

Peru Central School District

Extra-Classroom Activity Funds

JUNE 2017



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

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Report Highlights

Peru Central School District

Audit Objective

Determine whether extra-classroom activity funds were adequately safeguarded and cash collections and disbursements were properly accounted for.

Key Findings

- The faculty auditor did not review the central treasurer's bank reconciliations on a monthly basis.
- Disbursements totaling \$6,976 were not authorized by a student treasurer and District officials were unable to provide adequate support for what appear to be legitimate disbursements amounting to \$6,746. However, the lack of documentation prevents officials from confirming it.
- Four of the 10 student ledgers we reviewed were not in agreement with the central treasurer's ledger.

Key Recommendations

- Review and verify the accuracy of the bank reconciliations completed by the central treasurer.
- Prepare checks for signature only after receiving signed payment order forms that contain adequate supporting documentation.
- Ensure each club maintains an accurate student ledger.

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

Background

The Peru Central School District (District) is located in the Towns of Ausable, Black Brook, Peru, Plattsburgh, Saranac and Schuyler Falls in Clinton County.

The District is governed by an elected seven-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the District's day-to-day management under the direction of the Board. In addition, the Board appoints a student activities treasurer (Central Treasurer) to oversee and account for extra-classroom activity (ECA) funds.

Quick Facts

\$45 Million	2016-17 Budgeted Appropriations
18	Number of Active ECA Clubs
\$152,532	2015-16 ECA Receipts
\$161,705	2015-16 ECA Disbursements

Audit Period

July 1, 2015 – January 31, 2017

Extra-Classroom Activity Funds

The central treasurer is responsible for depositing ECA funds, preparing disbursements for signature, maintaining the central accounting records and reconciling the ECA bank account to the central records at the conclusion of each month. The bank statement cash balance of all ECA funds was more than \$78,000 as of June 30, 2016.

How Can The Board Ensure ECA Funds Are Safeguarded?

The Regulations of the Commissioner of Education (Regulations) of the New York State Education Department (SED) were formulated not only to safeguard the funds of ECA operations, but also to provide schools with the opportunity to teach students good business procedures through participation in handling such funds and operating a successful business. The Regulations require the Board and District officials to adopt and implement policies and procedures to protect ECA fund money. SED has published a pamphlet that presents a plan for the management and accounting of ECA funds.¹ The Board adopts this pamphlet on an annual basis to provide guidance and regulations for the safeguarding, accounting and auditing of the District's ECA fund operations.

In addition to adopting policies, the Board should appoint a faculty auditor² to oversee the management of ECA funds and the central treasurer should provide the Board with monthly ECA fund reports. The District's ECA fund policy states that monthly bank reconciliations are to be completed by the central treasurer and reviewed by the faculty auditor on a monthly basis.

Policies Were Adopted but Not Implemented

Although the Board adopted a policy³ governing the operations of the ECA funds, it did not ensure that District officials implemented and enforced the policy. For example, faculty advisers did not ensure that student treasurers issued duplicate press-numbered receipts or maintained any other documentation of the source, date, amount and purpose of cash collections when collecting cash at fund-raisers or during ECA events. Without some form of documentation of the collections, District officials would be unable to ensure that all money collected for the ECA clubs was accounted for and properly remitted to the central treasurer for deposit. In addition, faculty advisors did not ensure that all student treasurers maintained appropriate ledgers to account for collections, disbursements and a daily running cash balance.

1 The *Safeguarding, Accounting and Auditing of Extra-Classroom Activity Funds* pamphlet is available at http://www.p12.nysed.gov/mgt/serv/accounting/extra_classroom_activities_fund.html.

2 The faculty auditor is responsible for reviewing the extra-classroom financial records to determine if correct procedures are being used to account for ECA funds and also to certify the accuracy of the entries posted to the records and the account balances listed in the ledgers.

3 The Board adopts Finance Pamphlet #2 to regulate ECA fund operations at each annual re-organizational meeting.

The Board-appointed faculty auditor did not detect that student treasurer ledgers were not properly maintained or that they were inconsistent with the central treasurer's ledger because he did not perform adequate reviews of ECA fund records or perform the required comparisons between the student treasurers' ledgers and the central treasurer's ledger. Additionally, the District's ECA fund policy requires the faculty auditor to review, on a monthly basis, bank statements and bank reconciliations completed by the central treasurer. However, during the audit period, no one independent of the central treasurer performed these reviews.

The faculty auditor did not perform adequate reviews of ECA records

We reviewed a random sample of five bank reconciliations⁴ completed by the central treasurer during the audit period and found that two of the bank reconciliations were not accurately prepared because the central treasurer's accounting record cash balance was \$333 more than the ECA fund's adjusted bank balance at month-end December 2016, and again at month-end January 2017. We found that rather than investigate the differences, the central treasurer adjusted her bank reconciliation figures to make it appear that the records were in agreement. During our review we found that multiple recording errors in the central treasurer's ledger likely caused the variances. For example, the central treasurer transposed a number when entering a transaction during November 2016, which accounted for \$270 of the \$333 variance. While these were not large variances, discrepancies of recorded cash balances can occur and go unnoticed when the faculty auditor does not review the central treasurer's bank reconciliations.

The lack of proper oversight by the faculty auditor, Board and District officials has resulted in ECA fund money not being maintained in accordance with Board policy, which increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

What Are Good Controls Over ECA Fund Cash Collections?

Students are responsible for collecting money for ECA fund-raisers and remitting the collections to the central treasurer for deposit. When collecting money, students should issue duplicate press-numbered receipts or use some other method that would accurately document the source, date, amount and purpose of the cash collections, such as a daily sales report. When students remit collections to the central treasurer for deposit, they should provide the duplicate receipts or some other adequate documentation for the money collected to the central treasurer to support the collections. Faculty advisers are responsible for ensuring that student treasurers maintain supporting evidence for collections. Good business practice requires student treasurers and faculty advisors to remit

⁴ See Appendix B for information on our sampling methodology.

collections to the central treasurer and the central treasurer to deposit collections as soon as possible to prevent the loss or misuse of collections. Furthermore, it is important that the central treasurer deposit collections intact to reduce the risk of irregularities occurring with the handling of collections.

Cash Collections Were Not Supported or Deposited Timely

We reviewed a random sample of 30 cash collections⁵ totaling \$43,129 remitted to the central treasurer for deposit to determine whether they were supported by receipts or some form of documentation of the collections and deposited intact and in a timely manner.

We found that all 30 cash collections were deposited intact. However, none of the cash collections contained supporting documentation of the collections, such as duplicate press-numbered receipts or daily sales reports. Instead, the student treasurers and faculty advisors provided the central treasurer with student deposit forms that only summarized the collections remitted for deposit.

Without some form of documentation of the collections, the central treasurer is unable to ensure that all money collected for the ECA clubs are accounted for and properly remitted to her for deposit. We also could not determine whether the collections were remitted to the central treasurer and deposited by the central treasurer in a timely manner. Instead, we compared the dates recorded on the student deposit forms with the validated deposit slip dates and found that 17 of the 30 cash collections totaling \$20,356 were not deposited timely because they were deposited more than five days after the date recorded on the student deposit forms. For example, cash collections totaling \$1,321 recorded on a club's statement of deposit form dated October 27, 2016 were not deposited until November 16, 2016, or 20 days after the club recorded the collections.

When students do not maintain adequate documentation to support collections, District officials cannot ensure that students are adequately accounting for all collections and remitting them to the central treasurer in a timely manner.

What Are Good Controls Over ECA Fund Cash Disbursements?

The central treasurer should disburse money for ECA clubs only upon receiving payment order forms signed by the student treasurer, faculty advisor and chief faculty counselor.⁶ Also, disbursements should have documentation, such as itemized receipts or invoices, to support the expenditures approved for payment.

⁵ See Appendix B for information on our sampling methodology.

⁶ The District's chief faculty counselor is the High School Principal.

Cash Disbursements Were Not Always Supported

We reviewed 50 disbursements totaling \$23,523 made on behalf of ECA clubs to determine if they were legitimate. We found that 46 payment order forms were on file and were signed by the student treasurer, faculty advisor and chief faculty counselor as required by the District's ECA policy. However, the remaining four disbursements totaling \$6,976 did not have a payment order form signed by the student treasurer. Additionally, 20 disbursements totaling \$6,746 had payment order forms but did not have sufficient documentation attached. As a result, the central treasurer could not demonstrate that the disbursements were for legitimate purposes. For example, the disbursements included:

- Four disbursements totaling \$440 written to "cash" as the payee. District officials provided an explanation for these disbursements, however, receipts and invoices were not available to support the charges. For example, officials stated one disbursement totaling \$200 was to purchase school supplies for a fellow student. However, the club could not provide any documentation to show the supplies that were purchased. Making checks payable to cash reduces accountability and increases the likelihood that someone could fraudulently cash a check that is not intended for them.
- Four disbursements totaling \$1,325 were made to reimburse faculty advisors for various purposes. For example, one advisor was reimbursed \$206 for ATM withdrawals. The advisor stated the withdrawals were needed to pay for taxi and transportation costs while on a club trip. However, the advisor could not provide transportation receipts or invoices to support the costs incurred. Similarly, another advisor was reimbursed \$716 for food costs sustained during a different club trip. However, neither the club treasurer, nor the advisor could produce an itemized invoice to support the charges.
- Four disbursements totaling \$350 were made to students for winning a club raffle. However, the club could not provide sufficient documentation to show the purpose of the raffle, the criteria for how the prizes were awarded or who the selected winners were. As a result, we could not verify that the disbursements were appropriate.

The remaining disbursements totaling \$4,631 were to purchase various supplies, services and equipment. District officials were able to provide verbal explanations for each of these disbursements. However, they could not provide written receipts, invoices or documentation. We were able to identify that \$3,900 of the items purchased existed at the school. However, the corresponding clubs did not provide supporting documentation prior to these disbursements being made by the central treasurer.⁷ The remaining \$731 in disbursements were for items

⁷ Included \$2,700 for improvements to the baseball dugout, \$1,000 for windscreens at the soccer and baseball facilities and \$200 for wireless microphones.

that appear to be for legitimate club purposes, such as travel, pizza and athletic uniforms, but the lack of documentation prevents officials from confirming that the disbursements were for legitimate ECA purposes. When District officials make payments that are not supported by adequate documentation, they have limited assurance that the payments are for appropriate student activities.

What Type of Records Should Each ECA Maintain?

Each ECA has a student treasurer and faculty advisor who are responsible for maintaining independent accounting records of collections and disbursements. The student treasurers should maintain ledgers to account for all collections and disbursements that include daily running cash balances. It is important for faculty advisors to guide the student treasurers in entering information into their ledgers and to periodically check the student treasurers' account balances. The faculty auditor should periodically compare the student treasurers' ledgers to the central treasurer's ledger to verify agreement between the ledgers and investigate any discrepancies that are noted.

Student Ledgers Were Not Always Accurate

We reviewed the records for 10 of the active ECA clubs during 2015-16 fiscal year and found that each of the student treasurers was able to provide a ledger for review. We compared the student ledgers to the central treasurer's ledger and found that six contained all collections, disbursements and a running cash balance that agreed with the central treasurer's ledger. However, there were differences with the other four student ledgers. Specifically, two clubs failed to record four deposits totaling \$1,163, and three clubs did not record 11 disbursements totaling \$1,786. The faculty auditor was unaware of these discrepancies because he did not perform the required comparisons between the student treasurers' ledgers and the central treasurer's ledger.

When student treasurers do not maintain ledgers or the information in their ledgers does not agree with the central treasurer's ledger, the District has an increased risk that errors or irregularities could occur and remain undetected. Also, because the faculty auditor did not provide proper oversight of the student treasurers' ledgers, the District has increased risk that ECA money could be lost or misused, which could remain undetected.

What Do We Recommend?

The Board and District officials should:

1. Ensure that ECA funds are maintained in accordance with District policy.

The faculty auditor should:

2. Oversee the management of ECA fund money in accordance with District policy. Specifically, the faculty auditor should review and verify the accuracy of the central treasurer's bank reconciliations. In addition, perform periodic comparisons between student ledgers' and the central treasurer's ledger, and investigate any discrepancies.

District officials, including the faculty auditor, the chief advisor and the club faculty advisors, should:

3. Ensure that the central treasurer receives supporting documentation for all ECA fund cash receipts that are remitted to her for deposit and that the cash receipts are properly recorded in the accounting records.

The central treasurer should:

4. Deposit all cash collections in a timely manner.
5. Prepare checks for signature only after receiving payment orders signed by student treasurers and faculty advisors, and that have supporting documentation attached to the payment orders, such as itemized invoices, bills or receipts.

Faculty advisors should:

6. Ensure that student treasurers maintain a student ledger showing all collections, disbursements and a running cash balance.

Appendix A: Response From District Officials



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Peru, NY 12972

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May 26, 2017

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116 Pleasant St
Peru, NY 12972

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Principal, K-2 House
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Matthew Slattery
Principal, 3-6 House
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Peru Jr/Sr High 7-12
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Peru, NY 12972

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Joha Battin
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Sanford Coakley
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Office of the State Comptroller
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To the Office of the State Comptroller:

Thank you for the extensive audit of Peru Central School District's fiscal accountability. The District is committed to improving its financial operations to properly carry its fiduciary responsibilities. This audit report presents valuable feedback for the District to address and an opportunity to strengthen its operations. Many of the issues presented in the report have already been addressed or will be addressed within a detailed action plan that the District is currently in the process of crafting.

Finally, I wish to thank those involved in the audit for the additional time and effort dedicated during the audit. I also want to thank the auditor for the professionalism and willingness to share his knowledge and expertise with the District.

Sincerely,

Cynthia Ford-Johnston
Interim Superintendent of Schools

RBS:kdd

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, we performed the following audit procedures:

- We interviewed District officials and employees and reviewed District policies and various financial records and reports related to ECA fund operations to gain an understanding of the internal controls over ECA funds and any associated effects of deficiencies in those controls.
- We reviewed a randomly selected sample of five bank reconciliations that were completed by the central treasurer during our audit period to determine if bank reconciliations were being prepared and agreed to the central treasurer's ledger, were prepared timely and were reviewed and approved by someone independent of cash custody and recording functions.
- We reviewed a randomly selected sample of 30 cash receipts totaling \$43,129, composed of \$26,825 in checks and \$16,304 in cash, remitted to the central treasurer for deposit to determine whether they were supported by receipts or some other form of documentation of the collections, accurately accounted for in the central treasurer's ledger and deposited intact and in a timely manner. We used a computerized random number generator to select 15 cash receipts from student deposit forms and 15 cash receipts from the central treasurer's receipts to assemble our sample of 30 cash receipts.
- We reviewed a randomly selected sample of 50 disbursements totaling \$23,523 made from the ECA fund accounts during our audit period to determine if they were supported by an approved payment form and adequate documentation of the purchase and were for appropriate student activities. We used a computerized random number generator to select the 50 disbursements.
- We randomly selected a sample of 10 ECA clubs that were active during the 2015-16 fiscal year to determine if the student treasurers maintained ledgers showing all receipts, disbursements and running cash balances that agreed with the central treasurer's ledger. We used a computerized random number generator to select the 10 ECA clubs.

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 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 C: Resources and Services

Regional Office Directory

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

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

<http://www.osc.state.ny.us/localgov/costsavings/index.htm>

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

<http://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

<http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmg>

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

<http://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

<http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf>

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

<http://www.osc.state.ny.us/localgov/finreporting/index.htm>

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

<http://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

<http://www.osc.state.ny.us/localgov/academy/index.htm>

Contact

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