

**Blind Brook-Rye
Union Free School District
Independent Accountant's Report On
Applying Agreed-Upon Procedures
November 4, 2009**

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

To the Board of Education
Blind Brook-Rye Union Free School District
Rye Brook, New York

We have performed the procedures described in the following pages, which were agreed to by the Blind Brook-Rye Union Free School District (District), solely to review extraclassroom activities for the period September 1, 2008 through September 30, 2009.

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

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.

These agreed-upon procedures do not constitute an audit of the District's extraclassroom activities, the objective of which would be the expression of an opinion on those procedures. 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.

Coughlin Foundotos-Cullen Danowski, LLP

November 4, 2009

BLIND BROOK – RYE UNION FREE SCHOOL DISTRICT
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INTRODUCTION

The Blind Brook - Rye Union Free School District (District) is responsible for administering extraclassroom activities. We were engaged by the Board of Education (Board) to perform certain agreed-upon procedures to review activities in that area.

According to the engagement letter dated September 16, 2009, we performed the following:

Extraclassroom Activities

- Reviewed Board policies and District procedures in detail related to the extraclassroom activities.
- Interviewed central treasurers and Business Office personnel responsible for extraclassroom activities regarding policies, procedures and systems in effect. Documented the interviews for the use of the District, to assist with the establishment of standardized processes.
- For the period September 1, 2008 through September 30, 2009 we reviewed the extraclassroom activities as follows:
 - For student clubs – selected the 5 most active from each school and reviewed for compliance with Commissioner’s Regulations (CR) §172.1 and *The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds –Finance Pamphlet 2* (i.e., student officers, proper forms and accounting records).
 - For student clubs – interviewed advisors from the 5 most active clubs to ensure they are familiar with the laws and guidelines of CR §172.1 and Finance Pamphlet 2, and determined that the proper controls over transactions are in place.
 - For cash disbursements from the activity funds – selected 25 payments from randomly selected clubs to ensure proper approvals, supporting documentation and appropriateness of expenditures.
 - For cash receipts – selected 25 receipts from randomly selected clubs to ensure proper documentation, accuracy of totals and appropriate controls over collections (i.e., receipt books).

EXTRACLASSROOM ACTIVITIES

Background:

The New York State Department of Education has developed guidelines to be used in administering the extraclassroom accounts. These guidelines are titled *The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds –Finance Pamphlet 2* (Pamphlet 2).

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One important consideration regarding extraclassroom activities is that to a great extent the financial management of the club is an educational opportunity. As stated in Pamphlet 2 “the extraclassroom activity fund should provide learning experiences in the business procedures needed to safeguard collection, deposit and disbursement of money...” Since many of the activities involve cash receipts it is important to have appropriate procedures, accounting, verification and oversight of these activities.

In the 2008-2009 fiscal year the extraclassroom accounts had \$165,520 in receipts and \$162,304 of disbursements. There were 33 clubs with some financial activity.

In our annual risk assessment reports we identified certain areas in which internal controls over extraclassroom accounts could be improved.

General Findings:

- Pamphlet 2 provided by New York State suggests that districts appoint a “faculty auditor”. The faculty auditor is an independent function (not involved in either receipts or disbursements) who is responsible for overseeing the financial activity. In addition, “...the faculty auditor will call in the ledgers kept by the activity treasurer at least twice a year...” and will “...examine various transactions and paperwork to determine if correct procedures are being used”. We noted that there is no person performing this function in the District. We believe that this is an important role to provide complete oversight of the activity. For example, this person would review the results of a fundraiser to determine if the amount of revenue from the fundraiser is reasonable based upon the expenditures.
- Although there is a Board policy for student extra-curricular activities, there are no written procedures in place regarding the processing of extraclassroom activities for the High School and the Middle School.
- We noted many instances where either the faculty advisor or the student treasurer completed the Deposit Form and printed both the faculty advisor and the student treasurer’s name on the form, rather than both independently signing the form signifying agreement on the deposit amount. The Central Treasurer stated that the practice is to accept the forms, along with the deposit even though signatures are missing.
- Currently, when the Central Treasurer has a need to void a check, it is ripped up and discarded. Although we were unable to view a voided check, the check numbers were noted as void on the extraclassroom ledger. In addition, we scanned the bank statements of the subsequent months (6/09-9/09) and did not find evidence that the check had been cleared.
- Each of the 5 club advisors that we interviewed maintains their own set of accounts. However, there is no procedure for the Central Treasurer to confirm year-end balances with the individual club advisors. Although the Central Treasurer sends out a memo at the beginning of the school year with beginning balance information, there is no required sign-off of agreement of the balance in the account by the Faculty Advisor. It is an important control point in that two people, each maintaining a set of records, agree club balances periodically (and minimally at year end).
- There are no annual charters being used at the High School or Middle School. These charters should identify the student president and treasurer and serve to formalize the operations of the club.

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- In many instances sales tax is not charged by the supplier. Activities of the extraclassroom activities are not exempt from sales tax. The Central Treasurer is aware of the law; however, many of the faculty advisors interviewed are not aware of the requirement to pay sales tax.

Recommendations

1. We recommend that the District consider how to organize the responsibilities of the “faculty auditor”. As outlined in Pamphlet 2, this role is critical to provide an overall control to the activities. Without a review by an independent third party there is limited oversight to the overall financial operations of the clubs. In addition, this person would be responsible to review the activities of the clubs and would be trained to be aware of potential issues.
2. We recommend that the District document written procedures regarding the processing of extraclassroom activities for the High School and Middle School. These procedures should detail the responsibilities of the Central Treasurer, as well as, the student treasurers and faculty advisors. Each year, the student treasurers and the faculty advisors should be required to certify that they have read the procedures and understand their respective responsibilities.
3. We recommend that the Central Treasurer and faculty advisors be reminded that sales tax should be charged by suppliers. Invoices without sales tax should be returned to the supplier requesting a corrected invoice that includes the applicable sales tax.
4. We recommend that both the faculty advisor and the student treasurer independently agree the deposit amount and sign the Deposit Form prior to sending to the Central Treasurer for deposit. In the event that there are not two signatures on the form, the Central Treasurer should return for the proper signatures.
5. We recommend that the Central Treasurer maintain (after defacing the check) any voided checks with the extraclassroom documentation for the fiscal year.
6. We recommend that the Central Treasurer periodically send statements to the individual faculty advisors and at year-end confirm balances with the faculty advisors, as well as, collect the clubs’ records.
7. We recommend that all clubs have two student officers (i.e., student treasurer and student president) to comply with Pamphlet 2, which recommends a student president and a student treasurer for each club, and that each year these roles be formalized by the use of an annual charter.

Detailed Findings

- The forms used as a basis to deposit funds with or request payments from the Central Treasurer do not contain the appropriate space needed to provide an adequate description of the transaction. Therefore, it is impossible for the Central Treasurer or any other person reviewing these documents to have a full understanding of the transactions. For the most part, there is limited or no documentation provided along with the Deposit Form that is submitted to the Central Treasurer, making it difficult or impossible to determine if the amounts deposited are correct. Also, it has been noted that if a club was running two fundraisers/events at a time, it sometimes co-mingled funds and submitted one Deposit Form and

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did not break out the amount of funds received for each fundraiser/event. This makes it difficult to determine if all funds were collected and to determine the profitability of the fundraiser/event.

There were a few fundraising events where items were sold for cost plus a mark-up percentage; however, the total proceeds were lower than cost plus the mark-up percentage and no explanation was documented. The first example was a fundraiser for cheesecake sales for the Junior Class in the fall of 2008, in which parents were given a brochure with various types of cheesecakes to order. The selling price of the cheesecakes should have yielded a gross margin of approximately 40%. However, upon examination, the total proceeds from the sale resulted in a margin of only 28.8%. Had the deposits yielded a margin of 40% the profits would have been higher by \$675. We were unable to determine if there were some additional funds co-mingled with a deposit for another event. There was a subsequent deposit for \$764, which is recorded as Homecoming Snack Sales, but the Deposit Form did not indicate that any additional money for cheesecakes had been collected.

A second example was a fundraiser which consisted of a fruit sale for the Senior Class in the fall of 2008, in which parents could order pre-packaged cases of fruit for a price. The price of the items (for which we were able to determine the selling price) included the cost plus approximately a 52% mark-up. However, the total proceeds from the sale resulted in an overall margin of 32.8%. We could not determine where the remaining proceeds were. There did not appear to be any other fundraising event during the time frame that the fruit sale was going on.

- There were 2 instances in which there was no student treasurer signature on the Disbursement Form and there were 7 instances where there was no student treasurer signature on the Deposit Form.
- There was 1 instance where there was no principal signature on the Disbursement form.
- There was 1 instance where there was no faculty advisor signature.
- There were 5 instances where no explanations were provided for the deposits or disbursements on the respective forms.
- There were 2 Disbursement Forms that did not have detailed receipts attached. One instance related to a lunch for the Italian Club. The only receipt was a copy of a hand-written fax from the restaurant that stated "lunch for 62 students" and the cost. There was no receipt attached detailing the items ordered. The second instance related to a receipt for pizza ordered for a meeting. There was no detail as to the number of pizza pies ordered. The only receipt attached was the credit card signature with the total amount of the bill.
- A fundraising event to sell Halloween candy was held by the Student Senate Club. The money was collected around the end of October 2008. This money was held and then deposited by the Central Treasurer on December 3, 2008. The Faculty Advisor could not remember if the delay in depositing the money was a result of the students holding onto the money and delaying in bringing the money to the Main Office or if the money was turned into the High School Main Office and it sat in the safe until it was sent to the Central Treasurer for deposit.
- There was 1 instance where a DJ was contracted for a school dance by the Student Senate Club. The DJ did not submit an invoice, but was paid off a signed contract. Also, the amount paid to the DJ was \$600 and a 1099 Form should have been provided. Currently, the District does not have a process in place to issue Forms 1099 to suppliers paid through the extraclassroom accounts.

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- There was 1 instance where the name of the person requesting reimbursement differed from the name the Central Treasurer recorded in the Extraclassroom Funds Ledger. According to the Central Treasurer this was an error on her part, in that she recorded the wrong name. We were unable to review the cancelled check, as the District no longer receives cancelled checks from the bank.
- We found that the Central Treasurer does not review prior invoices and note on the invoices to ensure that they have not already been paid. We found 2 payments made on an invoice that were not paid through the Extraclassroom Activities Account and no explanation was documented on a prior invoice. The invoice was for a travel agency used for a High School Band trip. One payment was made directly from the PTA to the vendor and one payment was made via a purchase order from budgeted District funds. The payment made via a purchase order was paid out of the NYSSMA budget, which was originally allocated for two All-State Festival students, but instead the money was used for a band trip which benefitted 31 students.

Recommendations:

8. We recommend that the District consider strengthening controls over the cash receipts process at the individual club level since a loss of funds can often be traced to a negligent pre-audit of receipts and recording of money received. For this reason, every possible precaution should be taken to protect the individual concerned and the money collected. In order to facilitate the pre-audit and recording of receipts, statements should be made by those collecting money. Such a statement should, on its face, state all the essential data for a complete check and audit of the receipts. We recommend that the forms used to account for transactions be revised to provide an expanded comment or description section in which the faculty advisor can fully explain the transaction. We also suggest that training material should be provided to explain the procedures to properly document a transaction. For example, a deposit for a fundraising event might show the total receipts and could reference the cost of the event. A simple written comment such as, "These are the final receipts from the cheesecake fundraiser. The total receipts were \$6,000 and the cost was \$3,000 (50%) leaving a surplus of \$3,000," would certainly provide an indication that the activities were understood and under control. Alternatively, the District could consider utilizing a "Profit and Loss" form for each fundraising activity. This is the process recommended in Pamphlet 2.
9. We recommend that the faculty advisors and club student treasurers be instructed to keep the sources of funds discrete and separated and to make individual deposits based upon the source of funds. In other words, deposits from one revenue source should not be co-mingled with another. This allows the activities to be more easily reviewed.
10. We recommend that all disbursements be accompanied by a Disbursement Form signed by the faculty advisor, student treasurer and the principal, along with a detailed original invoice or receipt be submitted to the Central Treasurer. If signatures are missing or if the invoice or receipt is not detailed, the Central Treasurer should return the Disbursement Form for the appropriate signature or documentation.
11. We recommend that the District set up a process to issue the required Forms 1099 to suppliers paid through the extraclassroom accounts when the payments during a calendar year exceed \$600.

