



Office of the Auditor General Rochester Board of Education

To: Pamela Rutland, Wilson Magnet High School Principal
Cynthia Josselyn, Sr. School Secretary

From: Anissa Henry-Wheeler, Auditor General
Kimberly Huffman, Process and Control Specialist
Jacqueline Farabell, Sr. Audit Specialist

Date: July 25, 2012

Re: Wilson Commencement - Student Activity Fund Audit

Background: Student 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. Student Activity Funds are those operated by and for the students. Monies are usually collected voluntarily by pupils and are spent by them as they see fit, in compliance with established regulations.” The District has formalized Student Activity Fund expectations in the Procedures Manual for Student Activity Funds and Finance Pamphlet 2. Schools should be familiar with these manuals and the procedures within.

Objective: To determine whether Wilson Commencement is complying with the Procedures Manual for Student Activity Funds and Finance Pamphlet 2 and to determine if the proper controls are in place to manage Student Activity Funds.

Scope: We obtained an understanding of the processes and controls in place for Student Activity Funds. We evaluated the school’s compliance with the Procedures Manual for Student Activity Funds and Finance Pamphlet 2. Funds were assessed to ensure alignment with the intended purpose of Student Activity Funds, as defined by the Regulations of the Commissioner of Education. Inventory, cash management and bookkeeping processes were also evaluated to ensure existence of adequate internal controls.

Conclusion: Student Activity Funds are intended to provide schools with the opportunity to teach students good business procedures through participation in handling funds and operating a successful business. Overall, students are not involved in the business processes for the Student Activity Funds. This would include the cash receipt and disbursement processes, as well as the bookkeeping process. These processes are mainly controlled by the Club Advisor and the School Treasurer.

Wilson Commencement lacked compliance with the District’s Procedures Manual for Student Activity Funds and Finance Pamphlet 2. Compliance issues were noted in the creation and renewal process, meetings, fundraising, cash management and sales taxes. Standardized forms were not utilized as intended. Adequate controls did not exist over inventory, cash receipts and cash disbursements. Two sets of books are not maintained for the Student Activity Funds. Additionally, school clubs did not comply with District grant and donation procedures.



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Management Acknowledgement: Management has met with OAG to discuss and understand the various observations and recommendations in this report. The school will work to improve controls for Student Activity Funds and comply with established District procedures in the upcoming school year.



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OBSERVATION #1

Compliance

Policies and Procedures

The Procedures Manual for Student Activity Funds and Finance Pamphlet 2 are policies and procedures manuals for Student Activity Funds which are to be used in conjunction with each other to establish and manage Student Activity Funds at the schools. The manuals include standard forms which were created to ensure consistency and uniformity among schools and funds. The standard forms were not being consistently utilized by the funds and the school, or used as intended.

Principals, School Treasurers, Club Advisors and Student Activity Treasurers should be familiar and comply with the policies and procedures in these manuals. The school and each individual fund should be complying with the policies and procedures within the manuals and utilizing the standard forms. Compliance with these manuals ensures consistent application of Student Activity Fund policies and procedures. They enhance the consistency in recorded data and the handling of transactions, and hold individuals accountable in their role for Student Activity Funds.

RECOMMENDATIONS

Ensure proper dissemination of the Procedures Manual for Student Activity Funds and Finance Pamphlet 2. Enforce compliance with these procedures manuals. Ensure the Acceptance of Responsibility & Accountability form is completed by all appropriate parties for all Student Activity Funds. Utilize standard forms for all Student Activity Funds.

OBSERVATION #2

Establishment and Renewal

Wilson Commencement was not in compliance with the requirements for establishing new Student Activity Funds or renewing existing Student Activity Funds. Per the Procedures Manual for Student Activity Funds, students desiring to form an extra-classroom activity shall petition the Principal in writing. The petition shall contain the purpose of the activity, description of the activities proposed and be signed by at least seven students. All Student Activity Funds should be approved by the Principal. Once approved, the Principal shall provide the Zone Chief and the Accounting Department specific detail regarding the nature of the Student Activity Fund. This information shall be provided annually to renew the Student Activity Fund. The current processes in place did not align with the Procedures Manual for Student Activity Funds. Principals were not petitioned for the establishment of Student Activity Funds, nor did a formal renewal process exist. Required information was not provided to the Zone Chiefs or Accounting. The risk of establishing Student Activity Funds which do not fall within the scope of educational or school service purposes exists if establishment and renewal procedures are not followed. Student Activity Funds could exist without the knowledge of the Principal or Accounting.



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RECOMMENDATIONS

Enforce compliance with the Procedures Manual for Student Activity Funds for the establishment and renewal of Student Activity Funds. Ensure all new and existing Student Activity Funds meet the requirements as defined by Regulations of the Commissioner of Education.

OBSERVATION #3

Monthly Meetings

The Student Activity Funds at Wilson Commencement are not in compliance with the meeting requirements as defined in the Procedures Manual for Student Activity Funds. According to the procedures established, all student activities shall meet at least once monthly. An agenda should be prepared by the President and approved by the Club Advisor. Meetings are required to be communicated to all members at least two weeks in advance of the meeting. Meeting minutes shall be prepared stating the individuals in attendance, discussions held and action items. Approval of meeting minutes shall be made by the club President, the Club Advisor and the Secretary. The club shall maintain a copy of the minutes and a duplicate set should be provided to the School Treasurer. A monitoring process should exist to ensure compliance with meeting requirements. It was noted in our testing that required monthly meetings were not consistently occurring. For the meetings that did occur, there was a lack of an agenda, communication process, attendance, meeting minutes and their required approval. Meeting minutes were not submitted to the School Treasurer. If clubs are not meeting regularly, it may lead to question whether the club has adequate student participation, as well as whether the club should be considered inactive.

RECOMMENDATIONS

Enforce compliance with the Procedures Manual for Student Activity Funds for meeting requirements of Student Activity Funds. Develop a monitoring process to ensure monthly meetings are occurring. Develop a process to determine whether Student Activity Funds have adequate student participation and evaluate whether the funds should be changed to an inactive status.

OBSERVATION #4

Fundraising

Wilson Commencement is not complying with all fundraising procedures for Student Activity Funds. Fundraising activities must be discussed at a club meeting and voted on by the members. A budget must be prepared by the club and approved by the Principal before the fundraising event occurs. A profit and loss statement is required to be prepared at the completion of the fundraising event and should be submitted to the Principal for approval. Sales tax implications must be considered when deciding on fundraising activities. Based on our testing, we noted that budgets are not being prepared, and because meetings are not appropriately documented, we could not substantiate whether the activity was discussed and voted on by the members. We also noted profit and loss statements are not prepared at the conclusion of a fundraising activity. The school should consistently follow the procedures for fundraising activities to ensure the appropriateness of the activity, as well as the use of the funds.



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RECOMMENDATIONS

Ensure compliance with fundraising requirements for Student Activity Funds. Consider sales tax implications for all Student Activity Fund fundraisers.

OBSERVATION #5

Sales Taxes

Wilson Commencement is not consistently complying with New York State sales tax regulations for Student Activity Fund transactions. Sales taxes were not consistently paid on purchases for Student Activity Funds or collected on the sales for fundraising activities. Sales taxes that were reported in SchoolCash.NET lacked adequate descriptions of the taxable purchases and sales. Copies of invoices and receipts evidencing purchases are not always retained. There were instances in which a club advisor properly paid sales tax on club related purchases but was not reimbursed for the sales tax by the School Treasurer. Student Activity Funds are not exempt from New York State sales tax. Club Advisors and the School Treasurer are responsible for ensuring compliance with sales tax laws. School Treasurers must report sales taxes collected in SchoolCash.NET for inclusion in consolidated District filings.

RECOMMENDATIONS

Ensure compliance with New York State sales tax regulations for Student Activity Fund purchases and sales. Report sales taxes collected and due in SchoolCash.NET for inclusion in consolidated District filings. Retain supporting documents to evidence sales taxes paid. Reimburse the Club Advisor for taxes appropriately paid towards SAF expenditures.

OBSERVATION #6

Monitoring

The School Treasurer does not provide adequate monitoring for compliance with Student Activity Fund procedures. The Procedures Manual for Student Activity Funds and Finance Pamphlet 2 establish District controls for the operation of Student Activity Funds within schools. These established procedures address the establishment and renewal of Student Activity Funds, meetings, fundraising, cash receipts, cash disbursements, sales tax, inventory and bookkeeping. The school Treasurer should monitor activities occurring within the school to ensure compliance with established Student Activity Fund controls. Monitoring procedures would minimize noncompliance with Student Activity Fund policies and procedures, and aid in holding clubs and the School Treasurer accountable for the consistency in the handling of transactions.



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RECOMMENDATIONS

Monitor student clubs and activities for compliance with Student Activity Fund processes and procedures.

OBSERVATION #7

Cash Management

Cash Receipts

The school is not following all of the policies and procedures as defined in the Procedures Manual for Student Activity Funds for cash receipts. Cash controls issues were also noted:

- Receipts are not issued by the Student Activity Fund for money received.
- Funds are not consistently counted by the School Treasurer in the presence of the person who submitted the cash.
- Current standard forms were not consistently being utilized and at times are not fully completed.
- Deposit slips reflected manual adjustments that were not initialed; therefore it is unknown who made the correction.
- There is a lack of student involvement in the cash receipts process.

Adequate controls should exist for cash receipts. When cash is received, it should be immediately verified in the presence of the person submitting the cash and a receipt shall be issued to the depositor and a copy should be retained in the recipient's records. The District's standard forms should be utilized and completed by the appropriate parties. Inadequate controls over cash receipts create an opportunity for the misappropriation of assets. Noncompliance with District policies will result if the Procedures Manual for Student Activity Funds is not followed.

RECOMMENDATIONS

Implement cash receipt procedures that ensure deposits are adequately supported, and receipts are appropriately provided and retained. Verify receipts when received and in the presence of the person submitting the cash.

OBSERVATION #8

Timely Deposits

Clubs are holding cash receipts for an extended period of time before they are deposited with the School Treasurer. A significant amount of cash is being held by the Club Advisors in lieu of depositing into the Student Activity bank account. We noted eight instances in which one large cash deposit of over \$1000 for fundraising activities were made in lieu of interim deposits. Deposits should be made with the School Treasurer weekly, or sooner if the amount collected is over \$100. Significant amounts of cash on hand increases the risk of misappropriation of cash.



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RECOMMENDATIONS

Ensure the timely deposit of cash to the School Treasurer. Discontinue the practice of Club Advisors accumulating cash on hand.

OBSERVATION #9

Cash Disbursements

Wilson Commencement lacks adequate controls over the cash disbursement process. The following issues were noted in regards to cash disbursements:

- Adequate documentation did not consistently exist to support the expenditure.
- The standard check request was not consistently utilized, nor was the check request form completed by the appropriate parties.
- Inaccurate data was entered into the SchoolCash.Net system.
- Incorrect amounts were reimbursed for expenditures.
- Yearbook club paid for another club's expenditures in lieu of utilizing the transfer process to align expenses to the appropriate club.
- Lack of overall student involvement in the cash disbursement process.

Lack of adequate controls over cash disbursements creates an environment that is highly susceptible to the misappropriation of cash. The school should be practicing the procedures prescribed in the Procedures Manual for Student Activity Funds. The standard Check Request Form should be completed and approved by the appropriate parties. Adequate documentation shall be retained to support all expenditures. All checks must have dual signatures.

RECOMMENDATIONS

Enforce the cash disbursement controls as defined in Procedures Manual for Student Activity Funds. Ensure adequate documentation exists for all expenditures for Student Activity Funds.

OBSERVATION #10

Cash Payments

During our audit, we noted that the clubs were utilizing cash proceeds to make purchases in lieu of depositing the cash with the School Treasurer and submitting a check request when payment is necessary. These receipts and purchases are never reported in the accounting system. There is a lack of visibility regarding how much revenue is actually earned and how much is actually expended for the club or activity. All cash receipts must be turned in to the School Treasurer for deposit into the Student Activity Fund account. All purchases must be made by check and supported by proper documentation. Cash payments are disallowed. Every transaction must be reported in the accounting system. Lack of adequate cash controls creates an environment that is highly susceptible to the misappropriation of cash.



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RECOMMENDATIONS
<i>Deposit all cash receipts into the Student Activity Fund bank account. Ensure all expenditures are paid by check and discontinue the use of cash payments. Ensure all transactions are reported into the accounting system.</i>
OBSERVATION #11
<i>Transfers</i> Wilson Commencement is not complying with the District’s formal process for transferring money between funds. Check requests and the inter-account transfer form are not properly being utilized. The Student Activity Treasurer that is transferring funds should prepare and submit a Check Request Form to the School Treasurer who will perform the transfer in the club accounts. The School Treasurer will then prepare an Inter-Account Transfer Form in duplicate and provide it to both clubs involved in the transfer. A formalized process for the transfer of money between funds ensures proper authorization to move funds, as well as ensure appropriate student involvement in the transfer process.
RECOMMENDATIONS
<i>Enforce compliance with the established transfer process defined in the Procedures Manual for Student Activity Funds. Ensure active participation in the transfer process from.</i>
OBSERVATION #12
Processes and Procedures <i>Grants</i> The Outdoor Club applied for and received two grant awards from external agencies to fund and support student field trips. These grants were not approved by the School Principal or the District's Grants Department. The District requires the “Intent to Submit” grant authorization form to be completed for all grants prior to submission of the application or receipt of the award regardless of the award amount. Awarded proceeds from grants that have not been properly authorized could be misappropriated. The lack of appropriate grant monitoring could result in noncompliance of the grant. Grants are legally binding obligations and could subject the District to liability or loss.
RECOMMENDATIONS
<i>Enforce compliance with District donation and grant procedures. Obtain the required authorizations for all donations and grants prior to application or acceptance of the funds. Retain supporting documentation evidencing compliance with District requirements.</i>



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OBSERVATION #13

Inventory

The various Student Activity Funds at Wilson Commencement lacked formal processes to track inventory. Accounting for inventory should be maintained by all Student Activity Funds. This would include tracking sales and purchases by product type to have a proper accounting of inventory on hand. A physical inventory count should be performed periodically. Physical counts should be reconciled to the inventory tracking and any discrepancies should be investigated. Lack of proper accounting for inventory provides an opportunity for the misappropriation of inventory which could go undetected.

RECOMMENDATIONS

Develop a standardized process for the tracking of inventory for all Student Activity Funds. Perform physical counts on a regular basis. Reconcile inventory counts and investigate discrepancies.

OBSERVATION #14

Records and Reporting

Two Separate Sets of Books

Two separate sets of books are required to be maintained for each Student Activity Fund. The Student Activity Treasurer shall keep a ledger showing all receipts and expenditure with a daily running balance. All supporting data should be maintained and filed chronologically as evidence for the entries made in the ledger. The Club Advisor is to guide the Student Activity Treasurer in posting transactions to the account ledger and should check the ledger and supporting evidence for correctness and completeness. The School Treasurer will also maintain a set of books and these two sets of books should be reconciled periodically. This second set of books is in keeping with State Education Department's intent to provide schools with the opportunity to teach pupils good business procedures through participation in handling such funds and operating a successful business.

RECOMMENDATIONS

Develop a standardized process for maintaining student account ledgers for all Student Activity Funds. Reconcile the student account ledgers with the School Treasurer's bookkeeping records



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OBSERVATION #15

Bank Reconciliations

Bank reconciliations were not appropriately retained on a consistent basis. One reconciliation was not physically available for review and two reconciliations did not note the date of the Principal's approval. As a result, we could not determine the timeliness of the Principal's review of all SAF reconciliations. Approved bank reconciliations should be maintained by the School Treasurer and all bank reconciliations should be reviewed and approved by the Principal. Also, a reporting error occurred in SchoolCash.NET in which two checks were incorrectly assigned the wrong check numbers. This was not detected by Management or Accounting. Transactions should be reviewed to ensure data entry is accurate. Abnormal bank activity or SAF transaction reporting could occur and go undetected without the timely review of bank reconciliations.

RECOMMENDATIONS

Maintain adequate documentation to support timely and accurate bank reconciliations performed. Remediate transposed checks reported in SchoolCash.NET.

OBSERVATION #16

Other Cash Receipts

The Joseph C. Wilson Magnet High School Teacher's Lounge has a vending machine that is maintained by teaching staff and benefits RTA. A District wide policy should exist to ensure that all vending machines are owned and operated for the direct benefit of the RCSD or authorized Student Activity Fund.

Joseph C. Wilson Magnet High School students perform community service as a component of their curriculum. Related to this, students have held one time fundraisers to benefit charities such as Leukemia Society, Genesis House and the Cancer Society among others. These activities are conducted by a class of students and are led by an adult but do not meet the criteria of a Student Activity Fund. As a result, non-Student Activity Fund groups of students are raising funds without Principal oversight and District accountability. All organized student fundraisers should be subject to oversight and accountability.

RECOMMENDATIONS

Develop and enforce a universal policy for non-Student Activity Fund & non-District operation of vending machines on District property. Develop and enforce cash management procedures for one time event fundraising activities resulting from student community service.