



## **KATONAH-LEWISBORO SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

**Date:** June 30, 2015

**To:** Marjorie Schiff, Board President

**From:** David E. Moran, Director of Education Practice

**Cc:** Audit Committee  
Michael Jumper, Assistant Superintendent for Business  
Andrew Selesnick, Superintendent of Schools

**Subject:** Extraclassroom Activities Fund Internal Audit

### **Background**

We have applied certain financial, compliance and operational audit procedures to the Extraclassroom Activity Funds (“ECAFs”) of Katonah-Lewisboro School District (the “District”) as of May 31<sup>st</sup>, 2015. As a result of the recently conducted Internal Audit Risk Assessment, the Student Services functional area, specifically Extraclassroom Activity Funds, was identified as a candidate for an internal audit. Accordingly, the Board of Education and Audit Committee authorized an audit of this area.

Extraclassroom activity funds are defined 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”* (Commissioner of Education). In general, Extraclassroom Activity Funds are funds raised by other means than taxation. The funds are typically raised through the sale of merchandise, ticket sales, or donations. Revenues are raised for the purpose of promoting student club activities and funds are spent for the general benefit of all students participating in these organizations. Extraclassroom Activity Funds are District funds held in Agency, and therefore the District has fiduciary responsibility over the management and accounting of these funds.

The District’s ECAFs are overseen by Middle School and High School Central Treasurers. There were 34 student clubs reported in the District’s External Audit for the fiscal year ended June 30, 2014. In total, student clubs collected \$161,120 and spent \$165,646 throughout the fiscal year. Although this amount is not materially significant in comparison to the District’s total budget, the nature and volume of activity warrants close monitoring and supervision. Internal Audit recommended this area for an in-depth review to determine ways to improve procedures, and establish increased accountability and stronger internal controls.

### **Audit Scope**

Our responsibility was to assess the adequacy and effectiveness of internal controls over Extraclassroom Activity Funds operations in the District. We reviewed the period from July 1<sup>st</sup>



## **KATONAH-LEWISBORO SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

2014 through May 31<sup>st</sup>, 2015. A detailed description of audit work performed is presented in the “Summary of Audit Procedures Performed” section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

### **Executive Summary**

As a result of the work performed, we noted the following Observations that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures:

1. Continue to utilize and comply with the District’s established procedures for the ECAF cash disbursements.
2. Review and, if necessary, update the District’s “Extraclassroom Activities Cash Management Procedures” instructions and forms.
3. The Building Administration (with assistance from the Business Office) should consider providing a training/familiarization seminar for new Faculty Advisors prior to the start of each school year to clarify the policies and procedures.
4. Enhance cash receipt procedures and require signatures from both the Student Activity Treasurers and Faculty Advisors as well as sequentially numbered receipt vouchers.
5. Establish procedures to ensure that separate and independent books and records are maintained by the Central Treasurers and each student organization.

Based on the results of the procedures performed, the internal control structure is rated as “***Needs Improvement.***” The internal audit rating structure is defined below:

***Satisfactory*** Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings indicate modest weaknesses that require management's attention.

***Needs Improvement*** Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses.

***Unsatisfactory*** Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution.



**KATONAH-LEWISBORO SCHOOL DISTRICT  
EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during the course of our audit.

Sincerely,

Accume Partners



## **KATONAH-LEWISBORO SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

### **Summary of Audit Procedures Performed**

- Procedure 1 – Completed the New York State Department of Education (“NYSED”) Compliance Checklist for School District Extraclassroom Activity Funds (“ECAF”)
- Procedure 2- Completed the NYSED Internal Controls Checklist for School District ECAFs
- Procedure 3- Reviewed District Policies and Procedures related to ECAFs
- Procedure 4- Interviewed District management and staff: Interim Superintendent, Assistant Superintendent for Business, District Treasurer, District Clerk, Accountant, Central Treasurers, Faculty Advisors and Building Principals
- Procedure 5- Selected a sample of 5 ECAF organizations and interviewed the Faculty Advisors and reviewed the financial activity ledgers of the student clubs.
- Procedure 6- Reviewed a sample of 26 ECAF cash receipts totaling \$35,168
- Procedure 7- Reviewed a sample of 25 ECAF cash disbursements totaling \$43,203
- Procedure 8- Reviewed the ECAF Central Treasurers’ books and records



**KATONAH-LEWISBORO SCHOOL DISTRICT  
EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

**Recommendations to Enhance the System Of  
Internal Controls and Improve Operating Procedures**

***1. ECAF Cash Disbursements***

**Observation:**

Internal Audit tested Extraclassroom Activity Funds' cash disbursements to determine if these disbursements represented legitimate student activities, were appropriately approved, and in compliance with applicable rules and regulations. From our review and testing of the cash disbursements, we noted no significant discrepancies.

**Risk/Opportunity:**

School districts, in general, need to ensure that ECAF expenditures should be supported with adequate documentation to support that goods were received, services were rendered, and to validate that the nature of the expense falls in line with the mission of the student organization. In addition, check disbursement requests should be approved by the Building Principal to ensure accountability.

In general, the decision to expend monies from a student organization's account should originate from the student club. The original spirit of an Extraclassroom Activity or student organization is to provide students with the opportunity to raise funds and decide on the use of those funds, for the benefit of the students. Thus, students are exposed to building business skills through opportunities not always offered to them in the classroom. The students learn to make business decisions through negotiating, building consensus and teamwork. The Faculty Advisor is there to supervise, and should review and approve the expense for appropriateness as to the nature of the cost, compliance with District Policy, and to ensure that monies are available to make payment. A procedure consistent with this methodology keeps students involved in the disbursement of funds, ensuring that funds are spent along the lines of the mission of the club.

**Recommendation:**

1. Continue to utilize and comply with the District's established procedures for the ECAF cash disbursements.

***Management's Response: No Response Required***

## KATONAH-LEWISBORO SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT

### 2. *ECAF Cash Receipts*

#### **Observation:**

Internal Audit tested cash receipts from Extraclassroom Activity Funds to determine if all ECAF cash receipts and deposits had been properly accounted for and timely deposited. During the testing of ECAF cash receipts we found no significant discrepancies regarding the dollar amounts of cash receipts. However, we did observe noncompliance with the District's stated guidelines that both the Faculty Advisors and Student Activity Treasurers sign the internal bank deposit forms. Similarly, the District is not utilizing sequentially numbered Treasurer's receipts vouchers within the ECAF procedures.

#### **Risk/Opportunity:**

School districts should have internal controls in place to ensure that cash receipts are properly accounted for and deposited in a timely manner. More times than not, lax procedures in the collection and deposit of monies can result in confusion and sometimes loss of funds. Therefore, it is important to make timely deposit of monies to ensure that all cash received is in fact deposited to the bank.

In addition, proper procedures should be established to facilitate the accounting and recording of cash receipts prior to their deposit with a Central Treasurer. For example, admissions for games and shows should use pre-numbered tickets to ensure that the number of tickets sold and revenue generated is actually collected. Procedures should also be established for sales and campaigns. Specifically, the estimated amount to be realized by the sale should be determined in advance. Accounting for the exact sales revenue, resale inventory, and remaining inventory on-hand, should be controlled and monitored to prevent any losses. All goods and merchandise purchased by Extraclassroom Activities are assets of the districts, and should be inventoried and accounted for as other district assets.

Extracurricular activities receive little or no funding through the budgetary process. Thus, fundraising activities help to support certain approved student activities and provide valuable learning experiences that would not be possible otherwise. The definition of Extraclassroom Activities is one where the organizations' activities are conducted by the students. Student Clubs offer excellent opportunities for students to learn basic business management skills and develop leadership and teamwork abilities. Fundraising events allow students to directly experience and learn about the nature of sales, marketing, cash and inventory. However, the Building administration and Club supervisors should ensure that all fundraising activities comply with its Board Policies and do not generally interfere with the educational process. Thus, Building Principals should perform a formal and documented review and approval of requests for fundraising as they do with Field Trips. The districts should consider the nature of the event, dates of operation, duration of the sale or campaign, the means of solicitation, Board Policy and applicable New York State rules and regulations. The fundraising activity



## **KATONAH-LEWISBORO SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

should support the purpose of the student activity, and be conducted by the students with oversight from the Faculty Advisors. By requiring prior approval of fundraising activities, the districts ensure proper oversight and handling of revenues and cash receipts and can help to ensure better accountability over the process.

### **Recommendation:**

2. Review and, if necessary, update the District's "Extraclassroom Activities Cash Management Procedures" instructions and forms.
3. The Building Administration (with assistance from the Business Office) should consider providing a training/familiarization seminar for new Faculty Advisors prior to the start of each school year to clarify the policies and procedures.
4. Enhance cash receipt procedures and require signatures from both the Student Activity Treasurers and Faculty Advisors as well as sequentially numbered receipt vouchers.

***Management's Response:*** The District Bookkeeper and the Assistant Superintendent for Business will review and update (if necessary) the District's "Extraclassroom Activities Cash Management Procedures" instructions and forms. It is important to note that these procedures have previously been shared with all club advisors as well as the central treasurers and the building administration. The Assistant Superintendent will coordinate with the building administration to confirm that club officers are selected for each extraclassroom activity. Following the selection of club officers, the Business office staff will work with the Building Administration to design and present a training session for club advisors, and student officers to help familiarize them with the procedures. As outlined in this report our current guidelines/procedures do require faculty advisors and student activity treasures to sign internal bank deposit forms. We will ensure, through the training referenced above, that this guideline is followed. Finally, we will work with the central treasurers to secure pre-numbered receipts for use by club advisors and student activity treasurers.

***Responsible Individuals:*** Assistant Superintendent for Business, District Bookkeeper, Building administration, Central Treasurers, Club Advisors, Student Activity Treasurers

***Target Date:*** December 31, 2015

## **KATONAH-LEWISBORO SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

### **3. ECAF Books and Records**

#### **Observation:**

In our review of student clubs' books and records, we found inconsistencies on the part of the Faculty Advisors. They ranged from Faculty Advisors who maintain activity ledgers recording all cash receipts and disbursements within their student club account to those who rely solely on the Central Treasurer to provide the accounting for the student clubs.

#### **Risk/Opportunity:**

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. 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. Supervision and guidance by Faculty Advisors promotes the overall educational benefit and general welfare of all students participating in the organization. Proper maintenance of books and records helps to ensure that activities are pursued with consensus and monies are used for their intended purpose. An independent review of both sets of books and records can provide a greater level of internal control and accountability.

#### **Recommendation:**

5. Establish procedures to ensure that separate and independent books and records are maintained by the Central Treasurers and each student organization. The procedures for maintaining the documentation should include student officers' selection, meeting minutes, budgets, cash receipts, deposit forms, payment request forms, and activity ledgers recording all financial activity and account balances.

***Management's Response:* The Building Administration with the support of the Assistant Superintendent for Business will develop a control to ensure that separate and independent books and records are maintained by each of the student organizations. These books and records will include documentation related to:**

- **Student officer selection**
- **Meeting minutes**
- **Budgets**
- **Cash receipts**



**KATONAH-LEWISBORO SCHOOL DISTRICT  
EXTRACLASSROOM ACTIVITY FUND INTERNAL AUDIT**

- **Deposit forms**
- **Payment request forms, and;**
- **Activity ledgers recording all financial activity and account balances**

**This control will likely consist of meeting with student activity treasurers and reviewing their records at various times throughout the school year.**

***Responsible Individuals:* Assistant Superintendent for Business, District Bookkeeper, Building administration, Central Treasurers, Club Advisors, Student Activity Treasurers**

***Target Date:* December 31, 2015**