



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

Deborah L. Fox, Superintendent
Members of the Board of Education
Livingston Manor Central School District
19 School Street
Livingston Manor, NY 12758

Report Number: P4-15-50

Dear Dr. Fox 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 Livingston Manor 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 December 22, 2014. 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 District officials did not properly account for extra-classroom receipts and disbursements early in our audit period, they did improve controls by the end of our fieldwork. During the 2013-14 fiscal year, one of the extra-classroom activities clubs (clubs) reportedly had missing funds totaling at least \$11,000. District officials became aware of the missing funds when a vendor that supplied fundraiser items contacted the school principal to report non-payment of money owed. This incident caused District officials to update and implement certain policies and procedures to enhance controls over extra-classroom activities, including monitoring. While the District adequately addressed many weaknesses in accounting for cash in the extra-classroom activities, weaknesses relating to documentation of cash receipts should be strengthened.

Background and Methodology

The District is located in the Towns of Callicoon, Liberty, Neversink and Rockland in Sullivan County; the Town of Hardenburgh in Ulster County and the Towns of Andes and Colchester in Delaware 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 is responsible for recommending to the Board the staff necessary to fulfill duties related to extra-classroom activities, including the Treasurer.¹ 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 13 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 \$96,000 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 December 22, 2014.

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.

¹ The District Business Administrator has acted as the Treasurer since July 1, 2014.

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.

Currently, the Board-adopted policy specifies that extra-classroom funds should be handled in accordance with the regulation for the safeguarding, accounting and auditing of these funds as prescribed by the SED pamphlet. Additionally, District officials created a detailed job description for the Treasurer,² which also provides certain procedures to be followed in conjunction with the Regulations.

District officials addressed many weaknesses in the extra-classroom activities receipts and disbursements process. During the 2013-14 year, one of the clubs had missing funds reported to total at least \$11,000. District officials became aware of the missing money after the school principal received notification from a vendor, which supplied fundraising items, that payment had not been received.³ This incident caused District officials to update and implement procedures that enhanced controls and their monitoring capabilities over extra-classroom activities. However, the Board needs to ensure that District officials further implement controls relating to the documentation of cash receipts.

Cash Receipts – The Board-adopted policies and procedures 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 central tracking of fundraising activities, 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.⁴ 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-adopted policy relating to the Treasurer's financial responsibilities over the extra-classroom activities cash receipts was adequate, but prior to the discovery of missing funds, it failed to ensure that the Treasurer required that faculty advisors and student treasurers were following the procedures identified in the SED pamphlet to properly account for the receipts. The

² This job description is pending Board approval.

³ At this time, District officials contacted law enforcement, and an external certified public accounting (CPA) firm conducted agreed upon procedures. This resulted in the arrest of the club's faculty advisor.

⁴ A profit and loss statement summarizes the revenues, costs and expenses incurred during a specific period of time.

Board did provide standard forms⁵ for use by the staff related to extra-classroom activities, with the exception of a club ledger.⁶ In most instances, these forms were used appropriately. However, there was no standard process used to identify if all money collected by the student treasurer was recorded on the student activity deposit sheet. Therefore, there was no assurance that all money was turned over to the Treasurer. Additionally, District officials did not enforce the maintenance of a ledger by the student treasurers. Although some clubs did maintain ledgers, these were generally maintained by the faculty advisors. Moreover, during the 2013-14 fiscal year, there was no requirement that faculty advisors had to notify the Treasurer of fundraising activity⁷ and the former Treasurer did not enforce the submission of profit and loss statements.

We reviewed eight individual cash receipts totaling \$7,700, along with two fundraising events totaling \$7,000 from the 2013-14 year and found that three cash receipts did not have a profit and loss statement associated with the collection, and three of the five cash receipts that included the statement had insufficient detail to determine the results of the activity.

Subsequent to the discovery of the missing funds, District officials revised the job description relating to the Treasurer's duties⁸ and enhanced controls. These controls include items such as the Treasurer receiving a list of all approved fundraising activities, requiring profit and loss statements to be completed and submitted to the Treasurer and more specific annual training for the faculty advisor and student treasurers. During the 2014-15 year we reviewed six individual cash receipts totaling \$1,600 along with two fundraising events totaling \$3,600 and found three receipts had insufficient detail to determine the results of the activity. Generally, the receipts that were reported as collected were deposited in a timely fashion and intact.

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

The Board did ensure for most of the audit period that District officials had adequate controls over the extra-classroom cash disbursements and provided standard forms for use by the staff. Generally, the faculty advisors and student activity treasurers used the appropriate forms, although the student activity treasurers were not required to maintain individual club ledgers as they were completed by the faculty advisors. During the 2013-14 year, the Board and Treasurer ensured that the faculty advisors and student treasurers properly safeguarded disbursements. Beginning in July 2014, the Business Administrator assumed the role of Treasurer due to the lack of interest by other

⁵ These forms included a pre-numbered triplicate student activity deposit sheet, profit and loss statement and pre-numbered ticket rolls for admissions.

⁶ For the clubs reviewed, faculty advisors did maintain ledgers, although these forms were not provided or reviewed by the Treasurer.

⁷ Such as date of the event or collection and the purpose of the fundraiser

⁸ This job description is pending Board approval.

staff. This resulted in a lack of segregation of duties as one individual is writing checks and performing bank reconciliations with limited oversight.⁹ District officials added additional compensating controls after we brought this to their attention by having the District Clerk receive and review the bank statements and all canceled check images.

We reviewed 39 individual disbursements totaling \$17,900 and 17 electronic fund transfers or withdrawals totaling \$1,800 and found only minor discrepancies, which we discussed with District officials. The prior weaknesses occurred because the Board did not provide oversight, but relied on the CPA report.

When District officials establish effective controls over cash receipts and disbursements and provide training for those who manage them, funds received and disbursed are better accounted for. Additionally, students are receiving educational business lessons.

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. Continue to keep the duties of the Treasurer separated or establish proper compensating controls.

The Board and Treasurer should:

3. Ensure profit and loss statements contain sufficient detail so the Treasurer can determine the total items sold at a fundraiser and the prices charged for each item.
4. Continue to ensure that the faculty advisors and student treasurers properly safeguard receipts 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.

⁹ A packet containing bank statement and canceled checks, among other items, was provided to their accountant at the Sullivan County BOCES Central Business Office.

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

LIVINGSTON MANOR CENTRAL SCHOOL

P.O. BOX 947 . LIVINGSTON MANOR, NY 12758

MAIN (845) 439-4400 . FAX 439-4717

September 16, 2015

State of New York
Office of the State Comptroller
110 State Street
Albany, New York 12236

To Whom It May Concern:

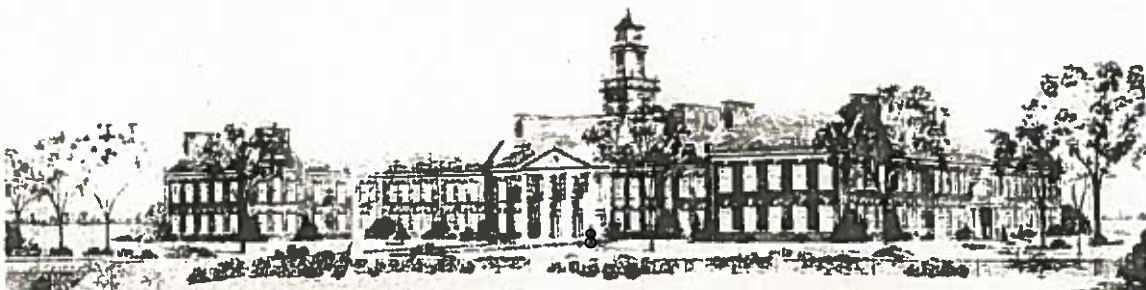
The District has received the draft report examination letter dated August 24, 2015. This is our written response to the draft report.

The District accepts the recommendations from the Office of State Comptroller in the draft report. Since realizing there were funds missing from a Student Activity account, The Board of Education and district Administration, reported the incident to the District's law firm, police investigators, insurance company investigators and the District's independent auditor. The District worked with each one to ensure the return of the money and strengthen our internal controls over the Student Activity Accounts.

The District appreciates the input from the Office of State Comptroller to strengthen our internal controls and will implement the recommendations.

Sincerely,

Dr. Deborah Fox
Superintendent



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 December 22, 2014. 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, 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 nine clubs and the cash disbursements of seven clubs by selecting clubs with greater than 5 percent of the total collected or paid in 2013-14 as reported in the District's CPA audit. We also randomly selected and reviewed the cash receipts and disbursements of two additional clubs.
- We examined 5 percent of the receipts, or 16 receipts totaling \$6,500, collected for each club selected. We traced receipts from the general ledger to the Treasurer's triplicate receipt, to the student activity deposit sheet, to the profit and loss statement (if applicable) and to the bank statement to determine if 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.
- For 2013-14, we judgmentally selected 21 receipts from two fundraisers totaling \$10,600. We traced the fundraiser from the student activity deposit sheet to the statement of deposit prepared by the Treasurer, 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 deposit ticket from the bank. We then traced these receipts to a profit and loss statement to determine if one was submitted and it contained sufficient detail. We performed the same test for 2014-15. However, for this fiscal year, we judgmentally selected our sample from the master calendar of activities.
- A total of 42 receipts totaling \$24,000 were tested.
- We examined 5 percent of the disbursements for each club selected. We selected our checks from the canceled check images on the bank statement by selecting the first check for the clubs tested starting in July and skipping the next two checks to select the next disbursement for testing. If that check was for a club already tested or a club we did not test, we then continued reviewing checks and picked the next check for the clubs we were testing. We determined if the payee and amounts match and if the disbursement was supported by documentation and for proper club purposes.

- We reviewed all canceled check images for the scope period and judgmentally selected five in each club selected paid to the advisor or student treasurer to determine if they were supported by documentation and for proper club purposes. We also reviewed all checks paid to the Treasurer to ensure it was supported by documentation.
- We reviewed all bank statements and made note of any credits to the District extra-classroom activity bank account and traced to supporting documentation.
- We determined if the bank reconciliations for the 2014-15 school year were reviewed by the District Clerk and if she properly signed the form acknowledging her review.
- We selected a judgmental sample of five deposits totaling \$3,800, starting with the sixth deposit on the March 2014 bank statement and selected every fifth deposit thereafter. We traced these to support at the appropriate club to determine if it was a valid club deposit.

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 objectives.