



Northern Adirondack Central School District

Internal Controls Over Extra-Classroom Activity Funds

Report of Examination

Period Covered:

July 1, 2012 — March 31, 2014

2014M-128



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

July 2014

Dear School District Officials:

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

Following is a report of our audit of the Northern Adirondack Central School District, entitled Internal Controls Over Extra-Classroom Activity Funds. 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 General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Northern Adirondack Central School District (District) is located in the Towns of Altona, Beekmantown, Chazy, Clinton, Dannemora, Ellenburg, Mooers, and Saranac in Clinton County and the Town of Bellmont in Franklin County. The District 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 870 students and 190 employees. The District's budgeted appropriations for the 2013-14 fiscal year were \$20.5 million, which were funded primarily with State aid and real property taxes. During the 2012-13 fiscal year, the District's extra-classroom activity funds recorded \$134,919 in receipts and \$128,606 in disbursements.

Objective

The objective of our audit was to determine if the District had established effective internal controls over extra-classroom activity funds. Our audit addressed the following related question:

- Are internal controls over extra-classroom activity funds appropriately designed and operating effectively?

Scope and Methodology

We examined the District's internal controls over extra-classroom activity funds for the period July 1, 2012 through March 31, 2014.

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 is 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 have initiated, or 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, a written corrective action plan (CAP)

that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Extra-Classroom Activity Funds

The Regulations of the Commissioner of Education (Regulations) require the Board to make rules and regulations to safeguard, account for and audit all moneys received and derived from extra-classroom activities. The Regulations also require the Board to appoint a central treasurer who is responsible for maintaining records of extra-classroom activity fund receipts and disbursements. Each extra-classroom activity must have a student treasurer and faculty advisor. Student treasurers, with the assistance of faculty advisors, are responsible for maintaining independent accounting records of receipts and disbursements. The Board and District officials must enforce policies and procedures established to protect extra-classroom activity fund moneys, which include guidance for the central treasurer and student activity treasurers on how to properly maintain records of cash receipts and expenditures.

Generally, extra-classroom activity funds are raised by student activity organizations. Students raise and spend these funds to promote the general welfare, education and morale of all students and finance the normal and appropriate extracurricular activities of the student body. During our audit period, the District's 29 accounts in the extra-classroom activity fund (activity fund) recorded \$225,610 in receipts and \$216,276 in disbursements and, as of March 31, 2014, the accounts had a combined bank account balance of \$75,248.

The District's controls over extra-classroom activity funds were not operating effectively. The Board did not ensure that District officials implemented and enforced its policy governing the operations of the activity funds. Consequently, we found that 30 cash receipts totaling \$19,322 had no supporting documentation and four student treasurers did not maintain ledgers during the 2012-13 fiscal year. The District's failure to maintain activity funds in accordance with the Board's policy increases the chance that extra-classroom activity moneys could be lost or misused. These deficiencies continued to exist even though our previous audit¹ identified similar internal control weaknesses over the District's activity fund.

Policy and Oversight

The Board and District officials are responsible for protecting and providing oversight of the District's cash assets, including activity fund moneys. These responsibilities include adopting and implementing policies and procedures that describe the records that District personnel and students must maintain and the duties and

¹ Northern Adirondack Central School District – Fund Balance and Internal Controls Over Selected Financial Activities (2010M-193)

control procedures that they must follow to adequately safeguard activity fund moneys. The Board should also appoint a faculty auditor² to oversee the management of activity funds. Having a good system of internal controls over these funds helps minimize the risk that errors or irregularities could occur and go undetected.

Although the Board established a policy³ governing the operations of the activity funds, it did not ensure that District officials implemented and enforced the policy. Faculty advisers did not ensure that student treasurers issued duplicate press-numbered receipts or maintained any other documentation of the source, date, amount and purpose of cash collections when collecting cash at fund-raisers for extra-classroom activities. Without some form of documentation of the collections, District officials would be unable to ensure that all moneys collected for the extra-classroom activities were accounted for and properly remitted for deposit.

Faculty advisors did not ensure that all student treasurers maintained ledgers to account for receipts, disbursements and a daily running cash balance. Also, although the Board appointed the School Business Executive to the position of faculty auditor, he was unaware that student treasurer ledgers were not being maintained or that they were inconsistent with the central treasurer's ledger because he did not review activity fund records or perform the required comparisons between the student treasurers' ledgers and the central treasurer's ledger.

The lack of proper oversight by the Board and District officials has resulted in activity fund moneys not being maintained in accordance with Board policy, which increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Cash Receipts

Students are responsible for collecting moneys for extra-classroom fund-raisers and remitting the collections to the central treasurer for deposit. When collecting moneys, students should issue duplicate press-numbered receipts or use some other method that would accurately document the source, date, amount and purpose of the cash collections, such as a daily sales report. When students remit collections to the central treasurer for deposit, they should provide the duplicate receipts or some other adequate documentation for the moneys collected to the central treasurer to support the collections. Faculty advisers are responsible for ensuring that student treasurers

² The faculty auditor is responsible for reviewing the extra-classroom financial records, to determine if correct procedures are being used to account for activity funds, and certifying the accuracy of the entries in the records and the account balances listed in the ledgers.

³ On January 25, 2010

maintain supporting evidence for collections. Good business practice requires student treasurers and faculty advisors to remit collections to the central treasurer and the central treasurer to deposit collections as soon as possible to prevent the loss or misuse of collections. Furthermore, it is important that the central treasurer deposit cash receipts intact⁴ to reduce the risk of irregularities occurring with the handling of collections.

We reviewed a random sample of 30 cash receipts⁵ totaling \$19,322 remitted to the central treasurer for deposit to determine whether they were supported by receipts or some form of documentation of the collections, accurately accounted for in the central treasurer's ledger, and deposited intact and in a timely manner. We found that all 30 cash receipts were accurately accounted for in the central treasurer's ledger and were deposited intact. However, none of the 30 cash receipts contained any supporting documentation of the collections, such as duplicate press-numbered receipts or daily sales reports. Instead, the student treasurers and faculty advisors provided the central treasurer with student deposit forms, along with the collections, that only summarized the collections remitted for deposit. Without some form of documentation of the collections, the central treasurer is unable to ensure that all moneys collected for the extra-classroom activities are accounted for and properly remitted to her for deposit.

Without supporting documentation of the collections, we could not determine the exact dates that students collected the cash receipts to determine whether the collections were remitted to the central treasurer and deposited by the central treasurer in a timely manner. Instead, we compared the dates recorded on the student deposit forms with the deposit slip dates and found that the central treasurer generally deposited the collections that were remitted to her in a timely manner. When students do not maintain adequate documentation to support collections, District officials cannot ensure that students are adequately accounting for all collections and remitting them to the central treasurer in a timely manner.

Student Ledgers

The student treasurers should maintain ledgers to account for all receipts and disbursements that include a daily running cash balances. It is important for faculty advisors to guide the student treasurers in entering information into their ledgers and to periodically check the student treasurers' account balances. The faculty auditor should periodically compare the student treasurers' ledgers to the central treasurer's ledger to verify agreement between the ledgers and investigate any discrepancies.

⁴ In the same amount and form (cash or check) in which they were received

⁵ Refer to Appendix B for further information on our sample selection.

We reviewed a random sample of ten extra-classroom activities⁶ that were active during the 2012-13 fiscal year and found that the student treasurers for four of the extra-classroom activities did not maintain ledgers. We compared the six student ledgers that were maintained to the central treasurer's ledger and found that only one contained all receipts and disbursements and a running cash balance that agreed with the central treasurer's ledger. The faculty auditor was unaware of these discrepancies because he did not perform the required comparisons between the student treasurers' ledgers and the central treasurer's ledger.

When student treasurers do not maintain ledgers or the information in their ledgers does not agree with the central treasurer's ledger, the District has an increased risk that errors or irregularities could occur and remain undetected. Also, because the faculty auditor did not provide proper oversight of the student treasurers' ledgers, the District has increased risk that extra-classroom activity moneys could be lost or misused, which could remain undetected.

Cash Disbursements

A good system of internal controls helps ensure that the District pays for purchases that are supported by adequate documentation. The central treasurer should disburse moneys for extra-classroom activities only upon receiving payment orders signed by the student treasurer, faculty advisor and chief faculty counselor.⁷ Also, disbursements should have documentation, such as itemized receipts or invoices, to support the expenditures approved for payment. When payments are made without adequate supporting documentation, District officials cannot ensure that the purchases are made for appropriate purposes.

We reviewed a random sample of 50 disbursements⁸ totaling \$21,619 made from the activity fund accounts during our audit period to determine if they were supported by approved payment forms and adequate documentation of the purchases and were for appropriate student activities. Except for some minor exceptions related to supporting documentation of purchases that we discussed with District officials, we found that the disbursements were supported by adequate documentation and were for appropriate student activities.

Recommendations

1. The Board and District officials should ensure that activity funds are maintained in accordance with District policy.
2. The faculty auditor should oversee the management of extra-classroom activity moneys in accordance with District policy.

⁶ Ibid.

⁷ The District's chief faculty counselor is the High School Principal.

⁸ See supra, note 5.

3. District officials should ensure that the central treasurer receives supporting documentation for all activity fund cash receipts that are remitted to her for deposit and that the student treasurers and faculty advisors properly account for all activity fund cash receipts.
4. Faculty advisors should ensure that student treasurers maintain a student ledger showing all receipts, disbursements and a running cash balance.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Northern Adirondack Central School District

Office of the Superintendent
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July 14, 2014

Office of the State Comptroller
Division of Local Government
And School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801

Dear Sirs:

Please accept this document as the Northern Adirondack Central School District's official response to the preliminary draft report of your Audit of the District, entitled Internal Controls over Extra-Classroom Activity Funds. The District will address, in this response, each of the four individual recommendations presented in your Report. We would ask that you also consider this the District's Corrective Action Plan (CAP), in regards to your Audit Findings and related Audit Recommendations. The District has a high level of respect for the Audit Process and will utilize the recommendations offered in the Report to continue to strive to improve our internal controls in this area.

1. The Board and District officials should ensure that activity funds are maintained in accordance with District policy.

The Board of Education has previously adopted a formal policy stating that the Extra-Classroom Activity Fund will be operated under the management and accounting procedures presented in the State Education Department's **Finance Pamphlet 2**. District Administration will continue to provide training to all individuals involved in the oversight of the Activity Funds, to include student officers at the annual training day established a few years ago. Your specific recommendations (#2 - #4 below) will be highlighted, as they relate to the implementation of the Board's policy.

2. The faculty auditor should oversee the management of extra-classroom activity moneys in accordance with District policy.

The Board of Education has appointed a Faculty Auditor (effective for FY 14/15) to provide general review and oversight regarding the operation and management of the Activity Funds and to perform the required independent comparison between the clubs' records and those maintained by the Central Treasurer. The Faculty Auditor will attend the various training opportunities referenced in No. 1 above to ensure that she is

familiar with the proper review techniques and procedures. The Faculty Auditor will be required to report the results of her independent comparison to the Board of Education in a reasonable time period following the completion of the review process.

3. District officials should ensure that the central treasurer receives supporting documentation for all activity fund cash receipts that are remitted to her for deposit and that the student treasurers and faculty advisors properly account for all activity fund cash receipts.

District officials will stress the importance of this vital internal control safeguard during all training provided to advisors and student officers. The Faculty Auditor will be instructed to monitor this area closely, and to communicate deficiencies in this area to District officials and to the particular club advisor and student treasurer.

4. Faculty advisors should ensure that student treasurers maintain a student ledger showing all receipts, disbursements and a running cash balance.

The District realizes the importance of this process as part of a properly functioning internal control system. The need for student maintained ledgers, kept current at all times, will continue to be stressed to all individuals involved in the management of the Activity Funds. As with Item No. 3 above, the Faculty Auditor will be closely involved in the oversight and monitoring of this process.

In summary, the District would like to thank the assigned auditors who carried out their work in as non-disruptive a manner as possible during a very busy time in the District's fiscal year. The District is appreciative of the recommendations provided and will strive to implement them to the fullest extent possible.

Sincerely,

Laura J. Marlow
Superintendent of Schools

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: financial condition and oversight, cash receipts and disbursements, purchasing, payroll and personnel services and information technology.

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 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 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 on the reported objective and scope by selecting for audit those areas most at risk. We selected extra-classroom activity funds for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and employees and reviewed District policies and various financial records and reports related to extra-classroom activity funds to gain an understanding of the internal controls over extra-classroom activity funds and any associated effects of deficiencies in those controls.
- We reviewed a random sample of 30 cash receipts totaling \$19,322, composed of \$10,736 in checks and \$8,586 in cash, remitted to the central treasurer for deposit to determine whether they were supported by receipts or some form of documentation of the collections, accurately accounted for in the central treasurer's ledger and deposited intact and in a timely manner. We used a computerized random number generator to select 15 cash receipts from student deposit forms and 15 cash receipts from the central treasurer's receipts to assemble our sample of 30 cash receipts.
- We reviewed a random sample of ten extra-classroom activities that were active during the 2012-13 fiscal year to determine if the student treasurers maintained ledgers showing all receipts, disbursements and running cash balances that agreed with the central treasurer's

ledger. We used a computerized random number generator to select the ten extra-classroom activities.

- We reviewed a random sample of 50 disbursements totaling \$21,619 made from the activity fund accounts during our audit period to determine if they were supported by an approved payment form and adequate documentation of the purchase and were for appropriate student activities. We used a computerized random number generator to select the 50 disbursements.

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

APPENDIX C

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