



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

Romona Wenck, Superintendent
Members of the Board of Education
Laurens Central School District
55 Main Street
Oneonta, NY 13796

Report Number: P4-15-54

Dear Ms. Wenck 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 the Central Treasurer (Treasurer) properly accounted for extra-classroom cash receipts and disbursements. We included the Laurens Central 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 March 24, 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

While our testing of records disclosed no significant findings associated with the Treasurer, District officials 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 Treasurer for deposit and were made in a timely fashion and intact. Generally, cash disbursements were properly approved and adequately supported by the Treasurer, although the clubs often lacked support for the disbursements. We also found that the Treasurer performs all aspects of the cash disbursement process with limited oversight.

Background and Methodology

The District is located in the Towns of Laurens, Hartwick, Milford, Morris, New Lisbon and Otego in Otsego County. The District is governed by a five-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 Treasurer. The Treasurer has 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.

There are 26 active extra-classroom activities within the District, each having its own student treasurer and faculty advisor, which report financial activities to the Treasurer. 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 \$99,000 in receipts and \$90,000 in disbursements for the 2013-14 school year.

We examined the controls relating to extra-classroom activities receipts and disbursements of the District for the period July 1, 2013 through March 24, 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 its 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 District has Board-adopted policies which specifies extra-classroom funds be handled in accordance with the Regulations for the safeguarding, accounting and auditing of these funds. Included in these policies are detailed job descriptions and procedures for the Treasurer, faculty advisor and student treasurer.

District officials put in place some oversight controls whereby the Treasurer sends a report of club receipts, disbursements and balances to the Board each month. The Treasurer also sends a quarterly report to the clubs for their review. However, the Treasurer is performing all functions of the cash receipt and disbursement process, as well as the bank reconciliations, with limited oversight. Additionally, some clubs only partially maintained or did not at all maintain a second set of receipt or disbursement records in accordance with District policies and the Regulations.

Cash Receipts – The Board-adopted policies and procedures used by the District should describe the records that the faculty advisor and student treasurer must maintain and the duties and control procedures to be used. These should detail procedures and records to be used including such things as pre-numbered tickets or some other tracking of admissions, pre-numbered duplicate receipts, evidence that all money was turned over to the Treasurer (including types of money), individual club ledger requirements and profit and loss statements.¹ Profit and loss statements must contain sufficient detail such that the Treasurer can determine the total items sold and the prices charged for each item. The Board must also ensure the Treasurer does 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 Treasurer's records.

The policy relating to the Treasurer, faculty advisors and student treasurers' financial responsibilities over cash receipts was adequate. However, District officials did not ensure all procedures were performed and that all required records were maintained at the club level. The student treasurers had very little involvement in the cash receipts process, with the faculty advisors performing the collection and deposit of cash receipts to the Treasurer. Additionally, District officials did not enforce the maintenance of a ledger by the student treasurers. Ledgers, if kept, were completed by the faculty advisors. The Board did provide some standard forms² for use by

¹ A profit and loss statement summarizes the revenues, costs and expenses incurred during a specific period of time.

² These forms included club ledger, deposit slips, sales tax and meeting minute forms.

the staff related to extra-classroom activities, with the exception of profit and loss statements. However, cash receipt forms used by the clubs were not pre-numbered. When remitting cash receipts to the Treasurer, faculty advisors often placed an envelope with cash receipts into a box on the Treasurer's desk if she was not available. The Treasurer did not provide the faculty advisors with proof of remittance. However, the Treasurer 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, we could not ensure all money turned over to the Treasurer 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.

The District has a policy requiring that the Treasurer send out quarterly statements to the clubs to verify the account totals. The clubs were to sign indicating that the records agree with the total or meet with the Treasurer to reconcile if they did not. However, we compared the club ledgers of five clubs to the Treasurer's general ledger as of June 30, 2014 and February 28, 2015 and found that two of the club ledgers had inaccurate balances totaling a difference of about \$1,000 as a result of not recording all receipt and disbursement activity.

We reviewed 72 individual deposits totaling \$37,300 and found the Treasurer did not deposit 10 receipts totaling \$6,900 in a timely fashion, or within five days of receiving the receipts from the club. Further, for 32 receipts totaling \$20,000, we were unable to determine if the deposits were intact because the bank deposit slips were not in duplicate and the Treasurer does not keep the support for each deposit made.³ Additionally, the faculty advisors either submitted these receipts to the Treasurer in an untimely manner or we could not determine the timeliness due to inadequate support at the club level. We also found 32 receipts totaling \$15,900 in which the clubs did not have adequate documentation identifying the payee. Lastly, we found two instances where the faculty advisor signed the quarterly statement stating their club balance matched the Treasurer's when it did not.

These weaknesses occurred due to the Treasurer not being present to count the receipts when the faculty advisors remitted them in between classes and providing insufficient detail of the aggregated deposits made. Also, the clubs should provide their ledger balance to the Treasurer for review to enable the Treasurer to determine if it agreed with the account total. District officials stated they make it a priority to remind faculty advisors and student treasurers of the records that need to be kept.

Cash Disbursements – The Board adopted 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 Treasurer does not perform all aspects of the check writing process, or implement

³ Deposits on the bank statement include multiple club deposits and the cash and check amounts are on the club's individual deposit slip. Once the Treasurer makes the deposit at the bank, she then files the club's support in the club folder.

compensating controls, such 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 Treasurer. However, the Treasurer performs all aspects of the cash disbursement process with limited oversight. Although the Superintendent reviews the monthly bank reconciliation, this review does not include the bank statements or the canceled check images. Further, although the cash disbursement policy requires two signatures for each check, this rule is only applied at the District and is not enforced by the bank.

We reviewed 58 disbursements totaling \$45,400 and found 15 disbursements totaling \$5,400 in which the clubs did not have records of the disbursement. For the majority of our audit period, we could not verify the actual payee because the District does not have canceled check images on file.⁴ For 33 disbursements totaling \$17,800, we verified that the check number and dollar amount from the cash disbursements journal matched the bank with no exceptions. We were able to verify the payee name on 12 canceled check images totaling \$5,200 and found no exceptions. We did note there was one check with only the Treasurer's signature and no second signature.

District officials thought that the dual signature practice was a sufficient control. They also stated the bank will not provide canceled check images without charging the school.

When cash receipts are not supported by appropriate documentation, it is difficult to determine if the actual amount collected was remitted to the Treasurer 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 Treasurer's 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.

Recommendations

The Board should:

1. Ensure the adopted policies and procedures, including SED pamphlet requirements, are being enforced by District officials involved in extra-classroom activities.
2. Separate or establish proper compensating controls over the duties of the Treasurer.
3. Require that the Treasurer makes deposits in a timely manner.

The Board and District officials should:

4. Require the use of profit and loss statements and ensure they contain sufficient detail so the Treasurer can determine the total items sold at a fundraiser and the prices charged for each item.

⁴ We could only access the canceled check images online from September 2014 through May 2015.

5. Continue to 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.

LAURENS CENTRAL SCHOOL

"WHERE COMMUNITY AND SCHOOL CREATE SUCCESS."

P.O. BOX 301

LAURENS, NEW YORK 13796

TELEPHONE (607) 432-2050

FAX (607) 432-4388

ROMONA N. WENCK
Superintendent

WILLIAM F. DORRITIE
Building Principal

February 23, 2015

H. Todd Eames, Chief Examiner
Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street - Suite 1702
Binghamton, NY 13901-4417

Dear Sir:

The purpose of this correspondence is to respond to the audit of extra-classroom accounts that occurred during the 2014-2015 school year. Our school district was among six (6) districts selected for this audit. In responding to the audit, I would note the following in response to the initial document.

1. The district found the audit team to be informational and easy to work with. The information provided to the district at the onset of the audit, such as how the district was selected, our category (small, medium, large school district) for audit purposes, and timelines and general procedures were thoroughly explained.
2. With regard to the "Summary of Findings" outlined in the report the district was pleased to learn that there were no significant findings, and can understand and appreciate the need to strengthen internal controls over cash receipts. However, as a small district, wherein all requests for reimbursements move through a voucher process that requires three separate signatures in addition to organizational minutes, and wherein all subsequent checks require two separate signatures, I found the request to have another "set of eyes" looking at check images to be an unnecessary burden on the district, both in employee time and financial cost.
3. Under the headings of "Cash Receipts and Disbursements" it was disappointing to find that certain club records were not being properly maintained as noted in the report. However, it needs to be pointed out that recommendation for clubs to provide ledger balances to the Treasurer, to enable the treasurer to determine if it agreed with the account total was implemented in September 2015. In addition, a meeting was held at the beginning of the 2015 school year to inform all activity advisors and student treasurers of the records that need to be kept.
4. In regards to the Exit interview, I found that one of the auditors, the supervisor, was very knowledgeable about our particular audit and was able to thoroughly explain all aspects of the audit document and answer all questions.

Regarding the recommendations presented to the District in this initial report, action on the following steps will be taken. A full Corrective Action Plan will be submitted once the final audit report is received.

- a. The District will continue to review and update our policies and procedures regarding extra-classroom activities annually.
- b. Increased separation of duties in a two-person business office is a challenging task. The District will look into having canceled checks images reviewed by a third person however the financial burden of this request may limit our ability to do so.

- c. The District will work to improve the timeliness of deposits however the extra-classroom treasurer is only in the building one or two days a week, potentially making this an impossible task to accomplish.
- d. The District will investigate the use of Profit and Loss statements.
- e. The District will continue to work with and provide training to advisors regarding all documentation required to safely manage student accounts.

Please do not hesitate to contact my office at 607-432-2050 should you have any further questions.

Sincerely yours,

Romona N. Wenck
Superintendent
Laurens Central School

Cc: LCS Board of Education
Joanne Johnston, Extra-classroom Treasurer
LCS Audit Committee

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 March 24, 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 (certified public accountant (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 randomly selected five active clubs using the 2013-14 CPA report and compared each club ledger's ending balance as of June 30, 2014 and February 28, 2015 to the Treasurer's general ledger to determine if there were any discrepancies.
- We judgmentally selected and reviewed the cash receipts for seven clubs and the cash disbursements of six clubs by selecting clubs with greater than 5 percent of the total collected or paid in 2013-14. 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 sample by starting with the first receipt on the ledger and selecting every fourth for review.
- We judgmentally selected receipts from four fundraisers totaling \$13,900. We traced the fundraiser from the student treasurer records (if available) to the club copies of the Statement of Deposit and Disbursing order, to the deposit ticket from the bank and to the general ledger to determine if all receipts and disbursements were accounted for. We noted the deposit composition where applicable and compared this to the Treasurer's copy of the Statement of Deposit. We performed a reasonableness calculation on the receipts and disbursements, if possible.
- We judgmentally selected five deposits for each year starting with the second receipt on the September 2013 and 2014 bank statements and selecting every third one, thereafter, to verify that the deposit was from a valid club activity. We traced the deposit back to support at the appropriate club to verify it is a valid deposit and recorded in club ledger.

- We examined 10 percent of the disbursements for each club selected. We selected checks from the general ledger by selecting the first disbursement for the clubs tested starting in September and skipping the next two checks to select the next disbursement for testing. For the disbursements from July 2013 through August 2014, we did not have the canceled check images but we still verified they were properly recorded in the club and Treasurer's ledgers, and that they were properly supported and authorized. For the disbursements we had the check images, we verified the payee and amounts match and that the disbursement was supported by documentation and for proper club purposes.
- We reviewed the general ledger for the scope period and for all disbursements made payable to the advisors and student treasurers for the clubs being tested, as well as the Treasurer and Superintendent (since they both have check signing authority) to ensure they were supported by documentation and for proper 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.