

# LESSON PLAN

Vol. 13  
Fall 2015

Connected to your students...  
connected to your program...  
connected to your achievement

Bank  
Reconciliations

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Petty CASH

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Extracurricular  
Activities  
Stipends



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## FROM THE EDITOR...

A new school year is upon us. With it comes new minds to shape, renewed energies and ideas, and a chance to make a difference in the leaders of tomorrow. It also brings new challenges and risks, with changing staff, new policies and programs, increased State oversight, and tightening fiscal purse strings. It is increasingly important to ensure that controls are implemented and monitored and district resources are properly stewarded.

That's where we come in. For over a decade, Cerini & Associates has been working with school districts to help safeguard resources, tighten controls, create efficiencies, save money, and educate districts. In this issue of the Lesson Plan, we continue this trend with articles on bank reconciliations, petty cash, and extracurricular activities stipends.

Read through the articles, share them with your staff, and know that we are a resource to you and your district. We are more than happy to answer any of your questions and assist you in tightening controls. As GEICO would say ... that's what we do. Also, we are always interested in understanding what issues you are grappling with so we can share it with other districts, so please let us know if you have ideas for future articles.

We look forward to seeing and talking to you at the NYSSPA Expo. on October 19-20, booth 518, and hope that this school year will be a great one.

Thanks,



Kenneth R. Cerini

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# Bank Reconciliations

Performing regular bank reconciliations is critical to ensuring the accuracy and accountability of all cash transactions that occur in a school district. With the 2% tax cap and reduced State aid, it is imperative that a district continually monitors the available funds in order to make sound fiscal decisions and ensure actual expenses and revenues are in line with budgeted amounts. The comparison of the district's and bank's records performed during the bank reconciliation ensures that both sets of books are consistent and correct. It is a good business practice to have someone other than the person who prepares bank reconciliations review and approve them. Many districts have several bank accounts so performing the reconciliations can require district staff to dedicate significant time to ensure the district's cash flow is properly stated. With reduced staffing in many business offices, the risk of not performing accurate and timely bank reconciliations can be increased. Here's why it is important to perform routine reconciliations:

### Detect Errors:

Even if your district implements strict control measures in the accounting department, the potential for human error exists. Without routine bank reconciliations, internal and/or external accounting errors, such as mathematical errors or misplaced checks, may go undetected, may be more difficult to determine, and may be costly.

### Identify Bank Errors:

Yes, even banks make mistakes. Tellers might transpose numbers, record wrong check amounts, record the correct amount to the wrong bank account, omit an amount, or record duplicate transactions. Monthly reconciliations can highlight such errors and enable the district to work with the bank to correct the discrepancy in a timely manner. The Uniform Commercial Code states that the discrepancies must be presented within 30 days from the bank statement date to hold the bank liable.

### Track Fees:

Each month, the bank may apply monthly fees, penalties or interest to the account including overdraft fees, interest, or other fees for stop payments of checks. Any fees incurred or interest earned should be properly captured and recorded in the district's general ledger, keeping the district's accounting records consistent with the bank's statements.

### Detect Fraud

Bank reconciliations can help you identify payments made to unauthorized employees/vendors for illegitimate business purposes. By reviewing the distributed checks with the cleared

checks on the bank statement, a district can detect if a check was fraudulently amended. Having someone independent of the bank reconciliation process review the detailed reconciliations is critical to preventing an employee from falsifying records.

### Transaction Status:

Keeping a list of outstanding checks is essential. Uncashed checks can create the appearance that there is more in the account to spend if looking solely at the bank statement. Further investigation may be warranted to determine if there is an error in the remittance address or if a payroll check is not cashed in a timely manner. Paychecks that are not claimed for 3 years are considered dormant and must be returned to the Comptroller. It is important to ensure that the status of checks is reviewed against the bank statements, and not just online records, if there is a request for a replacement check. Note that many banks do not maintain detailed history of transactions online past 6 months.



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# Petty CASH

From an audit perspective, the petty cash fund is not so petty. That's because fraud tends to happen more often in the cash disbursement cycle than in the cash receipt cycle. And since petty cash funds are typically low dollar amounts and not material in nature, auditors do not spend much time reviewing this area. If school district management does not ensure there are strong internal controls over the petty cash fund that include Board approved policies and procedures, separation of duties, acceptable uses for disbursement, and proper and timely reconciliation, an employee may take advantage of the lack of controls leading to theft of cash and/or improper or inappropriate expenditures made using petty cash.

School districts often establish low-dollar petty cash funds (typically \$100) for various district administrators to use for the purchase of materials, supplies, or services under conditions requiring immediate payment or for emergency purposes. Generally, the Board appoints a treasurer or custodian responsible for the petty cash fund at the beginning of the school year, and indicates the dollar amount of each of the petty cash funds. Payments made from petty cash should not circumvent the district's purchasing policy and procedures. The Board is responsible for establishing effective cash disbursement policies and procedures to ensure

that disbursements are properly documented, audited and approved. In addition, adequate controls over the petty cash system are required to prevent unnecessary and improper payments.

The effectiveness of internal controls over the petty cash fund is usually a good indicator for how well the internal controls function in other areas of the organization. Poor controls over petty cash create doubt in the auditor's mind about other sensitive areas that may also be lacking internal control and are thus more susceptible to theft or fraud. Here are four key points to consider to protect your petty cash and ensure your district is reducing the risks associated with petty cash.

## POLICY:::

The first place to start is by having a Board approved policy for petty cash funds that includes specific procedures that are to be followed. The purpose of the policy should be to inform employees of the specific procedures that are to be followed for the disbursement of petty cash, as well as the permitted uses of the fund. Dollar amount thresholds, examples of permitted purchases, supporting documents and approvals required, and replenishment procedures should be included.

## SEGREGATION OF DUTIES:

Responsibility for the petty cash fund should be assigned to only one employee. As the petty cash custodian, this employee should handle all petty cash transactions and should secure the fund in a locked location separate from other cash. While a back-up custodian is often assigned, restricting access to the petty cash fund is the best way to prevent unauthorized use or theft of petty cash. Reconciliation of the fund should be performed by someone who does not have the ability to disburse funds. Replenishments should require the approval of a supervisor who is independent of the cash disbursement process. In a small operation, where complete segregation of duties is not possible, active supervision and oversight become even more important components of an effective internal control system.

## DISBURSEMENT PROCEDURES:

To ensure the funds are properly managed, payments need to be controlled. Purchases made with petty cash funds or that are being reimbursed through petty cash should follow the district's purchasing policy and procedures, which includes not paying sales tax on purchases and purchasing items that are considered school related. Petty cash should not be used to pay invoices for goods or services that would be subject to quotes or bids as per General Municipal Law, pay for employee wages, or be used for advances or loans to anyone. Disbursements should be supported by original itemized receipts. Checks should not be made to "cash". Replenishment of the fund should include all supporting documents as to the nature of the expenditure. To further strengthen the disbursement process, the petty cash replenishment request should be reviewed by the claims auditor, and should include all the support of the expenditures to detect if improper petty cash expenditures have occurred, and to ensure the expenditures are consistent with the law.

## RECONCILIATION:

The custodian should be maintaining a record of all transactions along with receipts that support the expenditures. The cash-on-hand plus all receipts expended out of the current funds ("unreimbursed receipts") should always total the authorized fund amount. The custodian of the petty cash fund should reconcile the petty cash on-hand and unreimbursed receipts to the petty cash amount authorized by the Board. Petty cash funds must be closed out by June 30 of each school year and reestablished by the Board in the following school year. Independent surprise reviews are a good way to keep all parties honest and help to ensure that the petty cash fund levels are intact. The reviewer must be independent from the custodian and arrive without prior knowledge of the custodian.

While the petty cash fund seems immaterial because the dollar value is so low, the account is important because it provides crucial insight on how a school district manages their internal controls. If a district cannot keep track of an account known to be vulnerable to theft that is small in amount, it suggests that other more complex accounts are at risk.

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## Extracurricular Activities Stipends

State governments across the U.S. have been experiencing the pressures of huge budget deficits caused by dwindling tax revenues and systemic spending problems. As a result, millions of dollars in state aid directed to K-12 public schools have been slashed. The consequence is difficult spending cut decisions that land on school boards. Extracurricular activities can be one of the first areas cut, but it can also be a sensitive and tricky form of saving district money. Almost every school in the U.S. offers an array of extracurricular activities that students can partake in, encompassing interests from sports, music and hobbies. These clubs can offer students with an increased feeling of individual and group responsibility, physical strength and endurance, competition, accomplishment and a sense of community connection. However, not all clubs are equal in enrollment, cost to maintain, or popularity. Activities such as football and drama attract more students, but can also account for the highest stipends that teachers can earn. Generally, teachers are offered additional pay to their teaching salaries to instruct after school clubs based on the club type, meeting

frequency and professional experience in running the club.

The most popular clubs are: sports, the performing arts and academic clubs; with vocational, honor societies, publications and hobbies accounting for the remaining club participation. According to a recent national survey, 79% of America's middle and high school students regularly participate in activities both after school and on weekends, and 57% have some kind of non-school activity nearly every day.

With the cap on school taxes, and reductions in state funding, many districts are having difficult times maintaining a budget that can cover all the stipends a school would ideally like to have. At Board meetings, especially during the budget season, District members express concern as to possible cuts of clubs when voting on their local school budgets. It is important that school districts demonstrate that the programs and funds are well managed. Districts can take steps to ensure that funds allocated to extracurricular

activities are properly controlled and being directed appropriately.

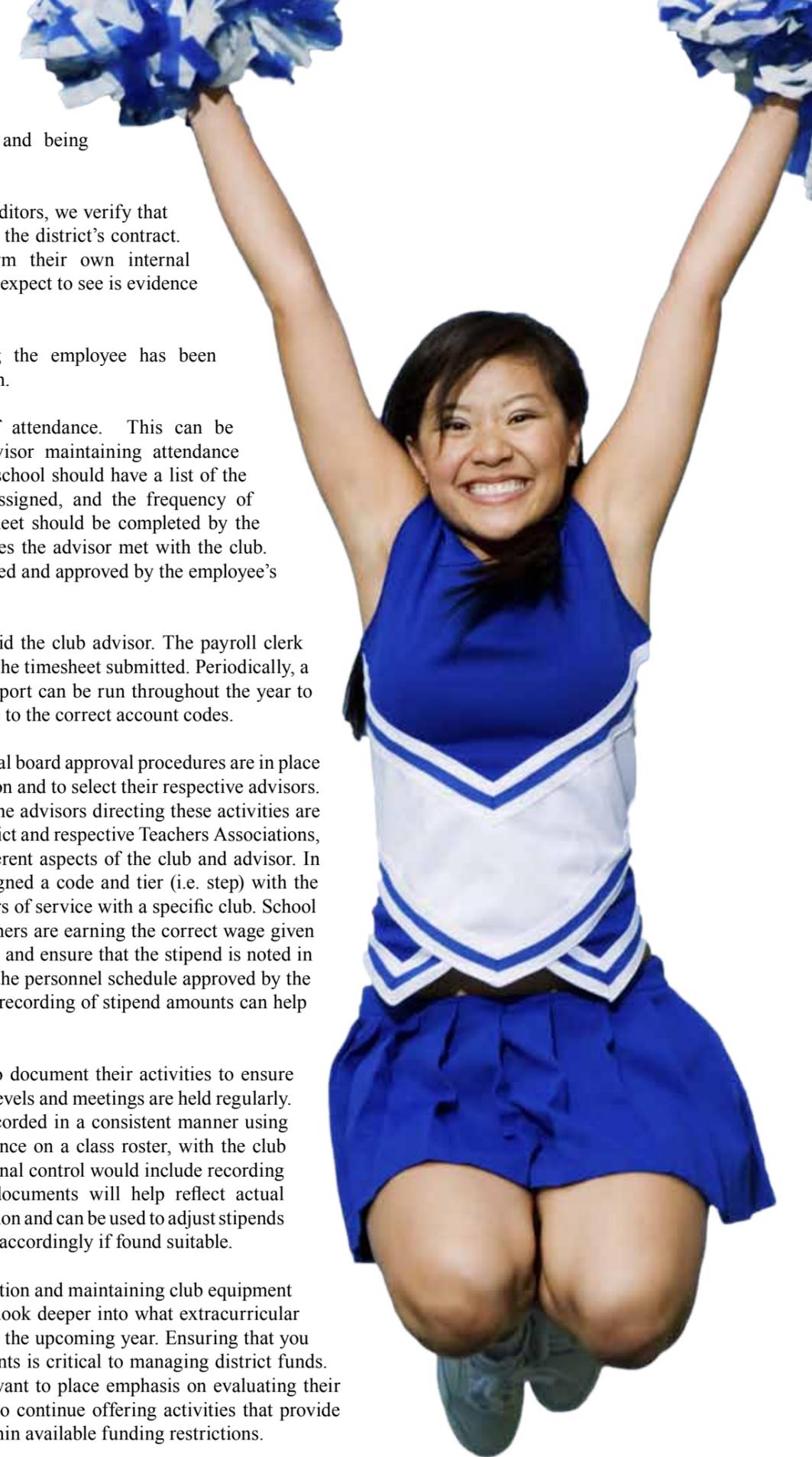
As part of our testing as internal auditors, we verify that stipend payments are correct as per the district's contract. We encourage districts to perform their own internal assessment. Some good controls we expect to see is evidence that the:

- Board appointment specifying the employee has been approved to perform the position.
- Clubs are keeping records of attendance. This can be accomplished by the club advisor maintaining attendance records at each meeting. Each school should have a list of the current clubs, the advisor(s) assigned, and the frequency of meetings. In addition, a timesheet should be completed by the employee that indicates the dates the advisor met with the club. The timesheet should be reviewed and approved by the employee's supervisor/building principal
- Payroll department properly paid the club advisor. The payroll clerk should indicate their review on the timesheet submitted. Periodically, a summary payroll transaction report can be run throughout the year to verify payments are being made to the correct account codes.

Districts should make sure that annual board approval procedures are in place for new and sustaining club formation and to select their respective advisors. The compensation amount paid to the advisors directing these activities are negotiated agreements with the district and respective Teachers Associations, which takes into consideration different aspects of the club and advisor. In some districts, each activity is assigned a code and tier (i.e. step) with the pay associated based on certain years of service with a specific club. School districts should make sure that teachers are earning the correct wage given the exact dimensions of the position and ensure that the stipend is noted in the teachers' contract as well as on the personnel schedule approved by the Board. Controls over approval and recording of stipend amounts can help decrease incorrect payments made.

Club advisors should be required to document their activities to ensure student participation is at adequate levels and meetings are held regularly. Attendance should be taken and recorded in a consistent manner using signature sheets or indicating presence on a class roster, with the club name and date indicated. An additional control would include recording minutes of the meetings. These documents will help reflect actual frequency of activities and participation and can be used to adjust stipends structure (i.e. to a per-session basis) accordingly if found suitable.

With the cost of advisors, transportation and maintaining club equipment creeping up, districts are forced to look deeper into what extracurricular activities their district is to offer for the upcoming year. Ensuring that you are making accurate stipend payments is critical to managing district funds. Additionally, school districts may want to place emphasis on evaluating their current club participation in order to continue offering activities that provide students the most value, staying within available funding restrictions.



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