

July 1, 2019

Dr. Peter Schaefer
President
Board of Education
Averill Park Central School District
146 Gettle Road
Averill Park, New York 12018

Re: Internal Controls Over Community
Education Program

Dear Dr. Schaefer:

Pursuant to Chapter 263 of the Laws of 2005, as revised with enactment of 2013-14 New York State (State) budget effective April 1, 2013, school districts are responsible for establishing and maintaining an effective system of internal controls and a program of internal control assessment. As internal auditor, I have been asked to examine the internal controls applicable to the Community Education Program (Program). The examination performed included testing, reviewing and evaluating internal controls pertaining to selected transactions, accounting and reporting functions within the Business Office, along with cash handling and recordkeeping by Program administrators.

Background

The School District is governed by a seven-member elected Board of Education (Board) which is responsible for the general management and control of the School District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the School District's chief executive officer and is responsible, along with other administrative staff, for the School District's day-to-day management and operations. The Assistant Superintendent for Business (Assistant Superintendent) oversees the School District's business operations including the financial aspects of the Program.

Two School District employees who have other duties in two different school buildings serve as co-directors of the Program whose primary goal is to offer personal enrichment and lifelong learning opportunities through a variety of courses delivered to area residents during evening hours. The co-director model was established at the start of school year 2017-18. In prior years, one person had full responsibility to organize and administer the Program. The courses typically are offered in Fall, Winter and Spring sessions. The School District's business office provides financial recordkeeping while the co-directors handle identification of course offerings, instructor recruitment, student registration, enrollment and cash collection. Enrollment in the Program is open to non-residents of the School District.

Accounting and financial reporting needs are fulfilled by nVision integrated school business office software that provides a full range of financial and administrative components related to the School District's basic business activities. Beginning with school year 2018-19, in addition to accepting registrations and payments in person or through the mail, the Program can now handle registration and course fee payment processing through software from Family ID integrated with My School Bucks that provides an on-line registration and allows use of credit card, debit card or other bank payment methods.

Automated features now allow the assembly of statistical and financial data to generate reports on course enrollment and moneys collected for each course offered.

According to School District policy, the Community Education Program shall be self-supporting; no state or federal aid is received to support the program. Total reported cash receipts and disbursements processed through the accounting and reporting system for the three-school years ended June 30, 2019 showed the following:

School Year	Receipts	Disbursements	Difference	Cost Recovery
2018-19*	\$36,410.24	\$48,220.32	\$11,810.08	75.5%
2017-18	39,362.40	50,301.72	10,939.32	78.3%
2016-17	<u>41,479.00</u>	<u>47,960.20</u>	<u>6,481.20</u>	<u>86.5%</u>
Combined Total	<u>\$117,251.64</u>	<u>\$146,482.24</u>	<u>\$29,230.60</u>	<u>80.0%</u>

*Financial transactions are reported as of June 13, 2019 and believed to substantially reflect cash receipts and disbursements for the school year ended June 30, 2019.

Scope

This engagement involved an assessment of internal controls and practices applicable to the School District’s Community Education Program cash receipts and disbursements for the three-school years July 1, 2016 – June 30, 2019.

Objective

The internal control assessment sought to determine whether the School District has adequate controls over Community Education Program cash receipts and disbursements.

To accomplish the stated objective, School District staff and Program co-directors provided financial reports and schedules showing cash receipts and disbursements recorded for each of the three-school years examined. In addition, information was collected on tasks assigned and completed with regards to handling various financial transactions related to the Program, background information was obtained regarding the program and its history, I examined registration and enrollment records as source documents for cash receipt and disbursement transactions for content and completeness, and traced a number of transactions to bank statements for the most recent two school years and inquired about transaction processing steps in use during the earliest school year of the three-school years covered. In addition, reference was made to applicable School District policy statement to confirm course offerings were consistent with the expressed mission of the program and to establish that Program is to be self-supporting.

Internal Control Assessment Results

The accountability environment at the School District is built on a foundation of management responsibility that flows from the Board of Education to the Superintendent, and to other administrators responsible for specific activities including the business office and the Community Education Program. Accountability is enhanced by completion of various audits each year

including validation of vendor payments by the Claims Auditor, examination of controls over basic financial activities and business office operations by the Internal Auditor, certification of financial statement by the outside accounting firm, and by examination of ensure compliance with applicable laws and regulations by government oversight agencies such as the Office of the State Comptroller and the State Department of Education.

The multiple layers of oversight and control establish the foundation for sound internal control within the School District helps assure that various risks facing the School District are proactively identified and assessed routinely, and information critical to risk mitigation is communicated timely at all levels and within all functions from a variety of perspectives.

With regards to the Community Education Program (Program), my examination indicates there are no procedures in writing to identify the way co-directors are to meet Program financial and operational needs. However, the practices followed by the program co-directors are consistent with School District policies and procedures governing financial operations. With that said, School District officials have reasonable controls in place over cash receipts and disbursements consistent with the overall risk posed to School District finances and recognizing that the cost of control should not exceed the benefits likely to be derived. Moreover, cash receipts and disbursements are sufficiently monitored to conclude that sufficient controls are in place and working to prevent and to detect fraud or abuse.

My examination indicates appropriate internal controls over cash receipts are in place to ensure that money is collected and deposited timely and that cash receipts are recorded properly in the accounting records. The internal control methods employed provide reasonable assurance that all funds including cash are properly safeguarded, accounted for, and deposited into the appropriate accounts. Accountability for all Program funds collected by the School District is established through printed registration and cash receipt forms. The only weakness is that the Program co-director responsible for financial activities does not receive all course registration forms and the same co-director receives and records moneys that come to the School District for the program. A better practice is to have someone independent of cash and record keeping functions open the mail, restrictively endorse checks, and establish a record of all funds received (checks, cash and credit/debit card transactions). Currently, someone independent of Program recordkeeping prepares the bank deposit slip and the Program co-director that received program moneys verifies deposits into the bank match the record of all funds received. It's important to recognize a compensating control is in place, if any funds were mishandled either course participants or instructors would likely call attention to such situation. Instructors' compensation is based on the number of registered participants enrolled in each course and registration forms to the extent available are matched to the payment requested.

My examination indicates Program and business office staff are following the prescribed procedures and internal controls are working as designed and intended with regards to cash disbursements. Each disbursement of cash for goods and services is accepted based on a recognized liability, checked for accuracy and appropriate authorization as evidenced by the Internal Claims Auditor. The vast majority of cash disbursement transactions are instructor

payments, as independent instructors (non-payroll) or through the payroll for teachers who serve as instructors, are properly documented using a vendor claim form along with course enrollment information and recorded in the accounting system. Only a handful of transactions involve vendor purchases and most are for printing seasonal course catalogs for distribution to potential participants in Program courses. If a refund to a course participant is required an explanation is recorded and a separate check issued in the amount of a refund. Any refund must be approved by a Program co-director.

My assessment of internal controls over the Program concludes the School District has adequate internal controls in place to assure that Board and management goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained.

As discussed below, I noted areas where the School District could either improve its system of internal controls or strengthen adherence to existing policies and procedures.

Outdated Policy Statement

The Board of Education adopted Policy Statement no. 4340 governing an Adult Education Programs on August 27, 2002. The policy statement allows for a broad scope of courses and states that the program shall be self-supporting through the collection of appropriate fees.

While a review of course offerings indicates they are consistent with the broad scope allowed by Policy Statement no. 4340, it should be noted that the program has changed its focus and name to Community Education Program. It should also be recognized that the program recovers an average of 80 percent of its direct costs through the collection of course fees from enrolled participants.

Recommendation

Revisit and update Policy Statement no. 4340 to reflect current expectations and goals for what is now called the Community Education Program.

No Program Specific Documented Procedures

Program co-directors basically continued past financial and operational practices with some modifications in recognition of changing computer software capabilities that affect the way certain transactions are processed and the kinds of information available to promote operational needs.

Program co-directors stated they began the process of documenting practices but had to discontinue the effort due to the time required to meet day-to-day financial and operational needs. In examining controls, it was noted that a number of Program practices were based on past practices but not documented to enhance accountability and consistency. Examples included Instructor contractual arrangements, the split of course fees between the School District and Instructor, and the practice where some

instructors collect and record registration forms and forward collected fees. The absence of Program-specific policy and detail procedures manual is a documentation risk.

My examination showed the practices employed by the program co-directors are consistent with School District policies and procedures that govern its business office practices. The co-director who handles financial activities receives all program funds, records their source and monitors financial records to ensure they are complete and accurate. The co-director responsible for financial activities does not deposit cash, make payments or handle banking records. Those functions are assigned to business office staff who have no direct role in the Program's financial and operational details but do account for and report transactions within the School District's accounting system.

Recommendation

To assure consistency and help document the practices employed, program co-directors should resume developing a policy and procedures manual applicable to program-specific financial and operational activities.

Single Employee Receives and Records Money Collected

Registrations from enrolled students are accompanied by either cash or checks and, starting in the most recent school year generated by on-line credit or debit charges. When viewed in this light, cash is a declining component of the Program funds collected. Cash collections are deposited intact and timely into the School District's general fund checking account and there's adequate documentation to support the amount of cash collected and deposited. The only weakness is that a single staff member (one of the co-directors) receives and records cash collected. A compensating control is that if an enrollee attends a course for which no cash was collected and the instructor reports the student as enrolled to claim instructor fees such a situation would trigger an inquiry as to why no cash receipt was recorded. In effect, the compensating control mitigates the risk cash collected could be mishandled or lost.

Responsibilities for cash collection and recordkeeping should generally be split among different employees whenever possible to minimize the risk of errors or impropriety. No other supervisory control is employed to check the work of the co-director that receives and records cash collections received with course registrations. However, as a practical matter, the cost benefit of a control should not exceed the benefit to be derived.

Recommendation

Separate the handling and recording of cash receipts to the degree feasible given the small number of business office staff, otherwise accept the risk the cost of control can exceed the benefits likely to be derived.

Not All Course Fees Are Handled the Same Way

With exception of course fees for classes such as exercise, sports clinics and wellness classes, all registration and enrollment records along with course fees is received by one

Program co-director. Course instructors that lead certain exercise, sports clinics and wellness classes register participants and allow walk-ins where some people are paying on a pay-as-you-go basis. The Course instructors eventually prepare a vendor claim that details enrollment data for each course and the amount owed the School District. The practice of certain instructors registering participants and collecting funds poses a financial and procedural risk as the transactions are outside the control of School District personnel. The exercise, sports clinics and wellness class instructors, like all others, split course fees collected with 80% going to the instructor and 20% to the School District. The co-director who handles financial activities receives the School District share of the course funds collected but does not receive registration forms. No one currently establishes independent accountability for the funds transmitted to the School District.

While nothing came to my attention that would suggest anything amiss, when money is received and recorded by more than one person without independent confirmation there's a potential risk of money being mishandled.

Recommendations

Recognize and accept the financial risk posed by instructors accepting course registrations full session and walk-in participants in exercise, sports clinics and wellness courses where participants pay the instructor when they attend. Nevertheless, the School District should require that course instructors provide all registration forms to the Program co-director as is the practice for all other Program courses.

Re-examine the arrangement whereby certain course instructors who are essentially operating a private business that makes use of School District facilities, are allowed to independently register participants under the 80/20 split registration fee agreement.

Program Performance Is Not Reported to the Board of Education

The School District's business office assists Program co-directors by integrating cash receipts along with vendor and instructor payments in the School District's financial accounting and reporting systems. Using nVision software to generate financial reports, the School District has the capability to see all cash receipts and disbursements processed at any point in time or for certain time periods.

More recently, the School District introduced on-line course registration and payment fee processing software through Family ID integrated with My School Bucks. Starting with the 2018-19 school year, the co-director who handles financial activities enters registration data on enrollment in each course offered along with the course fees charged each student. A report can now be generated to show enrollment in total, as well as by course offering, and the dollar value of registration fees received from course participants.

The two separate platforms are not currently integrated but can be to provide added accountability and performance metrics such as the number of courses offered, number

of courses with registered enrollees, and the dollar amount recognized by nVision financial reports as compared to the dollar amounts recognized by Family ID.

The Board of Education currently receives no periodic information on the financial and operational performance of the Program. Integrating the cash receipt and payment information collected in the two separate computer software platforms will allow information to flow across organizational lines and give Board members and school officials access to critical program information to help guide decisions.

Recommendation

The Board of Education should require financial and statistical reports on course participation as well as money collected and spent to deliver the Program.

Administrative Fees Absorbed by School District

The Program handles registration and course fee payment processing through software from Family ID integrated with My School Bucks that allows on-line registration and use of credit card, debit card or other bank payment methods. My School Bucks charges a 3.76 percent administrative fee for on-line course registration and payment processing that the School District is absorbing. For example, when a course participant pays a \$50 course fee on-line, My School Bucks deposits \$48.12 in the School district's general checking account and keeps the \$1.88 (3.76%) difference as its administrative fee.

When the School District makes a cash refund, it returns the full amount paid by the course participant upon registration. Again, in issuing a refund, the School District absorbs the administrative fee previously charged by My School Bucks.

While the administrative fees are typically just a couple of dollars for each on-line transaction, use of on-line payments will only increase and the risk of absorbing administrative fees will become more costly.

Recommendations

School District officials need to determine whether or not administrative fees should be added to on-line course registrations fees and borne by enrollees or continue to be absorbed by the School District. A decision should also be made regarding refunds at the full amount when the School District absorbs the initial administrative fee.

Need to Promote Program Interest and Enrollment

In keeping with the internal auditor's role of keeping the Audit Committee informed of issues having a program impact, the following observations are provided.

The School District website includes a page that provides basic information regarding courses offered and the listed fee charge for registering in a specific course.

The webpage could be used to solicit community input on topics or areas of interest for consideration. The program currently depends mostly on outreach by one of the co-directors. Developing a community survey coupled with establishing an advisory

committee could bring more diversity to the course offerings. Establishing an Advisory Committee could help identify community needs and identify delivery options including possible instructors.

The webpage could be enhanced to solicit outside instructor interest in offering new courses, spotlight new courses offered, and provide a biographical summary of the instructor and relevant knowledge and expertise on the course subject matter.

Recommendation

Utilize existing technology in innovative ways to grow and improve the Program.

Comments of School District Staff

A preliminary version of this report on internal controls over cash receipts and disbursements related to the Community Education Program was shared with the Program co-directors and the Assistant Superintendent for Business to obtain their views and comments on the content and completeness of the report. Their feedback will be included in preparing the final report.

I wish to thank the School District management and staff for the courtesies and cooperation extended during this assessment of internal controls over the Community Education Program.

Very truly yours,



Gerald Tysiak
School District Internal Auditor

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