



**PLAINVIEW-OLD BETHPAGE
CENTRAL SCHOOL DISTRICT**

**REPORT ON EXTRACLASSROOM
ACTIVITY FUND**

MAY 2012

May 2012

The Board of Education
Plainview-Old Bethpage Central School District
Plainview, New York 11803

Board of Education:

We have been retained to function as the internal auditor for the Plainview-Old Bethpage Central School District (hereinafter, "the District"). Our responsibility is to assess the internal control system in place for the accounting function within the District, and to make recommendations to improve upon certain control weaknesses or deficiencies. In doing so, we hope to provide assurance to the Board, the District's management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

We have performed an assessment of the extraclassroom activities of the District. Extraclassroom activity funds are defined in the Regulations of the Commissioner of Education as "funds raised other than by taxation or through charges of a board of education, for, by or in the name of a school, student body or any subdivision thereof." Essentially, extraclassroom activity funds are funds operated by and for the students, and should provide the students with the opportunity to learn proper practices associated with handling money and operating a business.

PURPOSE

The purpose of this review was to focus on areas to improve controls over the maintenance of funds in the extraclassroom activities of the District. We had performed an internal audit and issued our Report on Extraclassroom Activity Fund in September 2007, which included testing receipt and disbursement transactions of extraclassroom clubs. Since 2007, the District has not only responded and implemented our previous recommendations, but it has demonstrated a commitment to improving controls and minimizing risk in this area. During the last Audit Committee meeting in January 2012, we were asked to include an assessment of the extraclassroom activity fund as part of internal audit plan for the fiscal year, since this is an area that is inherently risky, and should be periodically reviewed to ensure that internal controls are operating effectively.

SCOPE AND PROCEDURES PERFORMED

The scope of this review entailed gaining an understanding of the current processes at each of the secondary schools for disbursement and receipt transactions, as well as club formation and dissolution. This was accomplished by interviewing each of the Central Treasurers and Principals, acting as Chief Faculty Counselors, at the secondary schools, as well as the District's Faculty Auditor. In addition, we reviewed District policies, and performed limited testing of disbursement and receipt transactions.

To perform our testing, we obtained the records that are maintained by each appointed Central Treasurer at the secondary schools, and we judgmentally selected twenty cash receipt transactions and twenty disbursement transactions that were recorded in the current 2012 fiscal year to determine whether the accounting for those transactions was proper, student involvement was evident for each transaction, and the funds were adequately safeguarded. We reviewed the disbursement and receipt transactions, as well as the recordkeeping and reconciliation procedures for the extraclassroom accounts.

RECORDKEEPING

Club formation within the District follows specific Board guidelines, and clubs are required to have charters on file. When we reviewed the accounting for receipts and disbursements made to funds, we found that the Central Treasurer at each school is keeping detailed records of the transactions flowing through the activities. The records are electronic at POB Middle School and JFK High School, while the Central Treasurer at Mattlin Middle School maintains handwritten ledgers of transactions.

While reviewing recordkeeping procedures, we noted that the individual clubs at the middle schools are currently not maintaining their own ledger of receipt and disbursement transactions. All transactions that create a deposit or disbursement are recorded directly by the Central Treasurers of the middle schools into the club sub-accounts that the Central Treasurers maintain. Without the clubs keeping their own records of transactions, there is no verification that information recorded by the Central Treasurer is accurate. We were advised that club sub-accounts are reconciled by the Central Treasurers, and the Faculty Auditor is periodically reviewing the Central Treasurers' records.

Recommendation 1: We recommend that all clubs in the extraclassroom activity fund maintain their own record of transactions indicating daily balances. A basic principle for operating extraclassroom activities is that two separate and independent sets of records of receipts and disbursements be maintained, one by the Central Treasurer and one by the student organization. Periodic reconciliation of club records to the Central Treasurer's records would ensure that balances are accurate, and errors would be easily discovered and corrected. In addition, another guiding principal set forth in the NYSED Guidelines is that *"the accounting system shall be such that it will yield the largest possible educational return to students without sacrificing the safety of funds or exposing students to undue responsibility or unnecessary routine."* In general, the maintenance of accurate records and supporting documentation of transactions provides the opportunity for students to learn business practices, provides opportunities for decision-making, and leadership skills development.

Management's Response:

We agree with this finding and will work with the Central Treasurer at the Middle Schools and club advisors to ensure the accurate recordkeeping and reconciliations by student participants. Furthermore, each club advisor will

review the record of transactions maintained by students' and sign off on the ledger. The Business Office in conjunction with the Central Treasurer will arrange a training session with club advisors so to communicate and implement this procedure.

CASH RECEIPTS

The cash receipt process is fairly similar at each secondary school. Funds generated from club events are counted by the Student Activity Treasurer and Faculty Advisor. Money is brought to the Central Treasurer, who reviews and signs the Deposit in Extraclassroom Activity Fund form, records the transaction, and prepares the bank deposit. The deposit form is numbered by the Central Treasurer, functioning as the Central Treasurer's receipt, and a copy is given to the club, as evidence of deposit into the club account. In addition, the clubs at POB Middle School use a cash collection form that documents funds received from a particular event, and it is brought to the Central Treasurer as well. The "Deposit in Extraclassroom Activity Fund" form contains certain information such as the name of the club, as well as the activity that generated the funds. However, the form lacks an indication as to whether the activity was a taxable event.

Recommendation 2: In order to facilitate the tracking of taxable events and applicable tax owed, we recommend that the District revise the Deposit in Extraclassroom Activity Fund form to explicitly show whether the sale of items required the collection of sales tax. Although it was noted that the Central Treasurers are remitting sales tax information to the Business Office quarterly, notation on the deposit form would allow for easy identification by the clubs and Central Treasurers.

Management's Response:

We agree with this recommendation and will revise the Deposit in Extraclassroom Activity Fund form to reflect whether items sold are subject to sales tax. Additionally, the High School and Middle Schools submit an "Extraclassroom Sales Tax Form" with every quarterly payment to the Business Office to indicate the amount of sales tax collected per applicable item.

To test funds received, we judgmentally selected 20 receipt transactions from the extraclassroom activities of each of the three secondary schools. These transactions were selected from the cash receipts ledger maintained by the Central Treasurer at each school. For each of the transactions, our procedures included verifying that the Central Treasurer had proper documentation on file to indicate that funds were received, the source of the funds received (i.e., the name of the club/activity and how the funds were collected or earned), and the appropriate signatures were reflected, including that of the Student Activity Treasurer, Faculty Advisor, and Central Treasurer. In addition, we reviewed the bank deposit slip, to verify that funds were deposited in a timely manner; activity sub-accounts, to ensure that the transaction was accurately recorded by the

Central Treasurer; and the bank statement, to ensure that the transaction was properly reflected in the bank account. We noted no exceptions.

CASH DISBURSEMENTS

The disbursement process is also fairly consistent among the secondary schools. A disbursement may be a reimbursement to a club officer, a vendor payment, a donation, or a refund. When a club receives an invoice for a purchase, a “Payment Order to the Central Treasurer” form is prepared and signed by the Student Activity Treasurer and Faculty Advisor. The form, along with supporting documentation, is presented to the Central Treasurer. Supporting documentation could include original invoices, original receipts, memos, or other documents to substantiate the validity of the request for payment. Furthermore, invoices must include sales tax, since extraclassroom activities are not exempt from paying sales tax. Sequential checks are printed and signed by those at the school authorized to sign extraclassroom checks.

Extraclassroom clubs can periodically fundraise for the purpose of donating funds to a charitable organization. Recipient organizations are determined through club meetings and generally documented in club minutes. Plans for fundraising activities are brought to the Chief Faculty Counselor of the school, who ultimately makes the final decision. Each school provides a memo either from the Principal or the club authorizing the donation to the Central Treasurer before a check is processed. The High School completes a form for the fundraiser and donation that is signed by the Chief Faculty Counselor. Mattlin Middle School will later include an acknowledgment letter from the recipient organization with the payment order.

To test cash disbursements, we judgmentally selected twenty disbursement transactions from each of the secondary schools. These transactions were selected from the check register maintained by the Central Treasurer for each school. For each of the transactions selected, our procedures included verifying that a payment order was on file, and that the payment order included the signatures of the Central Treasurer, Faculty Advisor, and Student Activity Treasurer. The review of the payment order also included verifying it included the name of the extraclassroom activity, the reason for the disbursement, and that a valid original invoice/receipt was attached. We also traced the disbursement to the club’s sub-account, maintained by the Central Treasurer and ensured that the sub-account’s total was reflected properly on the Central Treasurer’s report as well as the Reports to the Board. We examined the bank statement to ensure that the transaction was accurately reflected. Finally, we examined the canceled check to verify the proper amount, payee, authorized signer, and endorsement.

Recommendation 3: Based on our interviews and review of transactions, we recommend the following:

- **Ensure that all requests for refunds have proof of original payment attached to the payment order.**
- **Ensure that travel reimbursements (i.e. cab fare) have supporting documents providing approval for such travel and expenses.**
- **Ensure that only original receipts are presented with a payment order.**

In addition, we noted one instance where fees for an assembly for 7th and 8th graders were paid through the Extraclassroom fund. We recommend that fees for assemblies (i.e. Character Education) be supported outside of extraclassroom.

Management's Response:

The District agrees with these recommendations and will work with the Central Treasurer's to ensure that proof of original payments, supporting documentation, and original receipts only are submitted and attached to purchase orders, when applicable, for reimbursement. The District's training session with the extraclassroom advisors will include a section on reimbursements submission of appropriate documentation. Furthermore, the District and Central Treasurer will direct advisors to collect funds for assemblies and not charge the Extraclassroom Activity Fund.

SALES TAX

During our discussions with the Central Treasurers, it was discussed that they remit information on taxable sales to the Business Office on a quarterly basis. The clubs recognize that they must pay sales taxes on applicable purchases, and they are also aware of events that require collection of sales tax. However, it seems that when clubs are reselling items, sales tax is not being collected. The school stores are not collecting tax at the point of sale. However, it is important for clubs to recover the amount they paid to a vendor, or to remit any tax difference owed if items are sold for more than cost.

When invoices are presented for payment without sales tax applied by the vendor, the Central Treasurers follows certain procedures to correct the invoice. This includes either returning the invoice to the Faculty Advisor or contacting the vendor to send a revised invoice, and documenting such contact. During our review of disbursements, we noted a few payments where sales tax was not posted on the invoice or receipt, and there was no notation by the Central Treasurer indicating whether sales tax was subsequently remitted.

Recommendation 4: We recommend that all club officers be reminded of necessary tax regulations. Sales tax should be collected on applicable items, including resales. As noted above, revising the "Deposit in Extraclassroom Activity Fund" form will assist the Central Treasurer in tracking taxable sales. It is also important for the Central Treasurer to track the payment of sales tax on purchased goods so that the sales tax implications on the resale of goods can be accounted for appropriately.

Management's Response:

The District's annual Extraclassroom Activity Fund training includes a segment on the collection and payment of sales tax for applicable items, per the regulations of the NYS Comptroller. At the upcoming session, the District will

once again highlight the importance of keeping accurate records pertaining to sales tax purchases and sales. Additionally, the District will distribute to all advisors the "THE SAFEGUARDING, ACCOUNTING, AND AUDITING OF EXTRACLASSROOM ACTIVITY FUNDS - FINANCE PAMPHLET #2" manual, as issued by the Office of the State Comptroller.

OVERSIGHT

The District has focused on implementing procedures to ensure certain controls over extraclassroom activities are satisfactorily in place. The Building Principals at the Middle Schools and the Assistant Principal at the High School are involved in extraclassroom activities such as the establishment and dissolution of clubs and the authorization of fundraising activities that take place in their schools. Building administrators generally have meetings with Faculty Advisors throughout the year to review procedures on how the clubs should be running.

The District also appointed a Faculty Auditor, who reviews the Central Treasurers' records periodically, and prepares a Treasurer's Report to the Board. The Faculty Auditor is a teacher at the High School. She is also the Faculty Advisor of the Business Honor Society and the Assistant Faculty Advisor of DECA. During her review at the schools, she is reviewing every deposit and disbursement transaction for proper supporting documentation, signatures, and for appropriateness. While the clubs at the high school are maintaining their own ledgers of transactions, the Faculty Auditor is not reconciling the club ledgers to the Central Treasurer's records. During our discussions, we were advised that the Central Treasurer at the High School is providing each club with a balance on a monthly basis for their review.

Recommendation 5a: As per NYSED guidelines, the function of Faculty Auditor should be separate from other officers of Extraclassroom Activities. In order for the Faculty Auditor to remain independent in her function of reviewing club financial records, we recommend that the District implement a mitigating control to prevent the Faculty Auditor from reviewing her own reimbursements or other transactions that she signed as Faculty Advisor.

Recommendation 5b: We recommend that the Faculty Auditor periodically reconcile club ledgers to the records of the Central Treasurer of all secondary schools to ensure the accuracy of balances posted.

Management's Response:

- a) The District agrees with this recommendation and is in the process of conducting an open search for a Faculty Auditor, satisfying the conditions of this finding. In the event that the Faculty Auditor remains the same, we will implement a mitigating control
- b) The District agrees with this recommendation, and the Faculty Auditor for the upcoming school years' will be responsible for reconciling each club's ledgers to

the Central Treasurer's records, upon implementation. The Faculty auditor will sign off any reconciliation after each periodic review.

ADDITIONAL OBSERVATIONS

During our review of the High School's extraclassroom activity funds, we noted that funds are located in two accounts. The first is a checking account where all deposits and disbursement transactions are posted. The second is a money market account, which has a balance over \$26,000 and is interest bearing. No club transactions are posted to the money market account.

Recommendation 6: We recommend that all extraclassroom funds be operated by the students through club management. We recommend that the District transfer funds from the money market account to the checking account by allocating money among active clubs.

Management's Response:

The District agrees with this recommendation, and per the attached memo, the District has moved to merge the money market account with the checking account and has allocated the funds to Student Government, as this particular club is the source of this balance.

We would like to thank the staff at the District for its cooperation and professionalism during our testing.

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates LLP

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Internal Auditors



Excellence

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MEMORANDUM

To: Sammy Gergis

From: James Murray, Principal *JM*

Date: May 18, 2012

Subject: Extra Class Funds

I would like to transfer the balance in our Extra Classroom Activity Fund Money Market Account (account #000000437013453) into our Extra Classroom Activity Fund Checking Account (account #0000004370114106).

These funds do belong to Extra Class and will be transferred to the Student Government.

Thank you.