

Monroe-Woodbury Central School District

Extra-Classroom Activities

JANUARY 2020



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

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Report Highlights

Monroe-Woodbury Central School District

Audit Objective

Determine whether extra-classroom activity (ECA) clubs and central treasurers safeguarded funds by properly recording and disbursing funds.

Key Findings

- The Board and District officials did not ensure procedures governing ECA operations were established as required.
- Fifteen of 113 disbursements totaling \$44,166 did not have disbursing orders that included the two required authorizing signatures. One of the disbursing orders totaling \$15,700 lacked itemized receipts.
- Ten checks totaling \$5,100 were written for petty cash use. The check amounts ranged from \$300 to \$900 which were all over the \$100 limit established by the New York State Education Department (SED).

Key Recommendations

- Establish and implement ECA procedures.
- Maintain records, supporting documentation and ledgers for all receipts and disbursements.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Monroe-Woodbury Central School District (District) serves the Town of Monroe, most of the Town of Woodbury and parts of the Towns of Chester and Blooming Grove in Orange County. The District is governed by an elected nine-member Board of Education (Board) that is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools is the District's chief executive officer and along with other administrative staff is responsible for the District's day-to-day management under the Board's direction. The Board appointed two central treasurers to oversee ECA funds and maintain activity records, fund receipts and disbursements. The Board also appoints a faculty auditor.

Quick Facts

Active ECA Clubs	59
Audit Period ECA Receipts	\$781,000
Audit Period ECA Disbursements	\$666,900
Total Cash Balance (All Clubs) as of March 31, 2019	\$343,937

Audit Period

July 1, 2017 – March 31, 2019

Extra-Classroom Activities

ECA funds are administered by and for the benefit of the students. Students raise and spend these funds to promote the general welfare, education and morale of all students and finance the normal and appropriate ECAs of the student body. Funds are usually collected by students from a number of sources (for example, admissions, membership dues and sales) and are spent as they see fit within the established regulations.

How Should ECA Funds Be Safeguarded?

The Regulations of the Commissioner of Education (Regulations) of SED were formulated to safeguard ECA funds and provide schools with the opportunity to teach students good business procedures through participation in handling funds and operating a successful business. The Regulations require that the Board and District officials adopt policies and implement procedures that describe the records District personnel and students must maintain and the duties and procedures they should follow to safeguard funds. SED published a pamphlet¹ that presents a plan for the management and accounting of ECA funds.

The Board appoints a central treasurer to oversee the management of ECA funds. The central treasurer is responsible for depositing ECA funds, preparing disbursements for signature and maintaining the central accounting records. Each ECA club must have a student treasurer and faculty adviser. Student treasurers, with the assistance of faculty advisers, maintain independent accounting records of collections and disbursements. Club members collect funds and remit them to the student treasurer who then remits them to the central treasurer. Club members should issue duplicate pre-numbered receipts or use some other method to document the source, date, amount and purpose of cash collected. When student treasurers remit collections to the central treasurer for deposit, they must complete a statement of deposit form, with the help of faculty advisers, indicating the composition, source, date and amount of collections, including the portion to be allocated for sales tax, if applicable.

Student treasurers issue disbursing orders² for the central treasurer to issue checks for payment. Student treasurers must maintain copies of the statements of deposit, disbursing orders and support for all collections to be deposited and invoices/receipts to be paid. Student treasurers should prepare profit and loss statements for all fundraising activities to analyze the profitability of those activities. Advisers should know which activities are subject to sales tax and see that all sales tax³ information is accurately recorded and provided to the central

1 The Safeguarding, Accounting, and Auditing of Extra-classroom Activity Funds (Finance Pamphlet 2), available at www.p12.nysed.gov/mgtserv/accounting/extra_classroom_activities_fund.html

2 Student treasurers submit check request forms to use club funds to purchase goods and services.

3 A school district is not exempt from New York State Sales Tax Law when it becomes the vendor of services or property ordinarily sold by private persons. The SED pamphlet outlines the activities that require the collection and remittance of sales tax.

treasurer. The central treasurer should maintain records for sales tax collected separately from other club funds and ensure the sales tax is remitted with a sales tax return filed with the New York State Department of Taxation and Finance.

ECA Operating Procedures Were Not Adopted or Implemented

District officials did not implement procedures governing ECA fund operations. As a result, the central treasurer and faculty advisers were not provided with guidance to properly account for and oversee ECA clubs. We reviewed the records and activities of 13 of the District's 59 ECA clubs and found:⁴

- District officials were not aware that the central and student treasurers did not maintain independent accounting records of collections and disbursements for each ECA club.
- Faculty advisers we interviewed were not aware that student treasurers were to maintain copies of statements of deposit, disbursing forms and supporting invoices, along with the use of pre-numbered receipts when collecting money.
- Faculty advisers did not ensure student treasurers for all 13 clubs completed profit and loss statements or recorded all transactions in ledgers.
- Advisers did not know which activities were subject to sales tax so they could ensure sales tax was collected and remitted to the central treasurer for remittance to the State.

The central treasurers and faculty advisers we interviewed stated they were not aware of the Board's policies and that ECA clubs were required to follow SED guidelines. Without adequate procedures, officials have little assurance that ECA funds are adequately safeguarded and properly accounted for, that sales tax is properly remitted and that they are providing educational opportunities to teach students good business procedures through handling the funds and operating a successful business.

How Should Collections Be Accounted For?

Club members collect money at fundraisers and other events and remit collections to the student treasurer. Student treasurers account for collections and remit them to the central treasurer for deposit.

When collecting money, students should issue duplicate pre-numbered receipts or use some other method to document the source, date, amount and purpose for the collections, such as a daily sales report. Student treasurers should retain

⁴ Refer to Appendix B for sample selection.

copies of duplicate receipts and/or daily sales reports, summary deposit forms and all other documentation supporting collections.

Good business practices require that student treasurers and faculty advisers remit collections to the central treasurer, and that the central treasurer deposit collections as soon as possible to prevent the risk of loss or misuse. Furthermore, the central treasurer must deposit collections intact⁵ to reduce the risk of irregularities occurring with the handling of funds.

ECA Clubs Did Not Maintain Adequate Documentation for Collections

For the 13 clubs selected, collections totaled \$444,724. Our sample consisted of 55 cash receipts⁶ totaling \$303,020.

We reviewed the student treasurer's records to determine whether they retained copies of the statements of deposit and maintained copies of supporting documentation of collections submitted to the central treasurer. We also reviewed deposit support documentation such as ticket sales reports, student lists and other documentation to determine whether all money collected was accounted for. We also traced the central treasurer's transaction reports to the statements of deposit and to deposit slips to determine whether money was deposited intact and timely. We found:

- Student treasurers did not maintain records for sales tax. Deposit statements were given to the central treasurer with no breakdown of concession or other taxable sales. All items sold other than those sold at the school store included sales tax that was backed out of the sale; however, there was no proof of items sold or tracking of inventory to calculate the correctness of sales tax paid. In addition, we were unable to verify that all money submitted to the central treasurer was deposited intact or timely because the central treasurer deposit slips combined multiple ECA clubs without a breakdown of deposits for each club.
- For 41 of 55 cash receipts totaling \$223,162, the central treasurer did not have summary of deposit documentation for each statement of deposit such as copies of checks, student lists, concession stand or ticket sales records. For example, the high school musical had over \$12,000 in one deposit with no record or breakdown of ticket sales. The student treasurers did not maintain records which could be reconciled to the deposits because no supporting documentation was provided to the central treasurers. As a result, District officials could not reconcile ticket sales to the amount collected to ensure all funds collected were submitted to the central treasurer intact.

5 In the same amount and form as collected

6 This included activities such as field trips and ticket and yearbook sales.

Faculty advisers stated the central treasurers always took care of the sales tax and did not know they needed to provide other information and that they were never asked to provide any. The previous high school central treasurer retired just prior to the start of the audit. Therefore, we were unable to get an explanation as to why she did not break down deposits by club and amount. The middle school central treasurer did not include deposit slip information with the documents we requested.

District officials need to improve internal controls to help ensure that ECA cash receipts are properly accounted for. From an internal control perspective, the best approach is to deposit moneys as soon as possible. The longer money remains undeposited, the greater the risk that loss or theft can occur. In addition, there is an increased risk that sales tax will not be collected and remitted and that errors could occur and not be detected or corrected in a timely manner.

How Should Disbursements Be Accounted For?

The student treasurer pays bills by issuing disbursing orders signed by himself and the faculty adviser. The disbursing order is in duplicate and is an order for the central treasurer to issue a check to pay an invoice, which shall be attached to the disbursing order. The student treasurer copy of the disbursing order will be returned with the completed check. The student treasurer will then send the check to the vendor after posting.

The central treasurer should disburse money only after receiving a disbursing (payment) order signed by the student treasurer and faculty adviser. In addition, disbursements should be adequately supported by documentation, such as itemized receipts or invoices, to ensure that purchases made are for appropriate purposes. The central treasurer shall have no part in the approval of payments but shall disburse funds only on the presentation of a properly signed disbursing order in duplicate providing, of course, that there are sufficient funds available in the account.

SED provides that a board of education may establish a petty cash fund by authorizing the central treasurer to draw a check not to exceed \$100 payable to the chief faculty counselor (usually building principal) who shall administer and be responsible for the fund. To provide a means for financing activities which do not lend themselves to the usual procedures, it is suggested provision be made for "advances," for example, by the use of an advance request form. The "advance" procedure shall be very carefully limited and closely supervised. The device should be used only in case of real need, and not merely for convenience. To avoid confusion in the case of advances for making change and to avoid inflation of accounts, a "service account" shall be set up. This account is charged with the advance and credited with the return of the money. Then the exact amount of net receipts can be credited to the activity.

Adequate Documentation for Disbursements Was Not Maintained

For the 13 ECA clubs selected, cash disbursements totaled \$470,985. Our sample consisted of 113 disbursements totaling \$371,979. We traced the central treasurer's transaction reports to disbursement records to determine whether there was adequate supporting documentation and whether the disbursements were properly authorized and for proper purposes. We further compared the central treasurer's records to the clubs' records. In addition, we reviewed eight petty cash disbursements not included in the original 113 disbursements. We found:

- Fifteen disbursements totaling \$44,166 did not have disbursing orders that included the two authorizing signatures. For example, two disbursing orders did not have an authentic faculty adviser's signature.⁷ One disbursing order was for expenses paid for restaurant and hotel charges, in excess of \$15,700. This payment was a reimbursement for a board member that acted as a chaperone on a multi-day trip to Washington DC. While a credit card statement was provided that documented the amount of the reimbursement, there were no supporting detailed or itemized receipts. There was also no documentation listing the students and chaperones who paid and attended the trip. Further, the disbursing order lacked student treasurer and faculty adviser signatures. Additionally, the check for this payment had one signature, that of a principal that also attended the trip, instead of the two signatures required by District policy.
- Thirteen disbursements totaling \$29,791 lacked supporting documentation at the central treasurer level. For example, five did not have invoices or receipts and one was paid to a security aide for petty cash (additional petty cash issues discussed below).
- Seven receipts totaling approximately \$4,000 paid from available store funds were reimbursed to the high school store faculty adviser for improper purposes because they were for candy and other types of snacks that did not qualify to be sold so they were instead used as "giveaways."⁸ School officials should be aware that selling non-food items, such as pencils or notebooks, to students and then giving them non-nutritious food items as a "bonus" or marketing the sale of non-nutritious food items to be given to students during the school day undermines the intent of the law and sends inconsistent messages to students.

⁷ We showed the faculty adviser 47 disbursing orders (only two were part of the 15 mentioned). She identified 21 more that were not her signature.

⁸ The term 'giveaway' was used by the high school store adviser. <http://www.cn.nysed.gov/common/cn/files/smartsnacksandfundraising.pdf>, page 2 paragraph 2

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- Seventy-eight disbursements totaling \$252,036 did not have any ECA club documentation;⁹ additionally there were two clubs that did not provide us with any information.¹⁰

The faculty advisers we spoke with did not realize they had to keep documents as they thought it was up to the Central Treasurer. The lack of authorization and adequate supporting documentation for club disbursements provides no assurance that club disbursements are for qualified expenses or appropriate.

Petty Cash – We also found the petty cash and advance request guidelines were not followed nor were procedures implemented by the District. There were 10 checks written totaling \$5,100 for petty cash and advance use (startup money). Check amounts ranged from \$300 to \$900 which were all over the \$100 SED limit. In addition, only one was issued using an advance request form. The checks had written in the memo portion petty cash, cash box or concession. The previous high school central treasurer wrote all 10 checks; four were written to herself and six were written to a security aide.¹¹ No checks were written to an authorized person and a service account was not established. Except for one check using an advance request form by the faculty adviser, there is no assurance that the money was used for the intended purpose or that it was returned to the club accounts.

What Types of Records Should Be Maintained?

The student treasurers, with the assistance of faculty advisers, are responsible for maintaining independent accounting records by keeping a ledger showing all receipts, disbursements and a daily running balance on a form prescribed by the board. The student treasurer shall file supporting documents chronologically as evidence for the entries made in the ledger. Faculty advisers must guide student treasurers in entering information into their ledgers and periodically check student treasurers' account balances. The Board has appointed a faculty auditor to perform oversight duties such as:

- Reviewing ECA financial records to determine whether adequate procedures are being used to account for ECA funds.
- Reconciling the ECA bank account to the central treasurer's records at the conclusion of each month.
- Periodically comparing the student treasurer's ledgers to the central treasurer's to verify agreement and investigate any discrepancies.

9 Either copy of the disbursing order or copy of the invoice/receipt

10 The middle school store and high school class of 2018

11 The security aide was used as a courier for bank deposits.

Although the Board appointed a faculty auditor, she did not perform the required functions because this person was unaware of what was required.

Ledgers Were Not Always Maintained

We requested student treasurers' records for the 13 ECA clubs and found no ledgers were maintained and limited records were kept. Except for the two clubs that did not provide records, the rest of the clubs did have copies of deposit statements and disbursing orders. The high school student store adviser stated she maintained a ledger; however, it was not in a form that could be reconciled to the central treasurer's ledger.

As a result, faculty advisers and student treasurers did not know their balances throughout the year. They relied on what their central treasurers stated they had, thus never knowing if their deposits and disbursements were properly recorded to their accounts. They stated they were not aware that ledgers needed to be kept by the student treasurer, as they did not receive any training. Although the Board appointed a faculty auditor, she did not perform the required functions or receive training or guidance. Without training or guidance, this individual could not be expected to complete any reconciliation procedures.

When student treasurers' ledgers are not kept and periodically reviewed, the District has an increased risk that errors or irregularities in collections, disbursements and cash balances could occur and remain undetected.

What Do We Recommend?

The Board and District officials should:

1. Adopt and implement procedures governing ECA funds' operations.
2. Establish procedures over ECA cash receipts and disbursements. In addition, ensure the central treasurers, faculty advisers and student treasurers are informed about the District's policies and procedures and SED guidelines.
3. Ensure that the central treasurers, faculty advisers and student treasurers follow specific requirements for the receipt and disbursement of ECA funds and maintain adequate supporting documentation and required accounting records.
4. Ensure funds are not reimbursed for inappropriate purposes such as candy and other types of non-nutritional snacks.
5. Establish procedures over petty cash, advance request forms and service accounts and ensure they are being followed by the central treasurers.

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6. Ensure the faculty auditor receives training and performs required duties.

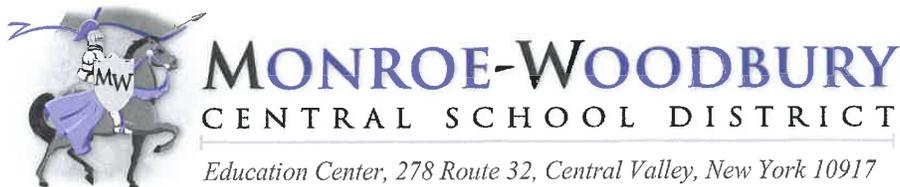
Faculty advisers should:

7. Understand what items are taxable and ensure sales tax is collected and remitted to the central treasurer for remittance to the State.
8. Ensure student treasurers properly account for all ECA receipts and that the central treasurer receives supporting documentation for all ECA cash receipts remitted for deposit.
9. Ensure student treasurers have all the required signatures and documentation when providing disbursing orders to the central treasurer.
10. Ensure that student treasurers prepare profit and loss statements for fundraising activities.
11. Ensure that student treasurers properly account for and maintain records for all disbursements.
12. Periodically reconcile the ECA bank account to the central treasurer's records and compare the student treasurers' ledgers to the central treasurer's ledger. In addition, ensure student treasurers are maintaining ledgers showing receipts, disbursements and running balances.

The central treasurers should:

13. Maintain summary of deposit documentation.
14. Ensure student treasurer and faculty adviser signatures are provided along with proper documentation before accepting disbursing orders.
15. Follow proper petty cash and advance procedures to ensure funds are adequately safeguarded.

Appendix A: Response From District Officials



Elsie Rodriguez
Superintendent
of Schools

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www.mw.k12.ny.us

January 9, 2020

Office of the State Comptroller
Attention: Ms. Lisa Reynolds, Chief Examiner
Division of Local Government & School Accountability
Newburgh Regional Office
33 Airport Center Drive
Suite 103
New Windsor, NY 12553

Dear Ms. Reynolds:

The Monroe-Woodbury Central School District is in receipt of your letter dated December 13, 2019 and draft “Report of Examination” related to the Extra-Classroom Activity (“ECA”) funds, prepared by the Office of the State Comptroller. We appreciate the opportunity to respond to the preliminary draft findings.

The audit process conducted in our District provided us with the opportunity to take an overall look at our organization as well as an insightful look into Extra-Classroom Activity Funds. The District understands that ECA funds are regulated by the Commissioner of Education and those regulations are intended to safeguard such funds, as well as protect school district staff and students. The appropriate use of these funds should be limited to enhancing the educational experience and extending the curriculum of teaching business procedures to students.

The District intends to work diligently to develop a corrective action plan that permeates the culture of the organization through the development of policy, its dissemination and enforcement. Detailed procedures will be documented to augment policy. Additionally, training will be provided to staff and students who are responsible for ECA funds.

The district appreciates the professionalism of the audit team and the courtesy shown to our staff during the audit.

Sincerely,

Elsie Rodriguez
Superintendent of Schools

Jon Huberth
Board of Education President

Eric J. Hassler, Ed. D.
Assistant Superintendent for
Curriculum & Instruction

Patrick F. Cahill
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Matthew G. Kravatz
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Bhargav A. Vyas
Assistant Superintendent for
Compliance & Information Systems

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, reviewed SED guidance and inquired about the District's policy and procedures for safeguarding, auditing and accounting for ECA funds.
- We selected and reviewed the records of 13 ECA clubs. We used our professional judgment to select a sample of four clubs from the middle school: two with the highest amount of disbursements, the school store and one randomly selected. For the high school, we chose six with the highest amount of disbursements plus the school store, one new club and one randomly selected. We reviewed cash receipts and disbursements and records. We chose to review 25 percent of the total number of cash receipts and disbursements for each club tested and rounded up for each club (202 cash receipts and 443 disbursements) and reviewed the receipts and disbursements with the highest dollar amounts.
- We reviewed checks written for petty cash to determine whether they were within the allowable limit and had proper authorizations, payees and documentation. We also inquired about the existence of a service account.
- We compared the selected 13 clubs' records with those of the central treasurer to determine whether student treasurer ledgers are kept and whether cash receipts are properly recorded, deposit summaries match student records, and cash receipts match in both sets of records. We also determined whether cash disbursements for the clubs were properly supported, recorded by student treasurers and were for proper club functions.

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.

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 District Clerk's office.

Appendix C: 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#lgmg

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

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