



Longwood Central School District

Review of Extraclassroom Activity Fund Procedures

June 2020



CERINI
& **LLP**
ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

June 2020

The Board of Education
Longwood Central School District
35 Yaphank Middle Island Road
Middle Island, New York 11953

Board of Education:

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

BACKGROUND

Extraclassroom activity funds (ECAAF) are defined in the Commissioner of Education's "The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds" (NYSED guidance) 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.

According to the NYSED guidance, students desiring to form a club shall petition their principal in writing stating the purpose of and describing the activities of the proposed club. If the purpose of the proposed club is appropriate and if the necessary space and equipment are available, a faculty advisor is selected, and the principal recommends the club be approved by the board of education (Board).

The Board has the responsibility for the general management and control of a district's financial and educational affairs, including the extra-classroom activity fund. The Superintendent of Schools, with the aid of students, faculty and administration, is charged with developing procedures for registering and regulating student groups or clubs. Such procedures shall ensure that the District will register any group organized for a purpose not prohibited by Board of Education policy or by law, if such group submits a list of its members designated as contacts, a copy of its constitution and/or bylaws. Each school will develop definite written guidelines and procedures regulating the creation, organization, administration, and dissolution of student activity programs.

District policy 6675 states each extraclassroom activity fund shall be under the supervision of a Board-approved central treasurer and that procedures, rules and regulations will be consistent with NYSED guidance. NYSED guidance defines the various roles and responsibilities of those involved in extraclassroom activity funds as

follow:

Chief Faculty Counselor: The chief faculty advisor is generally the building principal. The principal is responsible for coordinating the financial planning of all projects of the various extraclassroom activities (clubs) in his or her building, approving or disapproving fundraisers, appointing and consulting with the faculty advisors for each club, and submitting to the Board for approval all new clubs initiated by the students. In addition, the principal is responsible for investigating all problems and disputes concerning the clubs under his or her jurisdiction and affect action that will enable these problems and disputes to be resolved.

Central Treasurer: The central treasurer has custody of all funds, accounts for club activity, individually and combined, using a register of all the receipts and disbursements. In addition, the central treasurer is responsible for monitoring compliance with IRS guidelines regarding the filing of Statement 1099. It is considered good business practices for the Board to require the central treasurers to be bonded for no less than the amount of the average cash balance of the fund.

Faculty Advisor: The faculty advisor is responsible for guiding and advising the student officers in planning extraclassroom activities and financial budgets. Each club is assigned a faculty advisor(s). In addition to guiding and advising students, the faculty advisor is responsible for assisting and reviewing work performed by the student treasurer (i.e. the faculty advisor reviews and signs payment orders, deposit forms, profit and loss statements, etc.) In addition, the faculty advisor should ensure the clubs maintain a ledger and adequate documentation of club activity.

Student Treasurer: The student treasurer is responsible for cash receipts and disbursements of the club. Each club should keep an individual ledger that is maintained by the student treasurer. The student treasurer is responsible for the custody of the cash received prior to depositing with the central treasurer, and also for initiating payments using payment orders.

Faculty Auditor: The faculty auditor is responsible for reviewing documentation to ensure all financial transactions are supported with adequate evidence and periodically comparing the ledgers of the central treasurer and the club. A person distinct and separate from the duties of other rolls involved (i.e. with no part in the approval of payments, planning of income, or record-keeping) should be appointed as faculty auditor.

Although the District's external auditors perform a review of the ECAF on an annual basis, the District requested internal audit assess the adequacy and operating effectiveness of the ECAF since this is an area that is inherently risky.

SCOPE AND PROCEDURES PERFORMED

Our review entailed gaining an understanding of the procedures 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 at the secondary schools, as well as the faculty advisors of the clubs selected for testing. In addition, we reviewed District policies, and performed limited testing of disbursement and receipt transactions.

To perform our testing, we obtained the records maintained by each central treasurer at the secondary schools and judgmentally selected cash receipt transactions (8 at the middle school and 16 at the high school) and cash disbursement transactions (10 at the middle school and 17 at the high school) recorded in the 2019-2020 school year to determine whether the accounting for those transactions was proper, student involvement was evident, 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.

RESULTS OF REVIEW

The following sections outline the results of our review:

I. RECORDKEEPING

According to the NYSED guidance, a charter explaining the club's purpose and goals needs to be developed and maintained for each club and kept securely within the school. It is a good practice for clubs to review the charter every year to ensure the document remains consistent with goals of the club. A list of approved clubs should be maintained by the principal.

NYSED guidance states the central treasurer should maintain a ledger for each club listing the opening balance of each club's funds and all receipts and disbursements, copies of all deposit forms used to substantiate cash receipts, and copies of all payment orders substantiating cash disbursements. The central treasurer should reconcile the ledgers to the bank statements monthly.

NYSED guidance also outlines records that should be maintained by the club. These records include minutes, which should be recorded for all club meetings and maintained with each club to support any decisions or recommendations made. While the minutes kept do not need to be detailed, decisions regarding payment of the club's funds, events to be hosted, fundraisers, and any items that are financial in nature should be recorded. The student treasurer should also maintain a club ledger, copies of deposit forms and payment orders, the itemized invoices or receipts to substantiate disbursements, and profit and loss statements.

Issue #1: We noted that the clubs at the junior high school do not maintain meeting minutes or ledgers of club activity, and in some cases, itemized invoices or receipts (this was not an issue at the high school or middle school). As such, we were unable to test the cash receipts and disbursements at the junior high school.

Risk: Extraclassroom funds are not adequately safeguarded.

Level: Moderate-High

Recommendation: We recommend the student treasurer for each club at the junior high school, with the assistance of the faculty advisor, maintain a ledger of the club's activity and all deposit forms, payment orders, and itemized invoices or receipts. In addition, we recommend the District require each club to record and maintain minutes of each meeting to substantiate receipts, disbursements, and events organized by the club.

Issue #2: The clubs at the junior high school are not required to develop a charter.

Risk: Active clubs' goals may not fall within the scope of educational or school service purposes. In addition, the District is not in compliance with District policy.

Level: Low-Moderate

Recommendation: We recommend the District require each club to develop and submit a charter explaining the club's purpose and goals and that the charter be reviewed by the clubs and principal annually.

Issue #3: We noted the central treasurers do not monitor compliance with IRS guidelines regarding the filing of Statement 1099.

Risk: Extraclassroom funds are not adequately safeguarded and the District is not in compliance with the NYSED guidance and District policy.

Level: Moderate-High

Recommendation: We recommend the District require faculty advisors to request a Form W-9 from any vendor with which the clubs transact and submit each Form W-9 to the central treasurers. We recommend the central treasurers track payments made to vendors and issue Statement 1099 when appropriate.

Issue #4: We noted that the District did not appoint a faculty auditor to review the records maintained by the clubs as well as the central treasurers. Had this position been appointed, the issues of insufficient record keeping at the junior high school could have been identified.

Risk: Extraclassroom funds are not adequately safeguarded. In addition, the District is not in compliance with District policy.

Level: Moderate-High

Recommendation: To ensure funds are adequately safeguarded, we recommend the District appoint a faculty auditor to review and compare the student ledgers against the central treasurer ledgers at least twice per year. Furthermore, the faculty auditor should examine various transactions and paperwork to determine if correct procedures are being used.

II. **CASH RECEIPTS**

Any cash received must be supported by appropriate documentation. Whenever possible, students should issue pre-numbered receipts in duplicate (i.e. one to the purchaser and one for club records). District procedures require that all clubs use pre-numbered tickets for admissions to any paid event. The student treasurer should keep records of specific receipt or ticket numbers given to each seller and require each seller to return unused receipts or tickets, along with money collected. Student treasurers should then reconcile the number of receipts or tickets issued to money collected. All receipts should be accounted for (i.e. if used in error, receipts should be voided and maintained and never destroyed). If the use of prenumbered receipts is impractical (e.g. school store sales), other controls should be implemented to facilitate the tracking of inventory and cash received (e.g. profit and loss statement indicating the anticipated and actual receipts and disbursements).

The student treasurer should deposit any cash received by the club with the central treasurer for review and reconciliation immediately along with a deposit form signed by the student treasurer and the faculty advisor.

The central treasurer should sign a deposit form in duplicate (one maintained by the central treasurer and one by the club) any time funds are placed in his or her custody indicating the amount and date received. The funds received should be deposited with the bank promptly.

Issue #5: We noted that tickets sold for events such as dances are not properly accounted for at the junior high school. While a list is maintained indicating which students are attending the event, the amount received from each student is not recorded. We also noted that school store inventory at the junior high school is not sufficiently tracked to account for specific items sold.

Risk: Extraclassroom funds are not adequately safeguarded. In addition, the District is not in compliance with District policy.

Level: Moderate-High

Recommendation: To ensure funds are adequately safeguarded, we recommend the student treasurer with the assistance of the faculty advisor issue a ticket to every student attending the event, including volunteers and students that are not required to pay, and record the amount collected for each ticket issued. The number of tickets remaining should be compared with the total amount received and any unexplained variances should be investigated. Furthermore, we recommend that an inventory be performed at least monthly to track items sold.

The inventory on hand each week should be compared to the prior inventory, the sales for the week, and the total deposited by the central treasurer. Any unexplained variances should be investigated.

Auditor's Comment: We noted the middle school utilizes an electronic inventory management system which facilitates the tracking of inventory and cash handling at the school store. The District should consider requiring the school store at each building to implement the system.

III. CASH DISBURSEMENTS

In order to make a payment using club funds, an itemized invoice or receipt should be reviewed, and a payment order signed by the student treasurer and the faculty advisor should be prepared in duplicate. Sales tax must be paid by clubs as they are not exempt from sales tax. The payment order is submitted to the central treasurer (the other copy maintained by the club) only after review of the itemized invoice or receipt. After the payment order and itemized invoice or receipt are reviewed by the central treasurer, a check is issued by the central treasurer and given to the student treasurer to pay the vendor.

Issue #6: We noted one (1) of the 15 payments selected at the high school did not include sales tax.

Risk: The clubs are not in compliance with sales tax law. In addition, the District is not in compliance with District policy.

Level: Low-Moderate

Recommendation: We recommend the District ensure all payments made by clubs include sales tax where applicable.

IV. SAFEGUARDING OF FUNDS

In addition to procedures outlined in this report, funds should be kept in a locked safe in a central location before being deposited at the bank, and access to the safe should be limited. To improve accountability of the roles involved in ECAF operation and further safeguard funds, the NYSED guidance includes a faculty auditor to review transactions and records maintained by the central treasurers and clubs.

Auditor's Comment:

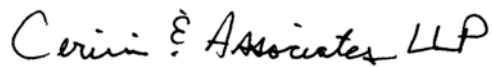
We noted during our review that a safe was not available for the central treasurer at the junior high school to store cash before being deposited. As a result, the central treasurer was maintaining the cash in a locked draw within a locked cabinet in her classroom. We were informed that the junior high school subsequently purchased a safe located in the main office to be used by the central treasurer to store the cash. We commend the District's prompt efforts to reduce the risk of funds not being adequately safeguarded.

We would like to thank the District for its cooperation during our review.

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,

A handwritten signature in black ink that reads "Cerini & Associates LLP". The signature is written in a cursive, flowing style.

Cerini & Associates, LLP
Internal Auditors