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June 2016

Edward Shirkey, Superintendent
Members of the Board of Education
Deposit Central School District
171 Second Street
Deposit, NY 13754

Report Number: P4-15-51

Dear Mr. Shirkey 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 Deposit 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 30, 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 review of records disclosed no significant findings associated with those of the Central Treasurer (Treasurer), the Board and District officials need to strengthen internal controls over the faculty advisors' and student activity treasurers' records. Additionally, while some clubs maintained a complete second set of records as required, other clubs did not have complete records, thus 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 Deposit, Masonville and Tompkins in Delaware County and the Town of Sanford in Broome 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. 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 19 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 \$66,000 in receipts and \$62,000 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 30, 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.

Currently, the Board-adopted policy specifies that extra-classroom funds be handled in accordance with the regulations for the safeguarding, accounting and auditing of these funds as prescribed by the SED pamphlet.

District officials have put oversight controls in place whereby disbursement orders are reviewed and approved by three individuals that do not have check signing authority, and a dual signature is required on all checks. A separate employee keeps a second set of records to compare to the Treasurer's records. However, no one reviews the Treasurer's bank reconciliation or canceled check images, and no one other than the Treasurer reviews the bank statements. Thus, additional oversight of the Treasurer's activities and a secondary review of the bank statements and canceled checks is necessary to mitigate these internal control weaknesses. In addition, some clubs only partially maintained or did not 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 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.¹ 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 were adequate. However, the Board did not ensure that the District officials required that all procedures were performed and that all required records were maintained at the club level. Generally, the Treasurer maintained all necessary records for cash receipts. The Board provided some standard forms² for use by the staff for extra-classroom activities. In most instances, these forms were used appropriately. However, District officials did not enforce the maintenance of a ledger by the student treasurers or the use of

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

² These forms included a ledger book, statement of deposit, pre-numbered triplicate receipt book, disbursement orders and fundraiser approval forms.

pre-numbered duplicate receipts. Although all clubs tested did maintain ledgers, these were generally maintained by the faculty advisors. District officials required and enforced the clubs' submission of a fundraiser event form for approval to the High School Principal. These events were tracked on a calendar maintained by the Student Council.³ The Treasurer did not receive a copy of this calendar. District officials did provide appropriate profit and loss statements for the clubs' use. However, the Treasurer did not enforce the submission of these statements from the clubs.

We reviewed 26 individual cash receipts totaling \$14,300, four fundraising events totaling \$6,300 and two years of concession sales totaling \$6,800 and found that all cash receipts were deposited timely and intact by the Treasurer. However, we found that clubs did not submit receipts timely to the Treasurer. Eleven cash receipts totaling \$6,600 were either not submitted timely or we could not determine timeliness due to lack of support at the club. We found that eight cash receipts totaling \$3,100 lacked a profit and loss statement or sufficient detail to ensure that all receipts collected were submitted to the Treasurer. Of the 20 sales events with concession receipts, we found the club did not submit nine games' proceeds totaling \$3,100 in a timely fashion to the Treasurer, nor did the club submit any profit and loss statement for these activities.⁴ We also found one club that had an unreasonably low fundraiser profit – the vendor estimated profit of \$1,050 and the club reported profit of \$610.

The Treasurer could not ensure all receipts were submitted timely because she was not provided a copy of the activities calendar, and she would not know when receipts should be turned over. Some clubs did not have support for the cash receipts due to the lack of continuity of the records, in which one faculty advisor shredded her records, and another advisor did not keep her records organized. The Treasurer did not enforce the submission of profit and loss statements because she did not know if the receipts collected required a statement without the activities calendar.

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 and 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. However, the Treasurer performed all aspects of the cash disbursement process with limited oversight. Although another employee maintains a second set of records to compare to the Treasurer's records, this employee did not compare her records to the

³ We found that this calendar was incomplete and missing some fundraising events.

⁴ There were 28 unsupported receipts totaling \$11,700.

bank statement. District officials added compensating controls after we brought this to their attention by having this employee review the bank statements, bank reconciliation and canceled check images.

Generally, cash disbursement orders were appropriately signed and adequately supported by the Treasurer. We reviewed 60 disbursements totaling \$27,900 and found that 10 disbursements totaling \$4,900 lacked support at the club level. We also found that the concession stand purchased inventory using cash from sales in the 2013-14 year, thus, any disbursements are unknown and unsupported since the faculty advisor circumvented the disbursements process.

These weaknesses occurred because District officials did not fully enforce the Regulations' requirements for a second set of records for disbursements. The faculty advisors were not aware that they were incorrectly circumventing the disbursements process. District officials have corrected this and now require the inventory to be purchased using the standard forms and processes.

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 are not 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. By segregating incompatible duties, District officials have reduced the risk of financial errors or irregularities for extra-classroom activities. When District officials establish and enforce effective controls over cash disbursements, money disbursed is better accounted for.

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 District officials should:

3. Ensure clubs complete profit and loss statements and ensure that these contain sufficient detail so that 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, 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.



"LUMBER JACKS"

Deposit Central School District

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February 1, 2016

New York State Office of the State Comptroller
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Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901

The Deposit Central School District Board of Education and Administration submit this letter as its official response for the audit report covering the extra-classroom cash receipts and disbursements for the period July 1, 2013 through January 30, 2015.

As per the guidance from the New York State Education Department, the purpose of Extra-Classroom Activity Funds is to provide learning experiences for students in the business procedures needed to safeguard the collection, deposit, and disbursement of money. At Deposit Central School District, we work as a team to provide the optimal learning experience in this area to our students.

We are appreciative of the time and effort expended by the Comptroller's staff and are always looking for ways to improve the District's procedures. We are pleased the report shows the district has no significant findings associated with the audit. We will submit a corrective action plan to address the recommendations included in the report.

Sincerely,

Edward Shirkey ✓
Superintendent of Schools

Dean Price
President of the Board of Education

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 30, 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 (CPA⁵ 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 and disbursements for eight 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 of three clubs and the disbursements of four clubs.
- We examined 10 percent of the receipts collected for each club selected. We traced receipts from the general ledger to the Treasurer's triplicate receipt, to the student activity deposit form 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 cash receipts journal and selecting every fourth for review.
- We judgmentally selected receipts from four large fundraisers totaling more than \$1,000. 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 selected concession activity for review due to higher fraud risk based on our professional judgment. We reviewed all receipts and disbursements for the 2013-14 and 2014-15 years to determine if receipts and disbursements were properly accounted for.
- We examined 10 percent of the disbursements for each club selected. We selected checks from the cash disbursements journal 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

⁵ Certified public accountant

checks and picked the next check for the clubs we were testing. We verified the payee and amounts match and that the disbursement was supported by documentation and for proper club purposes.

- We also selected a random sample of five clubs in each year and verified that the balances on the Treasurer's ledgers agreed with the clubs' ledgers.
- We reviewed 50 receipts totaling \$27,300 in our testing.

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.