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June 2016

Sandra Sherwood, Superintendent
Members of the Board of Education
Dryden Central School District
118 Freeville Road
Dryden, NY 13053

Report Number: P4-15-52

Dear Ms. Sherwood 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 Dryden 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 January 22, 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 those of the Central Treasurer (Treasurer), the internal controls over the faculty advisors and student activity treasurers (student treasurers) should be strengthened. Additionally, while some clubs maintained a complete second set of records as required, other clubs did not have complete records, and we could not determine the actual collection date of receipts. As a result, we could not determine if cash collections turned over to the Treasurer for deposit were in a timely fashion and intact. Generally, cash disbursements were properly approved and adequately supported.

Background and Methodology

The District is located in the Towns of Cortlandville and Harford in Cortland County, the Town of Richford in Tioga County and the Towns of Caroline, Dryden and Groton in Tompkins 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 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 treasurers' 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 a daily running balance. The faculty auditor is appointed by the Board and is responsible for auditing the student treasurers' ledgers at least twice per year, examining the Treasurer's records monthly and investigating instances when the Treasurer's report and club ledgers do not agree.

There are 29 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 \$153,000 in receipts and \$161,000 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 January 22, 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 that 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.

District officials, with the guidance of their internal auditor, created a handbook¹ that specifies that extra-classroom funds be handled in accordance with the Regulations for the safeguarding, accounting and auditing of these funds. Additionally, there are Board-approved, detailed job descriptions for the Treasurer and faculty auditor, which also provide certain procedures to be followed in conjunction with the Regulations.

District officials put in place some controls for oversight by establishing the faculty auditor position to audit the student ledgers twice a year and investigate instances when the Treasurer's report and club ledgers do not agree. However, this was not being done consistently or was not complete.² Additionally, some clubs either partially maintained or did not maintain a second set of receipt or disbursement records in accordance with District policies.

Furthermore, we found incompatible duties with the faculty auditor position because she was also collecting cash receipts from the clubs, preparing deposit slips, applying the second signature for all disbursements and performing the bank reconciliations. Upon notification of these weaknesses, District officials corrected them by segregating these incompatible duties.

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.³ Profit and loss statements must contain sufficient detail so the Treasurer can determine the total items sold and the prices charged for each item.

The Board-adopted extra-classroom handbook and policy relating to the Treasurer's financial responsibilities over the extra-classroom activities cash receipts was adequate. However, District officials did not ensure all procedures were performed and that all required records were

¹ *The Dryden Central School District Student Treasurer/Faculty Advisor Handbook for Operating Extra-classroom Activities* was approved by the Board.

² The faculty auditor was adjusting the club's ledgers to match the Treasurer's records and not following up with the club as to why the activity was not recorded. She also did not always have support for the changes she was making.

³ A profit and loss statement summarizes the revenues, costs and expenses incurred during a specific period of time.

maintained at the club level. Generally, the Treasurer maintained all necessary records for cash receipts. The Board provided some of the standard forms⁴ for use by the staff for extra-classroom activities. In most instances, these forms were used appropriately, although some forms were inadequately completed. The deposit slip provided to the clubs was not pre-numbered or in duplicate. Therefore, unless the club made a photocopy of the slip before they submitted it, they would not have a copy of the form for their records. Further, the deposit forms did not have sufficient detail showing the actual date collected or support for the amount turned over to the Treasurer. Thus, we could not determine if money turned over to the Treasurer was in a timely fashion. 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. The District required and enforced that the clubs submit a fundraiser event form for approval by the Superintendent⁵ for every fundraiser and tracked these events on a District calendar. This form includes an estimated and actual profit and loss statement. However, the Treasurer did not enforce the completion of the actual profit and loss statement.

We reviewed 101 cash receipts totaling \$94,739 and found that all were deposited in a timely fashion and intact by the Treasurer. However, 51 receipts totaling \$59,761 did not have adequate support at the club level to determine the actual date collected. Therefore, we could not determine if the receipts collected were submitted to the Treasurer in a timely manner. Additionally, 39 receipts totaling \$31,657 did not have adequate support at the club level to identify the payee. We also analyzed the parent and business ads printed in the 2013 yearbook and calculated the revenue that should have been collected. We found six ads that we could not trace to a deposit, resulting in the club losing \$435 in profit.

District officials stated that they make it a priority to remind faculty advisors and student treasurers of the required records that need to be retained. Some clubs did not have support for the cash receipts due to the lack of continuity of the records when new faculty advisors took over the clubs. The previous advisors did not realize they had to keep copies for their records since the Treasurer had the originals.

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.

Generally, cash disbursement forms were appropriately signed and adequately supported. We reviewed 87 disbursements totaling \$106,700 and found minor discrepancies, which we discussed with District officials.

⁴ These forms included a club ledger book, pre-numbered triplicate receipt book, deposit slips and fundraiser approval forms.

⁵ Off-campus door-to-door fundraisers must be approved by the Board.

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 no club ledgers are maintained or do not agree with the Treasurer's ledger, the District faces an increased risk that errors or irregularities could occur and remain undetected. Without retaining records from prior periods, faculty advisors and student treasurers may not have records available for audit or review. When District officials establish effective controls over cash disbursements, money disbursed is better accounted for. By segregating incompatible duties, District officials have reduced the risk of financial errors or irregularities for extra-classroom activities.

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 and faculty auditor segregated or establish proper compensating controls.
3. Ensure that the faculty auditor consistently and completely audits the club ledgers twice a year.

The Board and District officials should:

4. 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.
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 page.



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March 2, 2016

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

RE: Report Number P4-15-52

Dear Mr. Eames and Dryden Community,

The Dryden Central School District is in receipt of the draft report for the Extra Classroom Activity Fund global audit conducted by the Office of the State Comptroller. This portion of the report is specific to Dryden and covered the period July 1, 2013 through January 22, 2015. First and foremost the Board of Education and District Administration wish to thank [REDACTED] for their patience and professionalism during this process.

We are pleased to note that the **Comptroller's office did not disclose any significant findings in the review of the Dryden Central School District Extra-Classroom Activity Fund**, however, it is understood that a continued effort to strengthen internal controls in the handling of these funds by Faculty Advisors and Student Treasurers is necessary. This has been a District priority for the last several years.

In January 2013, following a vacancy in the Extra-Classroom Central Treasurer position and upon the recommendation of the Superintendent, the Board of Education assigned the duties of the Central Treasurer to the District Treasurer. In addition to the reassignment of duties, the tracking of the financial activities of the Extra-Classroom program were converted from an outdated stand-alone program to the [REDACTED] financial program being used by the District for all other district funds. The implementation of these two changes resulted in a significant improvement in the control and monitoring of these funds.

The District requested that the 2012/2013 Internal Audit review focus on the Extra-Classroom Activity Funds. As a result of that audit a District specific handbook was developed to accompany the NYS Finance Pamphlet 2 *"The Safeguarding, Accounting and Auditing of Extra-Classroom Activity Funds"*. This simplified handbook included district specific forms and instructions for use by the Faculty Advisors and Student Treasurers. Both documents have and continue to be issued to all new and returning Faculty Advisors.

As noted in the audit report the District has already instituted additional corrections in the segregation of duties as well as a stricter process for receiving the required follow-up documentation for fund raising activities.

The Dryden Central School District Board of Education and Administration understand the importance of the controls and processes needed to safe-guard the funds raised by our extra-classroom activity clubs and will continue the on-going effort to educate and guide our Faculty Advisors and students to assure proper procedures are being following today and in the future.

Respectfully,

Sandra R. Sherwood
Superintendent of Schools

xc: Members, Board of Education
Emily Shipe, Business Manager

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 January 22, 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 (CPA⁶ 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 reviewed the June 30, 2014 and December 31, 2014 club ledgers to verify that the faculty auditor performed the required twice-a-year audit.
- We judgmentally selected and reviewed the cash receipts for eight 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. 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 general ledger to the club's deposit sheet, to the club and Treasurer's copy of the triplicate 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 five deposits for each year starting with the sixth receipt on the September 2013 and 2014 bank statements and selecting every fifth 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 the club's ledger.
- We reviewed the yearbook business and parent ads to verify that the associated cash receipts were properly recorded.
- We examined 10 percent of the disbursements for each club selected. We selected checks from the general ledger by selecting the first disbursement (not including VISA, general journals, fundraisers or disbursements to advisors or treasurers) for the clubs tested starting in July and skipping the next two checks to select the next disbursement for testing.

⁶ Certified public accountant

- We verified the payee and amounts match and that the disbursement was supported by documentation and for proper club purposes.
- We reviewed all canceled check images for the scope period and selected all checks in each club selected paid to the advisor or student treasurer to ensure they were supported by documentation and for proper club purposes. We also reviewed all checks paid to the Treasurer to ensure they were supported by documentation.

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.