

Frewsburg Central School District

Extra-Classroom Activity and Scholarship Funds

MARCH 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Frewsburg Central School District

Audit Objective

Determine whether the Frewsburg Central School District's (District) extra-classroom activity (ECA) and scholarship funds were properly accounted for and appropriately used.

Key Findings

ECA and scholarship funds were not properly accounted for and appropriately used. A lack of adequate oversight, segregation of duties and lack of written policies and procedures for scholarship funds allowed the former Central Treasurer (Treasurer) to use funds donated for scholarships and funds collected from other revenue sources to conceal misappropriated and missing money.

- \$6,982 is missing or was improperly withdrawn from the ECA and scholarship funds.
- Collections were not deposited in a timely manner or properly supported.
- ECA and scholarship fund accounting records were not properly maintained. The former Treasurer discarded the original student ledgers and replaced them with versions she created.
- Disbursements were not properly approved and supported.
- Periodic and accurate ECA and scholarship reports were not completed.

The former Treasurer was arrested by the Chautauqua County District Attorney and pled guilty to stealing \$6,982 from the District on January 6, 2022. She was sentenced to pay full restitution to the District.

Key Recommendations

- Ensure all money is deposited intact and in a timely manner.
- Complete proper monthly bank reconciliations for all ECA and scholarship accounts and properly report their activity to the Board monthly.

District officials agreed with our findings and recommendations and indicated they have initiated or planned to take corrective action.

Background

The District serves the Town of South Valley in Cattaraugus County and the Towns of Busti, Carroll, Kiantone and Poland in Chautauqua County.

The elected seven-member Board of Education (Board) is responsible for the general management and control of financial and educational affairs, including ECA and scholarship funds.

The Superintendent of Schools is the chief executive officer and is responsible for recommending to the Board the staff necessary to fulfill duties related to ECA and scholarship funds, including the Treasurer, faculty auditor and faculty advisors.

Quick Facts

2018-19

Active ECA Clubs/ Classes	23
ECA Receipts	\$103,000
ECA Disbursements	\$110,000
Scholarship Fund Fiscal Year Ending Balance	\$82,000

Audit Period

July 1, 2018 – October 31, 2019

Extra-Classroom Activity and Scholarship Funds

ECA funds are administered by and for the benefit of the students. Students raise and spend these funds to promote their general welfare, education and morale and finance the student body's normal and appropriate extracurricular activities.

Scholarship funds are maintained by the school district and are usually funded from donations. The donators usually specify how the funds can be used for various students' benefit.

How Can the Board Ensure that ECA and Scholarship Funds Are Properly Collected, Recorded and Disbursed?

The New York State Commissioner of Education's regulations require school districts to adopt and implement written policies and procedures to protect ECA fund money and ensure students are provided with the opportunity to learn good business practices through participation in ECA activity. These policies and procedures, when implemented properly, would safeguard ECA funds while encouraging student involvement. The policies, among other things, require the appointment of a central treasurer and faculty auditor, and that each ECA class and club have a student treasurer and faculty advisor. Student treasurers, with assistance from faculty advisors, are responsible for collecting money, issuing receipts, completing disbursement forms, and maintaining a ledger showing all collections and disbursements and a daily running balance.

Faculty advisors are responsible for reviewing ECA financial records maintained by student treasurers to ensure the accuracy of entries posted and balances reported, and that all forms contain required signatures. Central treasurers are responsible for verifying funds presented by student treasurers for deposit, issuing a receipt to the student treasurers, depositing collections intact and in a timely manner, signing all checks, maintaining the central accounting records, and reporting class and club activity to the board on a regular basis. Faculty auditors are responsible for periodically reviewing ECA financial records maintained by student treasurers and central treasurers to ensure the accuracy of entries posted and balances reported. The faculty auditor must investigate instances when a class or club ledger does not agree with the central treasurer's records and periodically report all findings to the board.

The board is also responsible for establishing proper internal controls to safeguard scholarship funds. Such controls should include adopting written cash collections and disbursement policies that include segregating key duties to ensure that one employee does not perform all phases of a transaction, using press-numbered duplicate receipts, ensuring that transactions are properly recorded, and accounting records are up-to-date, complete and accurate. Scholarship fund collections are primarily received via mail and should be deposited promptly. Scholarship funds should only be disbursed once scholarships have been awarded to students and approved by the board.

The Former Treasurer Misappropriated Scholarship Funds and ECA Cash Collected by Students

The Board adopted written policies and procedures for handling and safeguarding ECA funds in accordance with guidance published by the New York State Education Department (SED).¹ However, the Board did not adopt written policies specific for safeguarding scholarship funds. We reviewed ECA and scholarship funds totaling \$81,187 collected and remitted to the former Treasurer for deposit during our audit period and identified a cash shortage totaling \$6,982.

The former Treasurer concealed this shortage using a check for cash substitution scheme, an unauthorized cash withdrawal totaling \$2,700 from a scholarship savings account, and not depositing cash received from student treasurers as detailed below:

- Five deposits included checks totaling \$4,032 that were substituted for cash collections made by student treasurers. The checks substituted for cash consisted of retiree health insurance checks (\$2,844), unrecorded collections by various classes or clubs (\$850), and an unrecorded vendor expense refund (\$338).
- An unauthorized cash withdrawal totaling \$2,700 was made from the scholarship fund savings account after the District was notified of our audit, but prior to the former Treasurer resigning (we started our audit on September 9, 2019, and the former Treasurer resigned on September 13, 2019). A corresponding cash deposit totaling \$2,300 was made to the ECA checking account attempting to conceal a portion of the shortage that was ultimately identified. The remaining \$400 was not deposited into a District bank account.
- Cash from two deposit forms totaling \$250 completed by student treasurers and verified by faculty advisors could not be traced to corresponding deposits.

The former Treasurer was able to conceal the \$6,982 cash shortage because she had control over multiple sources of cash including ECA funds, payments remitted by retirees for health insurance premiums and scholarship funds without adequate oversight. The former Treasurer had custody of cash collections, made deposits, reconciled bank accounts and maintained the accounting records. Due to the inadequate segregation of duties, the lack of oversight that may have been provided by appointing a faculty auditor, and the lack of written policies and procedures for scholarship funds, the former Treasurer was able to misappropriate cash collected by students for ECA and conceal the theft using funds donated and collected for scholarships, and payments made by retirees for health insurance premiums without detection.

...[T]he Board did not adopt written policies specific for safeguarding scholarship funds.

The former Treasurer was able to conceal the \$6,982 cash shortage because she had control over multiple sources of cash. ...

¹ Refer to the SED publication, *The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds*.

Collections Were Not Deposited In a Timely Manner or Properly Supported

We reviewed 77 ECA deposits (which included multiple collections made by classes or clubs) totaling \$74,562 and 16 deposits into scholarship accounts totaling \$6,625. We found that deposits were not always supported or deposited intact and in a timely manner.

Eight ECA deposits made by the former Treasurer totaling \$12,264 were not made within a week of collection as required, the longest being 17 days between collection and deposit. Additionally, for three deposits totaling \$549, District officials could not determine the amount of time between collection and deposit, because either a deposit form was not created or was not retained with the class's or club's records. In addition,

- Sixty-three duplicate deposit forms totaling \$69,066 were not signed by a student treasurer.
- Sixty deposits totaling \$43,989 did not have a duplicate deposit form.
- Nine duplicate deposit forms totaling \$12,733 did not agree with deposits made by the former Treasurer.
- Three duplicate deposit forms totaling \$4,011 did not have a faculty advisor's signature.

We could not determine whether all scholarship collections were deposited in a timely manner because officials did not maintain sufficient supporting documentation. Of the 16 deposits made, only two deposits totaling \$2,297 contained adequate support to determine that they were not deposited in a timely manner. The deposits were made six to seven days after the depositing requirement of at least weekly. We could not assess the remaining 14 deposits totaling \$4,328 for deposit timeliness due to lack of supporting documentation.

The longer money remains undeposited, the greater the risk that loss or theft can occur. Because no other official periodically reviewed the Treasurer's deposits or records, they were unaware that collections were not being deposited in a timely manner and were not supported.

ECA and Scholarship Fund Accounting Records Were Not Properly Maintained

We reviewed each of the 23 ECA class's and club's ledgers to determine whether they were properly maintained and reconciled. We found that, while each class and club had an individual ledger showing collections and expenditures for the 2018-19 fiscal year, these ledgers were maintained by the former Treasurer, not the student treasurers as required. According to multiple faculty advisors, student treasurer ledgers were maintained throughout the fiscal year, but were given to the former Treasurer at fiscal year-end. Business office employees told us the

former Treasurer discarded the student ledgers and replaced them with versions she had created. When adequate student records are maintained, they can be periodically reconciled to the Treasurer's records and reduce the risk of errors and irregularities occurring and not being detected.

In addition, the former Treasurer did not maintain up-to-date records for collections and disbursements in the scholarship fund. The former Treasurer would simply make adjusting journal entries at year end based on bank activity. The former Treasurer primarily received scholarship fund collections by mail and deposited them. The former Treasurer prepared deposit slips, made deposits and recorded scholarship fund transactions in the ledger without oversight. Once scholarships were awarded to students and approved by the Board, the former Treasurer would physically make a cash withdrawal from the scholarship fund savings account and then deposit the money in a District checking account to write checks to the students.

Because the Board did not adopt written policies and procedures that established proper oversight including adequate documentation of financial activity, the former Treasurer, as detailed previously, was able to make an unauthorized cash withdrawal totaling \$2,700 from one of the scholarship funds.

Disbursements Were Not Properly Approved and Supported

We reviewed 131 ECA checks totaling \$78,191 to determine whether they were properly approved and supported prior to payment. We found that, except for one disbursement totaling \$884, all disbursements were supported by a disbursement activity form. However, not all disbursement activity forms were properly completed, as detailed below:

- None of the 130 disbursement activity forms totaling \$77,307 reviewed were numbered as required, and 116 totaling \$47,261 were not completed in duplicate as required.
- Seven disbursement activity forms totaling \$2,307 did not have a student treasurer signature; four totaling \$1,744 did not have a principal's signature; and one totaling \$1,269 did not have either a student treasurer's signature or principal's signature.

Furthermore, of the 130 checks that had disbursement activity forms, 15 checks totaling \$11,615 did not have sufficient supporting documentation such as a bill or invoice to determine whether the payment was for a proper class or club activity. Additionally, seven checks totaling \$8,717 did not have two signatures as required. ECA checks require two signatures from three possible individuals: the Business Manager, principal or District Clerk. These checks were not signed by the Business Manager or District Clerk; they were signed only by a principal.

... [Fifteen] checks totaling \$11,615 did not have sufficient supporting documentation . . .

Additionally, we reviewed six withdrawals totaling \$11,763 made from scholarship fund bank accounts and found that one withdrawal totaling \$2,700, as detailed previously, was not for a proper District purpose.

When District officials and student treasurers do not maintain supporting documentation and do not obtain proper authorizations prior to payment, there is an increased risk for errors and fraud to occur and go undetected.

Periodic and Accurate Reports Were Not Completed

We found no evidence that scholarship fund bank accounts were reconciled or that periodic reports of scholarship fund activity were given to the Board. While we did find evidence that the former Treasurer performed monthly bank reconciliations of the ECA bank account and created and submitted monthly reports to the Board, these monthly reports were not accurate.

We reviewed the 124 entries totaling \$75,774 recorded on the former Treasurer's monthly reports and found eight entries totaling \$6,679 that did not agree with supporting documents. For example, on the February 2019 Treasurer report, \$3,075 was recorded as received. However, \$3,020 was recorded on the student ledger, a \$55 difference. Additionally, on the February 2019 Treasurer report, \$450 was recorded as received. However, there was no record of this on the student ledger.

A lack of segregating incompatible duties allowed the former Treasurer to conceal a theft of funds because she performed nearly all duties without proper oversight. This included writing receipts, maintaining accounting records, having custody of student accounting records, writing checks, depositing collections, reconciling bank statements, and providing periodic reports to the Board. In addition, even though District policy outlines the faculty auditor's duties, the Board never appointed a faculty auditor. Had the Board appointed a faculty auditor, this person may have spotted the initial inconsistencies within the ECA records and may have detected or prevented the theft from occurring.

District officials told us that the District had a previous Treasurer with a long employment history with the District who was trustworthy and did the job very well. As a result, officials relaxed proper oversight over the years and did not prioritize oversight when hiring the former Treasurer.

The former Treasurer was arrested by the Chautauqua County District Attorney and pled guilty to stealing \$6,982 from the District on January 6, 2022. She was sentenced to pay full restitution to the District.

What Do We Recommend?

The Board should:

1. Adopt written policies and procedures to properly safeguard scholarship funds.
2. Appoint a faculty auditor to review ECA financial records maintained; ensure the accuracy of entries posted and balances reported; and investigate instances when a class or club ledger does not agree with the Treasurer's records.

Faculty advisors should:

3. Ensure that student treasurers are properly maintaining ledgers of collections and disbursements, and retain a copy of these ledgers and all supporting documentation.
4. Ensure that deposit and disbursement activity forms are properly completed for each transaction prior to submitting them to the Treasurer.

The Treasurer should:

5. Ensure scholarship fund records are maintained in a timely manner.
6. Ensure written receipts are issued for both ECA and scholarship fund collections received.
7. Ensure that all the required deposit and disbursement activity forms are maintained.
8. Deposit all money intact and in a timely manner.
9. Properly number and maintain each disbursement activity form, and ensure each contains proper supporting documentation with signatures prior to writing checks.
10. Complete proper monthly bank reconciliations for all ECA and scholarship fund accounts and properly report both accounts' activity to the Board monthly.

Appendix A: Response From District Officials

FREWSBURG CENTRAL SCHOOL DISTRICT

26 Institute Street • P.O. Box 690 • Frewsburg, New York 14738
(716) 569-7041

Shelly M. O'Boyle
Superintendent of Schools

January 31, 2022

Melissa Myers
Chief Examiner
Office of the State Comptroller
Buffalo Regional Office
295 Main Street
Suite 1032
Buffalo, New York 14203-2510

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Office of the Comptroller
Buffalo Office

Re: Frewsburg Central School District's Audit Response Letter and Corrective Action Plan to Report of Examination 2021M-159

Dear Ms. Melissa Myers:

Please accept this letter as Frewsburg Central School District's official Audit Response Letter and Corrective Action Plan for audit 2021M-159 pending Board approval on February 10, 2022. This audit covered Extra-Classroom Activity and Scholarship Funds for the period of July 1, 2018 through October 31, 2019.

The district agrees with all of the findings and all of the recommendations. Please see the following section for the corrective action plan for each audit recommendation.

Audit Recommendation #1:

"Adopt written policies and procedures to properly safeguard scholarship funds."

Implementation Plan of Action:

The Frewsburg Board of Education approved a resolution to transfer all funds related to student scholarships and the administration of the scholarships that were previously maintained by the district to an outside agency, the Chautauqua Region Community Foundation. The Chautauqua Region Community Foundation is a nonprofit, community corporation with a long history of administering scholarships and funds of all forms. In 2020 alone, nearly 800 local students received \$1.3 million for costs related to higher education. At the end of 2020, the Foundation's total asset level was \$122.6 million.

Implementation Date:

Board of Education meeting dates for which resolutions were passed pertaining to the transfer of student scholarship funds include August 12, 2021, October 14, 2021, and December 9, 2021.

Person Responsible for Implementation:

Board of Education

Audit Recommendation #2

“Appoint a faculty auditor to review ECA financial records maintained; ensure the accuracy of entries posted and valances reported; and investigate instances when a class or club ledger does not agree with the Treasurer’s records.”

Implementation Plan of Action:

The Frewsburg Board of Education appointed a Faculty Auditor at its meeting on July 15, 2021. This Faculty Auditor has begun reviewing ECA financial records maintained; ensuring the accuracy of entries posted and variances reported; and investigating instances when a class or club ledger does not agree with the Treasurer’s records.

Implementation Date:

July 16, 2021

Person Responsible for Implementation

Board of Education

Audit Recommendation #3:

“Ensure that student treasurers are properly maintaining ledgers of collections and disbursements, and retain a copy of these ledgers and all supporting documentation.”

Implementation Plan of Action:

The Faculty Advisors are ensuring that all student treasurers are properly maintaining ledgers of collections and disbursements, and retaining a copy of these ledgers and all supporting documentation.

Implementation Date:

Immediate

Person Responsible for Implementation:

Appointed Faculty Advisor

Audit Recommendation #4

“Ensure that deposit and disbursement activity forms are properly completed for each transaction prior to submitting them to the treasurer.”

Implementation Plan of Action:

The Faculty Advisors are ensuring that deposition and disbursement activity forms are properly completed for each transaction prior to submitting them to the treasurer.

Implementation Date:

Immediate

Person Responsible for Implementation:

Appointed Faculty Advisors

Audit Recommendation #5

“Ensure scholarship fund records are maintained in a timely manner”

Implementation Plan of Action:

The treasurer will no longer be responsible for maintaining scholarship funds since they have been moved to an outside agency.

Audit Recommendation #6

“Ensure written receipts are issued for both ECA and scholarship fund collections received.”

Implementation Plan of Action:

The treasurer will ensure written receipts are issued for ECA fund collections received. The treasurer will no longer be responsible for maintaining scholarship funds since they have been moved to an outside agency.

Implementation Date:

Immediate

Person Responsible for Implementation:

Treasurer

Audit Recommendation #7

“Ensure written deposit and disbursement activity forms are maintained.”

Implementation Plan of Action:

The treasurer will ensure written deposit and disbursement activity forms are maintained.

Implementation Date:

Immediate

Person Responsible for Implementation:

Treasurer

Audit Recommendation #8

“Deposit all money intact and in a timely manner.”

Implementation Plan of Action:

The treasurer will Deposit all money intact and in a timely manner.

Implementation Date:

Immediate

Person Responsible for Implementation:

Treasurer

Audit Recommendation #9

“Properly number and maintain each disbursement activity form, and ensure each contains proper supporting documentation with signatures prior to writing checks.”

Implementation Plan of Action:

The treasurer will properly number and maintain each disbursement activity form, and ensure each contains proper supporting documentation with signatures prior to writing checks.

Implementation Date:

Immediate

Person Responsible for Implementation:

Treasurer

Audit Recommendation #10

“Complete proper monthly bank reconciliations for all ECA and scholarship fund accounts and properly report both accounts’ activity to the Board monthly.”

Implementation Plan of Action:

The treasurer will complete proper monthly bank reconciliations for all ECA fund accounts and properly report the accounts’ activity to the Board monthly. The treasurer will no longer be responsible for maintaining scholarship funds since they have been moved to an outside agency.

Implementation Date:

Immediate

Person Responsible for Implementation:

Treasurer

The District wishes to commend the auditors for their professional demeanor and thank them for the information provided in the draft report. The District and its Board of Education take their obligations to maintain the District’s financial records and funds very seriously. The Board of Education and Central Office Administration view such findings and recommendations as an opportunity to continue ongoing efforts to improve governance and operations in the District.

As always, the District will continue to implement policies and procedures that provide students, employees, and the school community a fiscally responsible environment.

We appreciate the time and effort undertaken by the Comptroller’s Office.

Sincerely,

Shelly O’Boyle
Superintendent
Frewsburg Central School District

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and faculty advisors, and reviewed SED guidance to gain an understanding of policies, procedures, practices and controls over ECA and scholarship funds.
- Based on our professional judgment, we decided to review all the collection and disbursement activity for ECA and scholarship fund accounts for the period January 1, 2019 through October 31, 2019. We made this determination based on the risk for fraud and the corresponding timeframe of the former Treasurer's employment. Using bank deposit compositions, canceled check images, and student-completed collection and disbursement activity forms, we reviewed all ECA and scholarship collections and disbursements during this period. We determined whether they were disbursed for proper purposes and whether collections deposited by the former Treasurer were properly reported, made in a timely manner and deposited intact.
- We reviewed student treasurers' records maintained for the period of January 1, 2019 through October 31, 2019 to determine whether each class and club was properly completing and maintaining sufficient documentation.
- We reviewed ECA bank reconciliations and monthly Board reports from January 1, 2019 through October 31, 2019 to determine whether they were accurate.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

The Board has the responsibility to initiate corrective action. 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, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

BUFFALO REGIONAL OFFICE – Melissa A. Myers, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: Muni-Bufferalo@osc.ny.gov

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