

Bethpage Union Free School District

Extra-Classroom Activity Funds

FEBRUARY 2020



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

Contents

- Report Highlights 1**

- Extra-Classroom Activity Funds 2**
 - How Should the District Account for ECA Collections? 2
 - Clubs Did Not Properly Account for ECA Collections 3
 - Clerks Failed To Consistently Issue Receipts and Make Timely Deposits 4
 - How Should Disbursements Be Processed? 5
 - Disbursements Were Not Adequately Supported, Properly Approved or Appropriate 5
 - What Type of Records Should Be Maintained? 6
 - ECA Clubs and Building Clerks Failed to Maintain Adequate Records to Support Fundraisers 7
 - Bank Reconciliations Were Not Accurate and Club Balances Were Not Reported 8
 - The District Did Not Retain Records in Compliance With the Law. . . 9
 - What Do We Recommend? 10

- Appendix A – Response From District Officials 12**

- Appendix B – OSC Comments on the District’s Response 15**

- Appendix C – Audit Methodology and Standards 17**

- Appendix D – Resources and Services 19**

Report Highlights

Bethpage Union Free School District

Audit Objective

Determine whether extra-classroom activity (ECA) funds were properly collected, recorded, deposited and disbursed.

Key Findings

- Student treasurers and advisors failed to maintain pre-numbered tickets and receipts, statement of profit and loss forms, and annual record of funds received and paid out.
- Checks were not countersigned and payments were not properly approved.
- Middle school bank reconciliations were performed incorrectly, resulting in inaccurate cash balances being reported to clubs and to the Board.

Key Recommendations

- Ensure pre-numbered receipts and tickets are issued for all ECA fund events, and issue pre-numbered receipts for all collections from ECA advisors.
- Ensure all checks have two signatures and payments are approved by all parties as required by policy.
- Review accounting records to ensure that receipts and disbursements are properly recorded, and review monthly bank reconciliations before they are sent to the District Treasurer to ensure accuracy.

District officials disagreed with certain findings in our report. Appendix B includes our comments on issues raised in their response.

Background

The Bethpage Union Free School District (District) is located in the Town of Oyster Bay in Nassau County. A seven-member Board of Education (Board) is responsible for the District's general management, including the ECA fund.

The Board annually appoints central treasurers in the middle school and high school to administer the ECA funds. Each central treasurer has a clerk who works on their behalf to collect, record, deposit, disburse and reconcile ECA funds. The District Treasurer¹ reviews monthly ECA reports and presents them to the Board.

Quick Facts

Number of Middle School and High School Clubs With Balances	39
Enrolled Students	2,886
ECA Collections (Audit Period)	\$855,421
ECA Disbursements (Audit Period)	\$848,094

Audit Period

July 1, 2017 – March 31, 2019

¹ The District appointed a new District Treasurer who began in January 2019.

Extra-Classroom Activity Funds

Extra-classroom activity (ECA) funds are money received from an organization within the school district whose activities are conducted by students, such as clubs, teams and student council. Such activities provide learning experiences to students in the business procedures needed to collect, deposit and disburse money. These funds should be managed by students under the direct supervision of designated district personnel. Money should be collected by the students within an ECA club (club) and can be spent at the discretion of the students within that club as long as they follow the established procedures. ECA funds are derived from a number of sources such as admissions to paid events, sales and donations. District clubs hold fundraisers to raise money for school trips and sports equipment, and to support charities.

The Board adopted an ECA fund policy and the District established written procedures to manage ECA funds. Each club has a Board-appointed faculty advisor (advisor) and a student treasurer. The Board appointed the middle school and high school principals as the central treasurers of their respective buildings. Each central treasurer has a clerk who works on their behalf to collect, record and deposit receipts, and facilitate disbursements from the ECA fund bank accounts.

The advisor is responsible for overseeing and advising students in planning fundraisers; ensuring that all money collected is safeguarded and remitted to the central treasurer in a timely manner; and verifying the accuracy of collections and deposit forms. The student treasurer, under the advisor's direct supervision, is responsible for accounting, reconciling and remitting funds in a timely manner to the central treasurer; preparing purchase orders for disbursements; and preparing bills for payment.

The District has 39 clubs² in its middle and high schools that manage money. The District's ECA funds had approximately 460 deposits totaling \$855,000 and 630 disbursements totaling \$848,000 between July 1, 2017 and March 31, 2019.

How Should the District Account for ECA Collections?

District procedures require that all clubs use pre-numbered tickets for admissions to any paid event. Students should keep records of specific ticket numbers given to each ticket seller and require each ticket seller to return unsold tickets, along with money collected, and then reconcile the number of tickets sold to the money collected. Whenever possible, students should issue pre-numbered receipts in duplicate – one to the purchaser and one for club records. Student treasurers should reconcile the number of receipts issued to money collected. If receipts are not practical, for example, in a bake sale, two students should be responsible for the collection and reconciliation of funds collected under the supervision of an adult.

² The District has additional clubs at the elementary schools that do not handle money.

All funds should be given to the student treasurer for review and reconciliation using the statement of profit and loss form. All collected money should be noted on a deposit transmittal form, broken-down by denomination,³ signed by the student treasurer and advisor, and forwarded, along with the statement of profit and loss form, to the clerk for deposit.

Funds should be turned over to clerks on a timely basis for deposit. The clerk should issue pre-numbered receipts to clubs after verifying the accuracy of the amount received, and make bank deposits at least once per week.

Clubs Did Not Properly Account for ECA Collections

ECA collections were remitted to the clerks using a deposit transmittal form that documented the name of the club and the amount of the deposit itemized by bill denominations and checks, and initialed by the student treasurer and advisor. Central treasurers failed to ensure that student treasurers and faculty advisors were informed of the requirement to maintain accounting records for their clubs. In addition, the District's external auditors reported that cash receipt records were not adequate to permit the application of auditing procedures in the last four audits (2014-15 through 2017-18). However, District officials still failed to effectively communicate the procedures that outlined the student treasurers' and advisors' recordkeeping responsibilities.

We reviewed 115 deposits⁴ totaling \$266,213 (31 percent) for 14 clubs. None of these clubs issued pre-numbered receipts for sales, retained pre-numbered tickets for events, or kept records of specific ticket numbers given to each seller. However, co-advisors for the middle school student council maintained a schedule of ticket sales for a Halloween dance. The schedule indicated that \$1,770 was collected, but the total in the clerk's deposit record was \$2,193, \$423 more than the club identified as collected. The advisors explained that the deposit included funds raised during the party. However, there was no support for this. They noted that, in hindsight, they should have identified each source of collection separately, and would do so in the future.

Because clubs did not issue duplicate receipts, none of the student treasurers reconciled receipts with money collected. Some advisors told us that they or their student treasurers reconcile tickets with money collected, but they did not retain evidence of their reconciliations. For example, the middle school drama club advisor explained that he prepares pre-numbered tickets and keeps a record of ticket sales to reconcile with receipts at the end of each day's sales. However, after the shows are complete and the money is deposited, he discards the records.

³ The form indicates that the number of 1s, 5s, 10s, 20s, 100s, and checks collected should be noted.

⁴ See Appendix C for sample selection methodology.

Additionally, student treasurers did not reconcile collections using the statement of profit and loss form. None of the 14 clubs had profit and loss forms and no forms were submitted with deposit transmittal forms for any of the 115 collections. Because the forms were not prepared, we could not determine how long funds were held by clubs before being remitted to the clerks. Moreover, the procedures do not clearly define what timely remittance from clubs to clerk would be. In addition, not all collections were given to the student treasurer for review before remittance to the clerk.

Some advisors told us that students are given the collections to count before signing the deposit transmittal form. Others told us student treasurers were less involved and did not count collections prior to signing the form. Finally, in each of the last four fiscal years, the District's independent auditors expressed a qualified opinion for the ECA funds because of the absence of club records. Although District officials are aware of the lack of records, they have not taken corrective action or developed a corrective action plan to address the issue. District officials could not explain why they have not addressed the poor recordkeeping pointed out in the audit reports.

We spoke to 18 advisors responsible for the 14 clubs. Advisors generally told us they were unaware of the requirements to maintain these documents. Only six of these advisors recognized the written procedures document and the required forms accompanying it.

The club is the first point of contact for all money collected. Therefore, when the student treasurer and advisors do not maintain complete documentation to support collections, club members cannot be sure that clubs collected all the money due to them. In addition, the central treasurers cannot ensure that all money collected for clubs was accounted for and transferred timely and intact to the clerks, and that clerks deposited the collections intact.

Clerks Failed To Consistently Issue Receipts and Make Timely Deposits

Of the 115 deposits, 81 (70 percent) totaling \$173,015 had receipts issued from the clerks to clubs. The middle school clerk stopped issuing receipts in April 2018, resulting in 14 middle school deposits totaling \$56,842 where receipts were not issued to the club. She said she did not realize she was required to issue a receipt each time she received money. The high school clerk did not issue receipts for 20 deposits totaling \$36,356. She said she makes an effort to issue a receipt every time she receives money but is not always consistent due to other job responsibilities. Because there were no receipts issued for 34 collections (30 percent) totaling \$93,198, we could not determine whether they were deposited in a timely manner.

Of the 81 collections with clerk-issued receipts, 54 (47 percent) totaling \$118,822 were deposited in the bank within seven days, as required by procedures. The remaining 27 (23 percent) deposits totaling \$54,192 were deposited in the bank between eight and 22 days after the clerk received the funds. For example, the high school clerk received \$720 on March 20, 2018, but did not deposit these funds until April 11, 2018, 22 days after she received them. The clerk stated that although she tries, it is not always practical to go to the bank within one week.

When receipts are not issued upon taking custody of funds, there is an increased risk that cash could be lost or misappropriated without detection. When the transfer of custody from club to clerk is not documented, it makes tracking funds for accountability difficult or impossible. Further, when collected cash remains undeposited for extended periods of time, the risk of loss or misuse increases.

How Should Disbursements Be Processed?

District procedures permit clubs to spend money in any reasonable manner. A purchase order completed by the student treasurer, signed by the advisor and approved by the central treasurer must be issued for all purchases. Invoices should be approved by the student treasurer and the advisor. A payment request form should be completed and forwarded to the clerk, along with the invoice and evidence that the goods or services have been received.

The clerk should issue a check for all properly processed invoices. Checks should be forwarded to authorized signatories for endorsement. District policy requires two signatures on all ECA fund checks.

Disbursements Were Not Adequately Supported, Properly Approved or Appropriate

We selected 298⁵ disbursements totaling \$332,823 (39 percent) from 30 clubs and found all had at least one deficiency, including not being adequately supported, properly approved and/or appropriate. For example,

- Although the District's policy requires two signatures on checks, none of the checks had dual endorsements. One check for \$1,238 reimbursing the French Club advisor for field trip expenses was cashed by the bank with no signature. The clerk stated this was an oversight, but said she would have expected the bank to refuse the check. The remaining cashed checks contained just the central treasurer's signature. District officials said they did not know that two signatures were required.

5 See Appendix C for sample selection methodology.

-
- Support for 20 payments totaling \$26,025 was inadequate or missing. For example, a \$9,900 payment for a coach bus for a middle school Honor Society field trip had no invoice attached to the disbursement packet. The clerk told us that the transportation department handles booking buses for school trips and the vendor usually sends the invoice to that department, so a copy is not always sent to the advisor to attach to the disbursement packet. In another example, there were two disbursements of \$300 each, from the Honor Society, issued to the advisors, identified as tips for bus drivers, but there was nothing to support the disbursements. One of the central treasurers stated that they pay a standard amount District-wide, and because the bus drivers also function as chaperones, they provide a gratuity.
 - Five disbursements totaling \$10,289 included \$698 in expenses which appeared inappropriate. For example, the drama club paid the advisor's sister \$200 for face painting assistance. There was nothing in the claim packet to indicate how the rate was determined or whether the rate was approved by anyone other than the advisor.

Without adequate support and proper approval, ECA funds could be disbursed for inappropriate purposes.

What Type of Records Should Be Maintained?

Each ECA student treasurer is responsible for maintaining independent accounting records of collections and disbursements. The student treasurer should maintain records to account for all collections and disbursements that include a daily running account balance. It is important for the advisor to guide the student treasurer in entering information and to periodically check the student treasurer's account balances. Periodically, the club's records should be compared to the central treasurer's records to verify agreement between the two and any discrepancies investigated. Each club should also keep an annual record of funds received and paid out, and provide a copy to the clerk on a quarterly basis.

District procedures require all ECA fundraising be approved in advance by the school principal. The procedures include a standardized form users must complete that notes the type of fundraiser, the purpose, the proposed date, and requires the principal's signature. The clerk must maintain records in date order so that events can be tracked and to assist in determining when the club should remit funds for deposit.

District procedures also require the clerk to prepare monthly bank reconciliations and an analysis of individual club balances including monthly receipts and disbursements. These reports must be forwarded to the District Treasurer for inclusion in the Treasurer's report to the Board. However, bank reconciliations should be performed timely by an employee who does not have custody of or

access to bank accounts or cash and who does not authorize, record or adjust receipt or disbursement transactions. When it is not possible to segregate these duties, a supervisor should review accounting entries and bank reconciliations monthly.

Finally, State Education Department Commissioner's Regulations⁶ require ECAs to retain records of activities, competitions and performances, and other records of officially-supported clubs for a period of six years.

ECA Clubs and Building Clerks Failed to Maintain Adequate Records to Support Fundraisers

Of the 14 clubs reviewed for deposits, none of the student treasurers maintained accounting records for collections and disbursements with cumulative balances. Advisors told us that they were not told they needed to maintain their own records, and they verbally check with the clerk when they need to know the clubs' account balances. Three clubs maintained an annual record of funds received and disbursed. However, the records for these clubs were not sent quarterly to the clerk. From the three clubs that maintained annual records, we were able to verify 11 of the 115 collections tested totaling \$18,998, and nine disbursements of the 130 tested totaling \$30,855, against the clerk's records. Because the other 11 clubs did not maintain a record of their activities, 104 collections totaling \$247,215 and 121 disbursements totaling \$176,821 could not be verified as accurate.

We reviewed the same 115 collections totaling \$266,213 tested above and identified 18 fundraisers (12 middle school and six high school) with receipts totaling \$50,289 (\$15,970 for the middle school and \$34,319 for the high school). We identified fundraisers based on interviews with advisors and clerks' records, which sometimes described the activity for which they were depositing the money. Only three (\$32,268) of the 18 fundraisers had approval forms on file. The middle school Honor Society advisor obtained a properly authorized fundraiser approval form for a \$288 collection for general club usage and their annual field trip, and a high school hockey team advisor obtained approval for two fundraisers with collections totaling \$31,980. Advisors at the middle school did not consistently obtain authorization for fundraisers, and the clerk did not maintain fundraiser approval forms for those that did. The advisors could not explain why some fundraisers had approvals and some did not. The clerk said she was unaware she was required to keep approval forms on file.

The high school clerk maintained fundraiser approval forms but they were not in date order. When clubs obtained authorized forms, they did not always make the clerk aware of the authorization.

6 ED-1 1.[93] and ED-1 3.[381]

When student treasurers do not maintain adequate records to support collections and disbursements, officials cannot ensure that students are adequately accounting for all collections and remitting funds to the central treasurer in a timely manner. They also cannot ensure that disbursements are properly supported and approved for club purposes. Further, because the central treasurer did not communicate District procedures to relevant staff, 15 fundraisers totaling \$18,021 were not authorized.

Bank Reconciliations Were Not Accurate and Club Balances Were Not Reported

Both clerks said they prepare monthly bank reconciliations and submit them to the District Treasurer. The high school clerk said she also submits a club activity report showing receipts and disbursements for the month. The middle school clerk said she was not aware any other reports needed to go to the Treasurer. The District Treasurer said she receives monthly bank reconciliations from each clerk and the high school clerk also sends the club activity report.

We re-performed 16⁷ bank reconciliations (10 middle school⁸ and six high school⁹) to determine whether they were accurate. The high school bank reconciliations were accurate. However, we found discrepancies in all 10 months of middle school bank reconciliations. The clerk's recorded book balance and the re-calculated book balance had variances that ranged from \$343 (December 2018) to \$491 (November 2018). In addition, the book balance from her prepared bank reconciliations did not match the book balance from the accounting records she maintained. Differences ranged from \$286 (July 2018) to \$743 (June 2018). The clerk also did not record interest income or adjust her balance for voided checks and returned deposits. For example, a check for \$70 deposited in June 2018 was returned by the bank, but was never deducted from the cash balance in the accounting records. Lastly, there was also a repeating unreconciled balance of \$231 each month. The clerk could not explain the unrecorded activity or the unreconciled balance.

The clerk prepares bank reconciliations manually using a printed form. She told us that she does not use her accounting records when preparing the bank reconciliations and does not compare her reconciled balance on the form to the balance in the records. She said she did not realize the numbers on the form should match the accounting records; she simply backed into the figures on the form to make them match on the form. When bank account balances are not properly reconciled with accounting records, clerks cannot determine whether

7 See Appendix C for sample selection methodology.

8 April 2018 through January 2019

9 April through June 2018 and November 2018 through January 2019

all receipts and disbursements are captured and correctly recorded and cannot identify, correct, and document any differences between accounting records and bank transactions.

Both central treasurers told us they do not review bank reconciliations prepared by the clerks. The District Treasurer said she reviews and signs the high school bank reconciliation but does not review the middle school bank reconciliation because supporting records are not sent with them. The middle school clerk failed to keep accurate activity balances and the central and District Treasurers failed to ensure the clerk made corrections to maintain accurate balances. Because middle school records were not reviewed, errors remained undetected and uncorrected, and inaccurate book balances and bank reconciliations were prepared for at least 10 months.

We also reviewed six Treasurer's reports from April 2018 through June 2018, and November 2018 through January 2019 that were presented to the Board. We noted that no bank reconciliations were included with these reports. Five of the six reports included only individual club balances, receipts, disbursements and the reconciled balances for the high school. The District Treasurer stated she did not include the middle school club activity¹⁰ because she does not receive activity balances, receipts and disbursements from the middle school clerk. The June 2018 Treasurer's report included both the middle school and high school club receipts, disbursements and balances. The middle school central treasurer told us that he periodically receives a summary of club activities. However, as previously mentioned, the clerk was not aware that this report should also be submitted to the District Treasurer.

Because middle school monthly activity reports were not provided to the District Treasurer, the Board did not receive all the information for ECA funds as stipulated in procedures, and it was not able to properly oversee the ECA funds. This lack of oversight resulted in errors that remained undetected and uncorrected.

The District Did Not Retain Records in Compliance With the Law

The District's policy and procedures did not specify a length of time for records retention. Because individuals charged with retaining records were not aware of the requirements, none of the 14 clubs reviewed maintained financial records for more than the current fiscal year.

The middle school clerk had three years' of accounting records and the high school clerk had five years' of accounting records. Both clerks indicated that additional records from previous years could be in storage, but they did not

¹⁰ Treasurer's reports prepared for December 2018 and January 2019

look for them, so they could not say for certain. The Treasurer and the Assistant Superintendent for Business stated they looked for ECA accounting records in the administration building but did not find any.

Due to the lack of written guidance in their policies and procedures, documents to support financial activities were not retained as required by law. In each of the last four fiscal years, the District's independent auditors expressed a qualified opinion for the ECA funds because of the absence of club records. Also, when records are not sufficiently documented and retained, officials cannot be certain that money is being safeguarded at all points of the collection and disbursement process.

What Do We Recommend?

The Board should:

1. Adopt a corrective action plan in response to the independent auditors' reports on ECA funds.
2. Require compliance with the District's policies and procedures for ECA funds.

The Superintendent should:

3. Monitor implementation of the Board's corrective action plan in response to the independent auditors' reports.
4. Ensure compliance with the District's policies and procedures for ECA funds.

District officials should:

5. Ensure that central treasurers, faculty advisors and student treasurers are adequately informed of the District's policy and procedures and that they follow the specific requirements for the receipt and disbursement of funds, and maintain adequate and appropriate accounting records.
6. Consider revising their policy and procedures to clearly define timely remittance of collections to clerks and allow for receipts to be deposited timely from when clubs initially collect funds to when they are deposited in the bank; identify the second signatory for counter-signing checks; and incorporate instructions for records retention.

Advisors should:

7. Ensure that student treasurers maintain independent accounting records, issue duplicate receipts, retain records of tickets sold, reconcile collections using statement of profit and loss forms and submit the statements with the deposit transmittal forms.

-
8. Ensure that student treasurers count cash before signing deposit transmittal forms.
 9. Ensure that adequate support is attached to all payment requests submitted to the central treasurer for review and approval.
 10. Ensure that club balances are periodically reconciled with clerk records for accuracy.
 11. Maintain cumulative records of receipts and disbursements and send quarterly reports to the clerk.
 12. Obtain approval for all fundraising events and inform the clerk.
 13. Retain all club records for the required six-year period.

Clerks should:

14. Issue receipts for all collections and make deposits within one week.
15. Ensure that all payment requests, purchase orders and checks are appropriately signed by all parties prior to issuing checks.
16. Maintain fundraiser approval forms in date order.
17. Ensure accounting records include interest earned, voided checks and returned deposits for accurate balances and use accounting records to reconcile bank accounts.
18. Submit monthly club analysis reports to the District Treasurer.

Central treasurers should:

19. Ensure all disbursements are adequately supported and approved for club purposes prior to authorizing payments.
20. Ensure all checks are counter-signed prior to being disbursed.
21. Regularly review accounting records to ensure that receipts and disbursements were properly recorded and deposited in the bank, and review monthly bank reconciliations before they are sent to the District Treasurer to ensure accuracy.

The District Treasurer should:

22. Review all submitted bank reconciliations and ensure corrections are made so that all information can be accurately reported to the Board.
23. Include activity balances, and monthly receipts and disbursements for both buildings in the Treasurer's report to the Board.

Appendix A: Response From District Officials

BETHPAGE UNION FREE SCHOOL DISTRICT

10 CHERRY AVENUE
BETHPAGE, NEW YORK 11714

TELEPHONE: 516-644-4030
FAX NUMBER: 516-931-2675

MR. DAVID SCHNEIDER
Superintendent of Schools

MR. SCOTT M. HARRINGTON
Assistant Superintendent for Business

January 27, 2020

Mr. Ira McCracken, Chief Examiner,
Office of the State Comptroller
Division of Local Government and School Accountability
NYS Office Building
250 Veterans Memorial Highway
Hauppauge, NY 11787

Dear Mr. McCracken:

The Bethpage Union Free School District received the preliminary draft of your *Extraclassroom Activity Funds Report of Examination*. As required, the District provides the following response to your audit report.

We are pleased that you found no major discrepancies during your initial review of our business operations, which included procurement, budgeting, cash receipts, cash disbursements, payroll, and fund balance. The Bethpage Union Free School District prides itself on fiscal discipline. We strive to have adequate controls within our business department and your auditors confirmed this during their risk assessment. We have read your *Extraclassroom Activity Funds Report of Examination* in detail and have noted our response to each below.

See
Note 1
Page 15

Finding: Clubs did not properly account for extracurricular collections. Specifically, clubs did not always issue duplicate receipts for money collected and the external auditors issued a qualified opinion on the District's extracurricular financials due to the lack of club records.

Response: While the District has written procedures to address how extracurricular collections should be accounted for, these procedures were not always followed. However, student treasurers and faculty advisors had access to District procedures, which are located on the District's website, and were made aware these procedures did exist. We will ensure the central treasurers enforce these procedures going forward.

See
Note 2
Page 15

Additionally, the District's external auditors gave the District's extracurricular financials a qualified opinion due the nature of extracurricular activity being cash basis. There was no corrective action plan needed because the District did not receive a management letter comment regarding extracurricular activity. The external auditors follow different standards than the Office of the State Comptroller. In fact, our external audit firm will only issue a qualified opinion for extracurricular activities, which is a common practice for most external audit firms in the

See
Note 3
Page 15

industry. While we believe the external auditor’s report should have been reviewed to assist in planning the audit, we do not believe it should be included as an audit finding in this report. We request that all references to the external auditor’s report as a finding in this report be removed.

Finding: Clerks failed to consistently issue receipts and make timely deposits.

Response: Our District procedures require pre-numbered receipts be issued for sales and events. While we agree not all clubs followed this procedure, it is not always feasible to issue pre-numbered receipts. Our District procedures also require receipts be deposited within a week. Although deposits were not always made within a week, the District ensured all receipts were properly safeguarded while waiting to be deposited. We will ensure Central Treasurer’s require pre-numbered receipts when necessary and ensure deposits are made on a weekly basis.

See
Note 4
Page 15

Finding: Disbursements were not adequately supported, properly approved or appropriate

Response: Of the 298 disbursements tested, 273 had adequate support and/or were appropriate. The majority of these findings related to checks only having one signature. While the District policy states two signatures are required on checks, the District’s procedures require only one signature. The policy has been updated to require one signature on checks.

See
Note 5
Page 15

Additionally, while we agree some of the cash disbursements did not have adequate support, we believe most of the disbursements deemed inappropriate were appropriate. The Clubs decide how they wish to spend the money they raise, and the students must sign all *Request for Payment* forms to document their approval. The Extracurricular money is the students’ money and they may choose to spend it how they see fit.

See
Note 6
Page 16

Finding: Bank reconciliations were not accurate and club balances were not reported.

Response: The majority of extracurricular money is held within the High School Extracurricular clubs. The High School central treasurer submitted accurate club balances and bank reconciliations on the monthly basis. The club balances were then submitted to the Board as part of the Treasurer’s monthly report. The Middle School Extracurricular records were not accurate and not submitted to the Board. However, in the current year, the Middle School Extracurricular recordkeeping was reassigned. Club balances have been reconciled and all bank reconciliations and balances are performed accurately and timely and are now submitted to the Board in the Treasurer’s report.

See
Note 7
Page 16

Additionally, the report refers to the “Treasurer” often. However, the Treasurer whose reports were reviewed during the audit period is no longer employed by District. The new Treasurer who started at the end of the audit period was asked to answer questions on behalf of the previous Treasurer, but has never spoken with the previous Treasurer. This should have been noted in the report, as the new Treasurer’s reports were not used in the audit and their processes are different.

See
Note 8
Page 16

Finding: The District did not retain records in compliance with the law.

Response: We could not locate all records from prior years. However, both clerks interviewed as well as the Treasurer and Assistant Superintendent for Business did in fact look for the records. The auditors were told we would contact them if we were able to locate the prior year

See
Note 9
Page 16

records, which we were not. The statement that a search for the records was not conducted is inaccurate. We request that this be removed from the report.

Finally, we would like to respond to the recommendations. The recommendations are basically repeating District procedures. While we need to ensure these procedures are followed more consistently, they are already in place.

See Note 10 Page 16

As mentioned above, we are pleased there have been no significant issues as a result of the risk assessment and Extracurricular audit. We will review our procedures and reinforce their significance to ensure all students, advisors and treasurers are following them as required.

Respectfully submitted,

Mr. David Schneider
Superintendent

cc: Michael Kelly, Board President

Appendix B: OSC Comments on the District's Response

Note 1

Our audit process involves conducting an initial risk assessment of the District's operations, then deciding on the reported objective and scope by selecting for audit the area most at risk. As required by GAGAS (generally accepted government auditing standards), our report presents the results and conclusions of audit work performed to meet the reported objective. Our audit was focused on the ECA funds, and we did not come to any conclusions on the other areas listed in the District's response.

Note 2

Only six of the 18 advisors interviewed recognized the written procedures document and the required forms accompanying it. The remaining 12 advisors told us they were unaware of the written procedures and the requirement to maintain documentation. The District should establish procedures to ensure that advisors are aware of the procedures they should be following.

Note 3

The external auditors indicated that cash receipt records were not adequate to permit the application of auditing procedures. Similarly, our review determined that District officials did not ensure adequate cash receipt records were maintained for all ECA collections.

We reviewed 115 deposits totaling \$266,213 (31 percent) for 14 clubs. None of these clubs issued pre-numbered receipts for sales, retained pre-numbered tickets for events, or kept records of specific ticket numbers given to each seller. In addition, none of the 14 clubs had profit and loss forms and no forms were submitted with deposit transmittal forms for any of the 115 collections. When records are not sufficiently documented and retained, officials cannot ensure that all money collected for clubs was accounted for.

Note 4

None of the 14 clubs issued pre-numbered receipts for sales and events. District procedures indicate that if receipts are not practical, for example, in a bake sale, two students should be responsible for the collection and reconciliation of funds collected under the supervision of an adult.

Note 5

We tested 298 disbursements totaling \$332,823. Of the 298, 20 disbursements totaling \$26,025 had inadequate or missing support and five disbursements totaling \$10,289 included expenses of \$698 that appeared inappropriate. Some disbursements had overlapping deficiencies, in addition to lacking dual endorsements. Therefore, it is inaccurate to state that 273 disbursements "had adequate support and/or were appropriate."

Note 6

District procedures permit clubs to spend money in any reasonable manner, provided they follow and abide by the established procedures. We reviewed 298 disbursements totaling \$332,823 from 30 clubs and found that all had at least one deficiency. That is, each disbursement lacked compliance with District policy and/or procedures.

Note 7

District procedures require the clerk to prepare monthly bank reconciliations and an analysis of individual club balances including monthly receipts and disbursements. These reports must be forwarded to the District Treasurer for inclusion in the Treasurer's report to the Board. While it may be correct that a majority of the money is held at the high school, the District's procedures do not specify that only the high school reports must be submitted to the Board. Further, had the middle school records been reviewed and corrected, they could have been included in reports to the Board, as required by procedures.

Note 8

We have updated the Background section of the report with a footnote indicating the appointment of the new Treasurer. Additionally, although most of the documents reviewed were prepared by the previous Treasurer, the new Treasurer was asked to comment on procedures that were currently in place at the District, not answer questions on behalf of, or speak for, the previous Treasurer.

Note 9

OSC auditors were told at the exit conference that the Assistant Superintendent for Business and the Treasurer searched for additional records from previous years in the administration building, and did not find any. The report has been updated accordingly.

Note 10

While written procedures existed at the District, relevant staff were not following all requirements because they were not aware and/or were not being held accountable. This led to the findings as set forth in this report.

Appendix C: 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 obtained and reviewed the District's policy and written procedures over the ECA fund.
- We interviewed the Superintendent of Schools, Assistant Superintendent for Human Resources and school principals to gain an understanding of how advisors are selected and the oversight role as central treasurers.
- We interviewed advisors to gain an understanding of how they were appointed, their understanding of District policy and procedures, and how they accomplished compliance. In addition, we inquired whether they retained activity records for six years, as required by SED regulations. For each collection and disbursement tested, we asked advisors for supporting evidence and obtained and reviewed any records provided.
- We interviewed the clerks to gain an understanding of their procedures and determine whether they are complying with District policy by using proper forms and maintaining adequate records. In addition, we inquired whether they retained their accounting records, including bank statements, deposit transmittal forms, deposit slips/receipts, check stubs, purchase orders, payment authorization forms, supporting receipts and invoices for six years, as required by SED regulations.
- Using our professional judgment, we selected April 2018, May 2018, June 2018, November 2018, December 2018 and January 2019 as our test months. We selected these months because they represent the end of the 2017-18 school year and the middle of the 2018-19 school year, which are the more active months of each school year.
- We determined that there were 39 clubs with financial activity during the audit period. Using our professional judgment, we selected 14 clubs (36 percent - three from the middle school and 11 from the high school) for collections testing. We selected the clubs with accumulated receipts of 5 percent or higher of the total receipts for the audit period and clubs with overlapping advisors.
- We identified 292 deposits totaling \$670,428 for the 14 clubs selected. Using our professional judgment, we selected and reviewed 115 collections totaling \$266,213 (40 percent) - 22 totaling \$100,601 from the middle school and 93 totaling \$165,612 from the high school.

-
- For each deposit in our sample, we determined whether deposit transmittal forms matched clerk-issued receipts, deposit slips, deposit receipts, bank statements, and clerks' accounting records, and whether deposits were made weekly.
 - For disbursement testing, we identified 630 disbursements totaling \$848,094 for the 39 clubs. Using our professional judgment, we selected and reviewed 298 (47 percent) disbursements totaling \$332,832 from 30 clubs. The middle school sample included 57 disbursements totaling \$41,082 and the high school sample was 241 disbursements totaling \$291,751.
 - For each disbursement, we determined whether there was a signed payment request form, a signed purchase order, and supporting documents such as invoices and receipts. We reviewed canceled checks for dual signatures, and whether payee names and payment amounts matched the payment request and purchase order forms.
 - Using our professional judgment, we selected 10 middle school bank reconciliations (April 2018 through January 2019) and six high school bank reconciliations (April through June 2018 and November 2018 through January 2019) to re-perform and check accuracy. We also determined whether they were distributed, along with monthly club activity reports, to appropriate District officials.

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

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.

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 2116-1(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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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/localgov/index.htm

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

HAUPPAUGE REGIONAL OFFICE – Ira McCracken, Chief Examiner

NYS Office Building, Room 3A10 • 250 Veterans Memorial Highway • Hauppauge, New York
11788-5533

Tel (631) 952-6534 • Fax (631) 952-6091 • Email: Muni-Hauppauge@osc.ny.gov

Serving: Nassau, Suffolk counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)