Ulysses in Tompkins County; and parts of the Towns of Candor and Richfield in Tioga County. The District is governed by a nine-member Board. The Board has the responsibility for the general management and control of the District's financial and educational affairs, including the extra-classroom activity fund. The Superintendent of Schools (Superintendent) is responsible for recommending to the Board the staff necessary to fulfill duties related to extra-classroom activities, including the Treasurers. The Treasurers have custody of all extra-classroom funds, including checks and cash receipts.

A faculty advisor guides and advises the students in planning extra-classroom activities and financial budgets, along with providing oversight of the deposit and disbursement of money, recordkeeping and, from time to time, checking the balancing of the student activity treasurers' (student treasurer) accounts and the completeness of the supporting evidence. The faculty advisor is to work toward ensuring the largest educational return from the activities participated in by the students. The student treasurer is more directly involved in the receipt and disbursement of money and is responsible for maintaining a ledger showing all receipts and disbursements and indicating a daily running balance. The Superintendent, Board, District Treasurer and Business Official at the District have no involvement or oversight with extra-classroom activities. Each building has its own Treasurer.

There are 181 active extra-classroom activities³ within the District, each having its own student treasurer and faculty advisor, which report financial activities to the Treasurers. Students receive funds for extra-classroom activities from a number of sources, such as admissions, membership dues, sales, campaigns and donations. This money may be spent in any reasonable manner. The extra-classroom activity fund had approximately \$527,000 in receipts and \$485,000 in disbursements for the 2013-14 school year.

¹ School principals, District Treasurer, Student Activities Director (High School only) and Treasurers

² The District has four school buildings: Boynton Middle School (Boynton), DeWitt Middle School (DeWitt), Ithaca High School (High School) and Lehman Alternative Community School (LACS). Each building has its own Central Treasurer.

³ At LACS, clubs are set up as projects during the normal school day, not necessarily as extra-curricular activities. Not all clubs have faculty advisors as some clubs are simply set up in the system for recordkeeping purposes for all-school activities.

We examined the controls relating to extra-classroom activities cash receipts and disbursements of the District for the period July 1, 2013 through May 8, 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on the 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.

Audit Results

The Regulations of the Commissioner of Education (Regulations) of the New York State Education Department (SED) were formulated not only to safeguard the funds of extra-classroom activities, but also to provide school districts with the opportunity to teach students good business procedures through participation in handling such funds and operating a successful business. For many students, this may be the only business training they will receive in school. SED also published a pamphlet which presents a plan for the management and accounting of these funds. The Board is to follow this plan or make their own plan, which includes rules and regulations for the conduct, operation and maintenance of extra-classroom activities and for the safeguarding, accounting and auditing of all money received and derived therefrom. This plan shall include adopting policies and procedures that describe the records that District personnel and students must maintain and the duties and control procedures to be used.

The Board-adopted policies require that a complete record of receipts and disbursements be kept, that the authority to expend money shall be distinct and separate from the custody of funds and records and that records, along with supporting documentation, are to be delivered to the District Treasurer for auditing. District policies, however, do not specify the procedures to establish an organization and what constitutes a complete set of records.

The Board and District officials put some oversight controls in place whereby the District Treasurer audits the Treasurers' quarterly reports. However, this did not happen for the duration of the audit period.⁴ The District policies state that each Treasurer is to determine the policies and procedures for their respective building within the District. Three of the four Treasurers perform all functions of the cash receipt and disbursement process as well as bank reconciliations with no oversight. The High School Treasurer, however, does not have check-signing authority. Therefore, she does not perform all functions of the disbursement process.⁵ Additionally, some clubs partially maintained or did not maintain a second set of receipt or disbursement records in accordance with the Regulations. Treasurers are providing the ledger balances to the clubs, making it easy for clubs to adjust their ledger balance to agree with the Treasurers. Alternatively, the clubs should be maintaining ledgers and verifying that their balance agrees with the Treasurers.

⁴ The District does have the extra-classroom activities fund audited annually by their external certified public accountant (CPA).

⁵ Additionally, the bank reconciliation is also sound because the Treasurer completes the bank reconciliations without check-writing authority.

Cash Receipts –District policies should describe the records that the faculty advisors and student treasurers must maintain and the duties and control procedures to be used. These should detail procedures and records, including such records as pre-numbered tickets or some other tracking of admissions, pre-numbered duplicate receipts, evidence that all money was turned over to the Treasurers (including types of money), individual club ledger requirements and profit and loss statements.⁶ Profit and loss statements must contain sufficient detail such that the Treasurers can determine the total items sold and the prices charged for each item. The Board must also ensure the Treasurers do not perform all aspects of the cash receipts process, such as cash collection, recordkeeping, cash custody and bank reconciliations. If these duties cannot be separated, the Board should implement compensating controls, such as a comparison of club records to the Treasurers’ records.

The policies relating to the Treasurers, faculty advisors and student treasurers’ financial responsibilities over cash receipts were adequate. However, the Treasurers did not ensure all procedures were performed and that all required records were maintained at the activity level.⁷ The Treasurers are not directly involved in collecting cash for fundraising activities, as the cash receipts forms are turned over to the Treasurers by the faculty advisors or student treasurers. The student treasurers had very little involvement in the cash receipts process,⁸ with the faculty advisors remitting cash receipts to the Treasurers. Additionally, District officials did not enforce the maintenance of a ledger by the student treasurers. Ledgers, if kept, were completed by the faculty advisors.⁹ Each school appropriately had forms that were used to support cash receipts collected, although none of these forms were pre-numbered.

The Treasurers did provide the faculty advisors or student treasurers with proof of remittance, such as duplicate receipts. In some cases, the Treasurers did provide numbered duplicate receipts to the faculty advisors once the receipts were entered into the financial software. Since we found that most clubs did not have support for receipts remitted, such as a profit and loss statement or other support, we could not ensure all money turned over to the Treasurers was deposited. Further, there was no standard process used to identify if all money collected by the faculty advisor was recorded on the deposit forms. None of the clubs we reviewed at any of the school buildings issued support, such as duplicate receipts, for money collected from payees. Therefore, there was no assurance that all money was turned over to the Treasurers. The Treasurers at each school building had varying processes to ensure the club records reconciled with theirs, while the High School had an adequate process.

At Boynton, DeWitt and the High School, we tested 78 receipts totaling \$54,900 and found the Treasurers deposited all of them timely and intact. At all four schools, we found clubs did not remit deposits timely to the Treasurers. We found 68 receipts totaling \$47,200 that were either not submitted in a timely fashion to the Treasurers by the clubs or we could not determine timeliness due to lack of support. We also found student treasurers did not fill out profit and loss statements for fundraising activities at each school. Although the High School did use a standard profit and

⁶ A profit and loss statement summarizes the revenues, costs and expenses incurred during a specific period of time.

⁷ Activity level represents all financial records and processes in which the faculty advisor and student treasurer have control.

⁸ With the exception of student treasurers at the High School. These student treasurers collected cash for club activities, completed appropriate receipt forms, maintained ledgers and met with the Treasurer to ensure ledgers matched

⁹ With the exception of the High School, where student treasurers maintained ledgers.

loss form, which was completed the majority of the time, the other Treasurers do not require or provide these forms to clubs. We reviewed records for 13 fundraisers totaling \$43,300 and found that 10 lacked profit and loss statements.

Specific issues found are:¹⁰

High School – No significant issues relating to cash receipts were found. We discussed minor deficiencies with District officials.

LACS – We tested 61 receipts totaling \$19,400. Of the 23 receipts from the clubs we tested totaling \$8,000, we were unable to determine if two receipts, totaling \$1,300, matched the Treasurer’s copy as we were not provided with these. We could not determine if 43 receipts, totaling \$8,400 were deposited in the bank because we were not provided with deposit slips or did not have sufficient support to trace to these receipts. The Treasurer aggregated receipts and did not have support for the deposit. Therefore, we cannot determine if these individual receipts were represented on the bank statement. Five receipts totaling \$2,500 were not deposited in the bank in a timely manner by the Treasurer, or within five days of receiving the money. There were 534 unaccounted-for receipt numbers due to receipt books being used out of sequence and errors made by the Treasurer. Consequently, we cannot determine if all receipts remitted were deposited in the bank.

Boynton – No or minimal records existed for 13 cash receipts totaling \$25,100. Therefore, we could not determine if the club deposited receipts in a timely manner or intact.

DeWitt – We could not determine if all receipts were accounted for due to record keeping practices. At the club level, seven receipts totaling \$4,200 had no corresponding ledger entry at the activity level. For 37 cash receipts totaling \$15,600, we could not determine if the receipts were deposited by the club either timely or intact. We could not determine if receipts were deposited either timely or intact at the activity level because no records existed to do so. We found one club that had an unreasonably low fundraiser profit. The vendor estimate for profit was \$315, and the club reported revenue of \$59. No explanation was provided from the Treasurer or faculty advisor.

These weaknesses occurred due to the lack of record policies and their enforcement by the District. Treasurers told us they remind faculty advisors and student treasurers of the records that need to be kept. In addition, there was insufficient detail of the aggregated deposits because District officials did not have policies in place to ensure all deposits could be accounted for.

Cash Disbursements – The policies and procedures for disbursing extra-classroom activity money should ensure that the District only pays for goods or services that are supported by adequate documentation. The procedures and records to be used should include pre-numbered disbursing orders signed by the faculty advisor and student treasurer, support such as an invoice for these purchases, individual club ledger requirements and profit and loss statements. The requirement for multiple signatures on the disbursing order is essential to any plan, as it helps to ensure numerous levels of review prior to the disbursement being made. The Board must also ensure the Treasurers do not perform all aspects of the check writing process or implement compensating controls such

¹⁰ Total number of receipts that are not supported at the activity level is 38, totaling \$26,900.

as requiring independent reviews of canceled check images, to ensure disbursements are only for legitimate extra-classroom purposes.

Generally, cash disbursement forms were appropriately signed, adequately supported and maintained on file by the Treasurers. With the exception of the High School, the other three school buildings have not adequately segregated duties over the disbursement process. The Treasurers perform all aspects of the cash disbursement process with limited oversight. No one reviews the monthly bank reconciliation, bank statements or the canceled check images. Further, at LACS, the Treasurer uses a credit union which is not a duly authorized banking institution for extra-classroom money.

Specific issues noted at the school buildings are:

High School – We assessed and tested controls over cash disbursements and found the controls were appropriately designed and are operating effectively.

LACS – Overall, we found the clubs are not always maintaining copies of disbursement forms. For the 10 disbursements we tested, totaling \$20,800, we found that clubs lacked eight forms, totaling \$12,300, to support these disbursements. We found one instance where the Treasurer did not have a properly completed disbursement form on file. However, because the bank statements do not have check images, we are unable to confirm that payees matched what was recorded. We determined that the amount, check number and date associated with each disbursement matched the supporting documentation. In addition, seven of the disbursements tested, totaling \$21,400, were for proper club purposes, but three disbursements, totaling \$21,000, did not have adequate support. For the 15 electronic fund transfers/withdrawals we tested, totaling \$18,500, we found 12, totaling \$16,300, were not approved or we could not determine if they were approved.

Boynnton – Generally, the clubs lacked support for disbursements. We tested 13 disbursements totaling \$13,100 and found that 11, totaling \$12,500, did not have any support at the activity level.

DeWitt – Generally, the clubs lacked support for disbursements. We tested 13 disbursements, totaling \$6,700, and found that 12, totaling \$5,800, did not have any support at the activity level.

When cash receipts are not supported by appropriate documentation, it is difficult to determine if the actual amount collected was remitted to the Treasurers and in a timely fashion. This results in the District facing an increased risk of fraud or misuse of these funds. When student treasurers do not maintain ledgers, the students lose out on the business educational opportunity. Further, if club ledgers do not agree with the Treasurers' ledger, the District faces an increased risk that errors or irregularities could occur and remain undetected. When District officials do not establish effective controls over cash disbursements, money disbursed may be for inappropriate purposes. Without retaining records from prior periods, faculty advisors and student treasurers may not have records available for audit or review.

Recommendations

The Board should:

1. Ensure the adopted policies and procedures are updated to include SED pamphlet requirements and are being enforced by District officials involved in extra-classroom activities.
2. Separate or establish proper compensating controls over the duties of the Treasurers.
3. Ensure all Treasurers deposit cash receipts in a timely manner.
4. Ensure the Treasurers discontinue the use of credit unions.

The Board and District officials should:

5. Require the use of profit and loss statements and ensure they contain sufficient detail such so the Treasurers can determine the total items sold at a fundraiser and the prices charged for each item.
6. Ensure that the faculty advisors and student treasurers properly safeguard receipts, including remitting receipts in a timely manner, and disburse money only for proper club purposes.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of Education Law, and Section 170.12 of the Regulations, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. 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.

We thank the officials and staff of the District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



ITHACA CITY SCHOOL DISTRICT

400 Lake Street, P.O. Box 549, Ithaca, New York 14851-0549

Luvelle Brown, Ed.D.
Superintendent of Schools

Tel: (607) 274-2101
Fax: (607) 274-2279

E-mail: luvelle.brown@icsd.k12.ny.us

February 17, 2016

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Mr. Eames,

Please accept this correspondence as the official response from Ithaca City School District (ICSD) relating to the Office of the State Comptroller's Report of Examination on the Extra-class Function of six Districts throughout New York State (P4-15-55) conducted by your office for the period of July 1, 2013 through May 8, 2015. ICSD is extremely grateful to have worked with your staff during the time that they were conducting the audit. We appreciate that you recognized the diversity of our secondary schools and the 181 active extra-classroom activities that are offered. We also welcome the recommendations made by your office regarding strengthening controls over cash receipts and disbursements. In addition, we agree that clubs need training and support to maintain a complete set of records.

To that end, please accept this letter and the statements listed below as both the response to your recommendations and corrective action plan (CAP) to your findings

- 1. Ensure the adopted policies and procedures are updated to include SED pamphlet requirements, and are being enforced by District officials involved in extra-classroom activities.* ICSD will review and revise the policies and procedures which include: instructions to establish an organization; records that District personnel and students must maintain; and duties and control procedures to be used. The policies and procedures will mirror those outlined in the pamphlet authored by New York State Education Department.
- 2. Separate or establish proper compensating controls over the duties of the treasurer(s).* Upon revision of the current policies and procedures, it is anticipated that the treasurer(s) will be prohibited from performing all aspects of the cash receipts process, such as cash collection, record keeping, cash custody and bank reconciliations. At a minimum, ICSD will implement compensating controls, such as a comparison of club records to the treasurers' records
- 3. Ensure all treasurer(s) deposit cash receipts in a timely manner.* Faculty advisors will be notified when their clubs are not making timely deposits and treasurer(s) will be advised of the importance of timely, accurate deposits.
- 4. Ensure the treasurer(s) discontinue the use of credit unions* The Board and District officials should: ICSD has received a list of all accounts that are invested with the local credit unions, including their

ICSD: 6000+ Thinkers

maturity dates. The process to move accounts to another banking institution has begun and will continue upon the close of the penalty period. No new accounts will be opened with credit unions.

5. Require the use of profit and loss statements and ensure they contain sufficient detail such that the treasurer(s) can determine the total items sold at a fundraiser, and the prices charged for each item. ICSD will stress the importance of the use of profit and loss statements as well as provide proper instruction for their use during all training provided to advisors and student officers. Training will be designed in partnership with the internal auditors to be done yearly. Occasional auditing of these statements for accuracy and detail will be instituted.

6. Ensure that the faculty advisors and student treasurers properly safeguard receipts, including remitting receipts in a timely manner, and disburse money only for proper club purposes. ICSD will stress the importance of internal controls and proper monitoring during all training provided to advisors and student officers. The District Treasurer will be instructed to monitor this area closely and to communicate any issues they see immediately to both the faculty advisor and the student treasurer as well as to the ICSD business office.

Sincerely,

Dr. Luvelle Brown
Superintendent of Schools

Mr. Robert Ainslie
President, BOE

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we reviewed the operations of the District extra-classroom activities for the period July 1, 2013 through May 8, 2015. Specific areas addressed in our audit included the cash receipts, cash disbursements and records and reports used.

Our procedures included the following:

- We reviewed the Regulations as set forth by the Commissioner of Education for the treatment of extra-classroom activity funds from SED pamphlet number 2.
- We interviewed District officials and reviewed documentation relevant to the receipts and disbursements process (CPA audits for June 30, 2011 through 2014, the extra-classroom activities general ledger and club sub-ledgers) and applicable District policies relating to the extra-classroom activities.
- We judgmentally selected and reviewed the cash receipts for 10 clubs and the cash disbursements for seven clubs. We selected clubs with either greater than 5 percent of the total collected or paid in 2013-14 or the two clubs with the most activity at the High School, Boynton and DeWitt and three clubs with the most activity at LACS. We also randomly selected and reviewed the cash receipts and disbursements of two additional clubs.
- We examined 10 percent of the receipts collected for each club selected. We traced receipts from the cash receipts journal, to the Treasurer's duplicate deposit slip and to the bank statement to verify receipts were deposited in a timely fashion and intact. We judgmentally selected this non-biased sample by starting with the first receipt on the ledger and selecting every fourth for review.
- We examined 10 percent of the disbursements for each club selected. We selected our checks from the general ledger (LACS) and from the check images (at Boynton and DeWitt) by selecting the first disbursement for the clubs tested starting in July and skipping the next two checks to select the next disbursement for testing. For the disbursements from LACS, we did not have the canceled check images, but we still determined if they were being properly recorded in the club and Treasurer's ledgers and that they were properly supported and authorized. For the school buildings with bank statements that included check images, we verified the payee and amounts match and that the disbursement was supported by documentation and for proper club purposes. At the High School, we reviewed all disbursements in June 2014 and December 2014 (judgmentally selected based on June being the end of the school year and December being a holiday month) and ensured that all purchase orders were signed by the student treasurer, faculty advisor, student activities director and associate principal and were supported by an invoice or receipt.

- We reviewed the general ledger for the audit period for all disbursements¹¹ made payable to the advisors and student treasurers for the clubs being tested, as well as the Treasurers, principals and associate principals (because they have check signing authority) to ensure it was supported by documentation and for proper club purposes.
- We judgmentally selected four fundraising activities at the High School, three at LACS, two at Boynton and four at DeWitt. We reviewed supporting documentation including profit and loss statements, where applicable, from the event and traced to records at the club, to the Treasurer's records and to the bank deposit. We verified from the bank deposit support that the receipts were deposited timely and intact.
- We scanned the list of receipts report from the software program at the High School and LACS and the receipt books at Boynton and DeWitt for any breaks in the numbering sequence and followed up with the respective Treasurer on any missing receipt numbers.
- We reviewed bank statements for the scope period at each school and verified any electronic transfers or withdrawals made had prior approval and went to District accounts or were for club purposes.

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.

¹¹ At the High School, we scanned check images for checks signed by the Treasurer or made payable to cash and found none that met this criteria.