



Hoosick Falls Central School District Internal Controls Over the Extra-Classroom Activity Fund

Report of Examination

Period Covered:

July 1, 2005 - June 30, 2006

2006M-185



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

December 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Hoosick Falls Central School District — Internal Controls Over the Extra-Classroom Activity Fund.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*

Introduction

Background

The Hoosick Falls Central School District (District) is located in Rensselaer and Washington Counties and includes the towns of Hoosick, Grafton, Petersburg, Pittstown, and White Creek. It is governed by the Board of Education (Board) which comprises 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school building in operation within the District. The District's education programs include approximately 1,260 students and 279 employees. The District's general fund budgeted expenditures for the 2005-06 fiscal year were approximately \$16.8 million, which were funded primarily with State aid, real property taxes and grants.

During the 2005-06 fiscal year the extra-classroom activity fund recorded more than \$220,000 in receipts and disbursements. Responsibilities related to the accounting for these funds are largely those of the District's central treasurer, who is appointed by the Board.

Objective

The objective of our audit was to determine whether the District's internal controls over cash receipts and disbursements were adequate during the period July 1, 2005 to June 30, 2006. Our audit addressed the following related question:

- Are internal controls over the extra-classroom activity fund appropriately designed and operating effectively to safeguard the assets for which the District has custody?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls that District officials established to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we

reviewed. We did determine that a degree of risk existed involving the District's extra-classroom activity fund and, therefore, we examined internal controls over the extra-classroom activity fund for the period July 1, 2005 to June 30, 2006.

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.

**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 recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Extra-Classroom Activity Fund

School districts raise extra-classroom activity funds by means other than taxation. Generally, extra-classroom activity funds are raised through charges for, by, or in the name of, organizations whose activities are conducted by students. Students raise and spend these funds to promote the general welfare, education, and morale of all students, and to finance the normal and appropriate extracurricular activities of the student body. The District's extra-classroom activity accounts recorded more than \$220,000 in receipts and disbursements during the 2005-06 fiscal year and had a combined cash balance of approximately \$103,000 as of June 30, 2006.

The Board and District officials are responsible for designing internal controls that help protect the District's cash assets. These responsibilities include adopting policies and procedures that describe the records that District personnel and students must maintain, and the duties and control procedures that they must follow to adequately safeguard extra-classroom activity funds. The Regulations of the Commissioner of Education¹ require each school district's board of education² to make rules and regulations for the establishment, conduct, operation, and maintenance of extra-classroom activities, and for the safeguarding, accounting, and auditing of all moneys received. Having a good system of internal controls over these funds helps minimize the risk that errors or irregularities may occur and go undetected.

The District had not established sufficient policies and procedures for the extra-classroom activity fund. Although there is a Board policy that requires the activity fund central treasurer (central treasurer) to establish procedures for receiving and disbursing moneys from this fund, the central treasurer had not established these procedures. Instead of managing the activity funds in accordance with clearly prescribed principles and procedures, District personnel and students followed an informal process that was in place, and the District Treasurer³ held the responsibility for the activity fund's entire accounting function.

¹Regulations of the Commissioner of Education Section 172.2 (Regulation of Activities and Moneys)

²The school district must have a population of less than 1 million, and an educational program that extends beyond Grade 6.

³The District Treasurer and central treasurer are two separate positions.

We reviewed 20 disbursements totaling \$93,000 made from the extra-classroom activity fund during the 2005-06 fiscal year and found that three disbursements totaling approximately \$7,800 were not supported by vendor invoices. These disbursements included a \$2,788 payment to a hotel for an overnight school sports trip that was not supported by hotel bills documenting the purpose or total cost of the trip. Although we subsequently verified that the payment to the hotel was proper, good business practices require all cash transactions to be supported with appropriate documentation. The failure of District personnel to provide appropriate documentation for financial transactions could result in the extra-classroom activity funds being more susceptible to fraud and abuse.

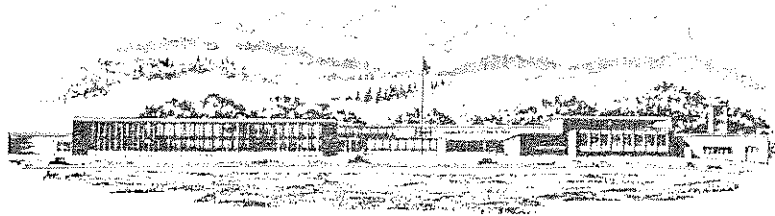
Recommendations

1. The Board should establish policies and procedures for the extra-classroom activity fund and approve only those activities that conform to the Regulations of the Commissioner.
2. District officials should ensure that District staff properly document and support all extra-classroom fund disbursements with vendor invoices.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Office of the Superintendent

Hoosick Falls Central School

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Superintendent

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December 14, 2006

Office of the State Comptroller
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Glens Falls, NY 12801

Re: District Response to Comptroller's Audit Findings

The following is the District's response to the recommendations made as a result of the audit completed during the summer of 2006:

- The Board of Education's Policy Committee will be reviewing the sample policy provided in "The Safeguarding, Accounting, and Auditing of Extra-classroom Activity Funds – Finance Pamphlet #2" available on the NYS Comptroller's Office website. Once reviewed and approved by the committee, the policy will then be provided to the Board of Education for their review and approval.
- Procedures for the Extra-classroom activity fund will be developed and provided to all staff advisors.
- The Central Treasurer of the Extra-classroom Activity Funds has received training by attending a workshop on Extra-classroom Activity Funds provided by BOCES. This training provided guidelines to address the issue of proper documents and support necessary for disbursement.

Thank you for pointing out these areas for improvement. Please contact Roger E. Thompson, Superintendent if you need any further clarification.

Sincerely,

David Sutton
President, Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the extra-classroom activity fund for further audit testing.

To accomplish the objective of this audit we reviewed all District policies and procedures related to extra-classroom activities. We interviewed District employees responsible for handling these funds, and selected receipts and disbursements for testing. We reviewed paid vouchers to determine if they included appropriate supporting documentation and were for extra-classroom purposes.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

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