

**Sachem Central School District**  
**Independent Accountant's Report On**  
**Applying Agreed-Upon Procedures**

February 11, 2014

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**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

To the Board of Education and Audit Committee  
Sachem Central School District  
Lake Ronkonkoma, New York

We have performed the procedures described in the following pages, which were agreed to by the Sachem Central School District (District), solely to determine the effectiveness related to the extraclassroom activities function in complying with policies and procedures of the District during the period July 1, 2012 through October 31, 2013.

The District's management is responsible for administering this function.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the District's internal control related to the extraclassroom activities function. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

*Cullen & Danowski, LLP*

February 11, 2014

**SACHEM CENTRAL SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures**  
For the Period Ended October 31, 2013

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**Introduction:**

This report has five sections consisting of:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

**Corrective Action Plan:**

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

***Submission Information – Mail & Email***

New York State Education Department (NYSED)  
Office of Audit Services (OAS)  
89 Washington Avenue  
Room 524 EB  
Albany, NY 12234  
[Fsanda133@mail.nysed.gov](mailto:Fsanda133@mail.nysed.gov)

***Contact***

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**Background:**

We performed a review of the District's extraclassroom activities that included meetings, discussions and testwork to determine the effectiveness of the area in complying with policies and procedures. The New York State Education Department (SED) has developed a manual for recommended practices related to extraclassroom activities titled *The Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds - Finance Pamphlet 2* (Finance Pamphlet 2). Finance Pamphlet 2 provides recommendations for systems and procedures to be used to ensure that extraclassroom activities are properly administered. We were engaged to perform the procedures outlined below and assist the District with improving the operations of the extraclassroom activities function.

Extraclassroom activities are problematic from an internal control perspective due to the amount of cash and other small receipts that is received, and the relative lack of financial understanding of club advisors and students. Part of the educational benefit of certain clubs is the opportunity for students to be involved in the financial aspects of the club. By having students involved in the finances, both the educational process and internal controls are enhanced.

The District has extraclassroom activities being accounted for at all 18 of its schools. The balance of these funds District-wide at June 30, 2013, was \$603,822 and the amount of the District-wide receipts and disbursements processed through the extraclassroom activities fund during the 2012-13 year was \$1,719,620 and \$1,670,139, respectively.

In each school a central treasurer is responsible to maintain the checking account, to process checks for payment and to assist individual club advisors with the finances of the activities. The District Treasurer provides oversight and monitoring of the extraclassroom activity.

Several years ago, the District implemented procedures to improve the controls over the extraclassroom activities. A standardized accounting system was implemented, which from all indications has worked very well. Standardized forms were developed and implemented to improve the documentation related to receipts and disbursements. We found that these forms are being utilized in all schools and have clearly helped improve the controls over the transactions.

There are several important internal controls already in place at the schools:

- All checks are signed by two people.
- All checks and supporting documentation are reviewed by the District's Claims Auditor.
- Standard forms are used for both receipts and disbursements that require multiple people review and authorize the transactions.

**Summary:**

We noted that the District's principals, central treasurers, and advisors we interviewed demonstrate a positive attitude towards strengthening the extraclassroom activities procedures and practices. We found that the staff is trying to adhere to the policies and procedures that are in place. The advisors and central treasurers were eager for advice and welcomed our suggestions of ways they can start improving their internal controls.

Our findings concern mainly cash receipts and overall account management of the different clubs. Proper procedures and internal controls are necessary to provide protection to the advisors and central treasurers. It is important the individuals responsible for the club's activities understand the purpose of internal controls and processes so that they can implement adequate procedures to ensure that the funds are properly accounted for.

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We recommend that the District continue efforts, including the implementation of the recommendations noted below, to further strengthen internal controls and improve operational efficiencies related to the extraclassroom activities function.

**Procedures:**

Our procedures, as per the engagement letter dated October 21, 2013, were as follows:

- Review in detail the Board policies and District procedures related to the extraclassroom activities.
- Interview central treasurers and Business Office personnel responsible for extraclassroom activities regarding policies, procedures and systems in effect; and document the strengths, weaknesses and key control attributes for testing.
- Review the extraclassroom activities for 4 of the secondary schools (2 high schools and 2 middle schools) as follows:
  - For student clubs – select the 4 most active and review for compliance with the Regulations of the Commissioner of Education (CR) §172.1 and the SED manual Financial Pamphlet 2 (e.g., student officers, proper forms and accounting records).
  - For student clubs – interview 4 advisors from active clubs at each of the secondary schools to ensure they are familiar with the laws and guidelines of CR §172.1 and Finance Pamphlet 2 and to determine that the proper controls over transactions are in place.
  - For cash disbursements from the activity funds – for each of the schools, select 20 payments from randomly selected clubs to ensure proper approvals, supporting documentation and appropriateness of expenditure.
  - For cash receipts – for each of the schools, select 15 receipts from randomly selected clubs to ensure proper documentation, accuracy of totals and appropriate controls over collections (i.e., receipt books). If the deposit relates to a fundraising event, ensure that the event was properly approved, the funds were submitted in a timely manner and the deposit included appropriate supporting documentation (e.g., accounting for the number of tickets sold).
- Review the extraclassroom activities for 4 of the elementary schools as follows:
  - Interview the school principal to determine the scope of the activities accounted for within the accounts and determine the principal source of funds. Review for compliance with (CR) §172.1 and Finance Pamphlet 2.
  - For cash disbursements from the activity funds – for each of the schools, select 10 payments from randomly selected clubs to ensure proper approvals, supporting documentation and appropriateness of expenditure.
  - For cash receipts – for each of the schools, select 10 receipts from randomly selected clubs to ensure proper documentation, accuracy of totals and appropriate controls over collections (i.e., receipt books). If the deposit relates to a fundraising event, ensure that the event was properly approved, the funds were submitted in a timely manner and the deposit included appropriate supporting documentation (e.g., accounting for the number of tickets sold).

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**Findings:**

Review of Board policies and District procedures noted:

- There are two Board of Education policies related to extraclassroom accounts. Both are relatively generic and do not provide direction in any of the areas recommended by Finance Pamphlet 2, such as handling funds, sales and campaigns, inventory control, donations, purchasing, and many others.
- The Business Office has provided emails to the central treasurers and principals related to the procedures to be followed in order to manage the finances of the extraclassroom accounts. However, there are no consolidated, written procedures, which would help ensure that procedures are followed on a systematic basis at all schools.

Interviews with central treasurers, club advisors, elementary school principals, and Business Office personnel, and reviews of the 4 most active student clubs found:

- The activity processed through the elementary school extraclassroom accounts primarily involves field trips. There is little if any "club" activity. The financial controls over these trips seems to be very tight and the schools work with the Parent Teacher Association (PTA) and central administration to maximize the use of BOCES so that BOCES aid is generated to help support these trips.
- Good internal controls, and the state issued Finance Pamphlet 2 requires that the central treasurers maintain a 3 part receipt book. By using this book (and training the club advisors that a receipt is required) will help ensure that all funds received by the central treasurers are in fact deposited. During our review we noted that the central treasurers do not keep receipt ledgers for the money they accept from teachers or advisors. At the High Schools, the central treasurers do not collect any money – each club's advisor is responsible for making the bank deposits. However, we found that some of the Treasurers do have a duplicate receipt book – the original is given to the teacher who gave the money, and the copy is stapled to the cash receipts documentation kept by the Treasurer.
- Event Profit and Loss statements are not prepared by any clubs. This procedure is recommended by the State and helps ensure that each event operates within a reasonable profit and loss, while at the same time provides the students with a basic accounting lesson.
- At the secondary schools, all money received by a club is counted by the advisor and a student officer before it is deposited or turned over to the Central Treasurer. This is a strong control. However, in many circumstances, we were not able to determine if all funds that should have been collected and deposited were in fact deposited because there was no detailed supporting documentation supporting the amount of the deposit filed with the central treasurer.
- Several Schools no longer accept checks due to insufficient funds issues.
- Most advisors at the East and North High Schools keep their own club ledgers, which are reconciled to the Central Treasurer's ledger at the end of the year. This is a strong control to ensure the records are complete and accurate.
- Most middle school advisors do not keep club ledgers, however, some of them keep records of how much revenue individual events generated. In addition, middle school club account balances are not confirmed with the Central Treasurer at year end. This lack of confirmation of account balances between the clubs and the central treasurers increases the likelihood of an error in the records not being caught and corrected.
- East High School and Chippewa Elementary Schools had sub-accounts with negative balances at the end of the school year. This indicates a lack of review and monitoring as no individual sub-account should go into a negative cash position.



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- The use of the EPES system varies between each school. Several schools do not use the description lines when recording transactions.

For the following schools, there were no notable findings in disbursements testing:

- Hiawatha Elementary
- Wenonah Elementary
- Chippewa Elementary
- Cayuga Elementary
- North High School

In addition, there were no noteworthy findings in receipts testing at Hiawatha, Wenonah, or Cayuga Elementary Schools

There were 20 cash disbursements totaling \$150,252 that we tested at East High School, and our finding is as follows:

- There was one instance where the Payment Request Form was not signed by the club's advisor or the student officer. The invoice for the same check was not marked "PAID," leading to a risk of duplicate billing. The payment was in August when school is closed.

There were 20 cash disbursements totaling \$61,065 that we tested at Samoset Middle School, and our findings are as follows:

- The supporting documentation for a Renaissance Club payment of \$2,932.35 for fundraising supplies was insufficient. The invoice did not specify the type or number of items purchased. It simply stated the name of the fundraiser - "Gum Drop Shop." This payment was approved by the claims auditor.
- The Renaissance Club held a Holiday Gift Giving Campaign where \$4,000 was raised for gift cards for needy families. The supporting documentation for the payment did not specify which families the gift cards were going to, and there was no documentation that the gift cards were actually received by the intended recipients. Upon further review, a listing of recipients was prepared, but there was no documentation that the cards were actually received by the intended recipients.

There were 20 cash disbursements totaling \$125,592 that we tested at Sequoya Middle School, and our findings are as follows:

- The Central Treasurer fills out all Deposit and Payment Request Forms. This is not the preferred system. These forms should be prepared by the club advisors and students prior to submittal to the Central Treasurer.

There were 15 cash receipts totaling \$202,311 that we tested at North High School, and our findings are as follows:

- For the receipts tested, the supporting documents given to Central Treasurer were insufficient. The Central Treasurer only receives a signed Deposit Form, the pink copy of the deposit slip, and a receipt from the bank. There was no documentation supporting the source of funds, how much each person paid, or whether they paid cash or check. The Central Treasurer explained that the clubs maintain its own supporting documentation.

There were 15 cash receipts totaling \$231,800 that we tested at East High School, and our findings are as follows:

- For the receipts tested, the supporting documents given to the Central Treasurer were often insufficient. There was no documentation supporting the source of the funds, how much each person paid, or whether they paid cash or check.

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- The Deposit Forms for the School Store and Drama Club ticket sales do not include information on the number of items sold or the price.
- The accounting controls for the School Store are inadequate. Although the annual results of the store operations appear reasonable, the advisor is solely responsible for the cash deposits; the deposits are made infrequently and are large sums; and register tapes are not maintained to support the deposits.
- Several deposits were later adjusted by the bank for miscounting. A Student Government deposit from August 21, 2012, was credited \$2,417 for checks that were included in the deposit, but not listed on the deposit slip. A Senior Class deposit from June 4, 2013, was credited \$5,400, also for checks that were not listed on the deposit slip. And another Senior Class deposit from June 12, 2013, was credited \$25 for miscounted cash.
- There was one instance where a Deposit Form was not signed by the club's advisor or student officer. The deposit was made in August when school is closed.

There were 15 cash receipts totaling \$60,157 that we tested at Samoset Middle School and our findings is as follows:

- The Student Government Club collected \$3,591 last year for Hurricane Sandy victims (three deposits made on December 19, 2012, and one made on January 22, 2013), but never paid it out. Because club balances are not reconciled to the Central Treasurer's records, no one was aware that the money was still in the account. We understand that the funds have now been donated to an appropriate organization.

There were 15 cash receipts totaling \$107,018 that we tested at Sequoya Middle School, and our findings are as follows:

- There was one instance where the Deposit Form was not signed by the club's advisor. The Deposit was made in November.

There were 10 cash receipts totaling \$12,183 that we tested at Chippewa Elementary School, and our findings is as follows:

- The supporting documentation for the Drama Club ticket sales from April 23, 2013, in the amount of \$1,700 did not include the number of tickets sold or the price of each.

**Recommendations:**

We recommend that the District consider implementing the following items to further improve internal controls and operational efficiencies related to the extraclassroom activity function:

1. The District should consolidate the various emails related to procedures into a single document and ensure that advisors and student officers are aware of these procedures.
2. Through policy or written procedures, address the detailed items not currently addressed in the District policy. Items to be addressed include:
  - a. Sales and Campaigns
  - b. Inventory Control
  - c. Donations
  - d. Deposits of money
  - e. Purchasing
  - f. Payments



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- g. Transfers of funds from one activity to another
  - h. Closing out of inactive accounts
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3. Central treasurers and advisors should familiarize themselves with *Finance Pamphlet 2*.
  4. Central treasurers should use description lines when making entries in the EPES accounting system. This will create more detailed and accurate records.
  5. Profit and Loss Statements should be used for all events. These statements are useful in ensuring that all events are operating within reasonable margins. They help account for all expenses and expected revenues related to each event and enable the clubs to keep better track of their finances. A sample Profit and Loss Statement can be found in Finance Pamphlet 2.
  6. Central treasurers should use triple receipt books when accepting money. The original should be given to the person giving the money, a copy should be attached to the Deposit Form, and a third should stay in the receipt book, creating a ledger and protecting the Treasurer in the event any money goes missing.
  7. All club advisors (along with the student treasurers) should keep their own ledgers, and their balances should be confirmed with the Central Treasurer no less than annually at year end. A formal procedure should be implemented to document the reconciliation of the Central Treasurer's records to the individual club records.
  8. Central treasurers and school principals should review all accounts prior to the end of the year to adjust for any miscodings and excess or negative balances.
  9. At Sequoya Middle School; the advisors should personally fill out their Deposit and Request for Payment Forms as opposed to the Central Treasurer preparing these forms.
  10. At the secondary schools, all money should be counted by both student officers and advisors before it is deposited or turned over to the Central Treasurer.
  11. Internal Controls at the school stores should be strengthened. The procedures that need to be implemented include:
    - a. Two people (the advisor and a student officer) must always be present when money is being counted. In addition, there should be a formal recording of the cash count – a ledger or a two-part receipt book with dates, total amounts, and signatures of those present is a simple but effective way of keeping a record of the counting. We also suggest using the register tape as another way of ensuring all money is being accounted for.
    - b. Advisors should keep inventory, and it should be checked on a regular basis. Being aware of what the store has can be a great tool in lessening the likelihood of items going missing. Knowing your inventory can also help you prepare a more accurate Profit and Loss statement.
    - c. Bank deposits should be made more frequently. The current practice of monthly deposits leads to very large sums being deposited at one time, increasing the risk of miscounting or theft.
  12. The supporting documentation for deposits should include details about where the money came from. For example, a list of all the students that paid, how much each paid, and whether it was cash or check. The Deposit Form should also include the amount that was being collected on an individual basis (e.g. \$15 per student for field trip transportation). For events such as school plays, an accounting of the number of tickets sold and the resulting cash should be prepared.