

# New York State's Extraclassroom Activity Funds: What You Need to Know

By Jennifer Clark, Senior Manager

While extraclassroom activity funds is an area that represents a small percentage of most school district's financial activity and over which the business office has little control, these funds pose one of the greatest risks of fraud and negative reputational publicity for the school district. Following is a summary of findings reported by the Office of the New York State Comptroller when auditing extraclassroom activity funds and, more importantly, our proposed steps to protect your school district.

## Backdrop

As defined by the New York State Commissioner of Education, extraclassroom activity funds are those "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." This money is usually collected voluntarily by pupils and spent as they wish so long as they abide by established regulations. For more information, including sample policies and regulations, refer to [The Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds](#) (Safeguarding Publication), issued by the New York State Education Department.

## Common Extraclassroom Activity Fund Failings

Some of the negative findings reported by the Office of the New York State Comptroller include:

- The Board failed to:
  - adopt a comprehensive policy for the extraclassroom activity funds.
  - appoint a faculty auditor to reconcile the records of the various clubs to the central treasurer's records and to audit various extraclassroom transactions to ensure the school district's policies and procedures are being followed.
- District officials did not ensure that:
  - extraclassroom records were retained for the required six-year period.
  - central treasurers, faculty advisors and student activity treasurers are adequately trained and informed of the school district's policies and procedures regarding the extra classroom activity funds.
  - student activity treasurers maintained independent accounting records, issued duplicate receipts or reconciled collections using a statement of profit and loss form.
- Faculty advisors and central treasurers did not ensure that club funds were deposited in a timely manner.
- The central treasurer's records did not include adequate supporting documentation for cash receipts and cash disbursements.

## How to Avoid Negative Findings

Outlined below are some steps school officials should take to monitor the extraclassroom activity, many of which are reflected in the Safeguarding Publication.

- Adopt clear and specific policies relating to procedures and expectations for extraclassroom activity funds. Keep in mind, samples outlined in the Safeguarding Publication should be tailored to the specific policies and procedures of the school district. For example:
  - If your school district does not have a chief faculty counselor, remove this section from the sample policy provided. The sample regulation requires prenumbered tickets be used for all events and different color tickets to be used for each event. While this is a very strong internal control when implemented properly, if your school district prefers to use another method to track event admission, then you should update your policy accordingly.
- Appoint a faculty auditor and ensure that he/she is properly trained. Provide the faculty auditor with specific procedures, including selecting a sample of clubs and requesting that separate accounting records be maintained by each club. The club's records should be compared to the records maintained by the central treasurer to identify any discrepancies. The faculty auditor should also select a sample of the extraclassroom transactions and review them for adequate supporting documentation.
- Require all faculty advisors and central treasurers to turn over all extraclassroom activity fund records to the business office at the end of the school year for storage for the required six-year period. Often auditor findings of inadequate supporting documentation are due to faculty advisors failing to provide all records relating to each cash receipt and disbursement to the central treasurer. Supporting documentation that is not on file with the cash receipt or cash disbursement packet will often be overlooked.
- Conduct annual training for everyone involved in handling extraclassroom activity funds and mandate attendance. The most frequent response auditors receive from a central treasurer or faculty auditor when confronted with inadequate procedures or records is that they were never trained. By mandating annual training, the business office can demonstrate that everyone handling extraclassroom activity funds was made aware of the district's policies and procedures.
- Notify all faculty advisors and student activity treasurers that they are expected to maintain their own independent accounting records and provide a general ledger form for use by the club. In addition, prenumbered duplicate cash receipt forms are recommended to be issued by student activity treasurers to anyone issuing payment to the club.
- Set specific thresholds for how quickly extraclassroom activity funds must be turned over to the central treasurer once collected and how quickly the central treasurer must deposit those funds once received. Our recommendation is that no one should hold onto extraclassroom activity funds for more than three business days. Whatever threshold you decide, it should be included in your extraclassroom regulations to ensure there are no questions about the expectations.
- Through policies, procedures, training and review of records by the faculty auditor, ensure that all central treasurers, faculty advisors and student activity treasurers understand what qualifies as adequate supporting documentation. A finding from the Office of the New York State Comptroller of inadequate supporting documentation could mean something as minor as the central treasurer forgot to sign off on the cash receipt form prior to depositing the funds, to more substantial findings, such as a reimbursement to a faculty advisor for thousands of dollars without any supporting documentation whatsoever.
- Supporting documentation for cash receipts is expected to include more than just a breakdown of how much was collected by denomination. According to the Safeguarding Publication, cash receipts should include inventory control forms, prenumbered ticket reconciliations, statements of profit and loss, or other support appropriate to the type of sale or fundraiser.

- Take audit findings seriously. A finding in your management letter stating a certain number of transactions lacked adequate supporting documentation doesn't sound too bad, but when the Office of the New York State Comptroller or the local paper reports similar findings, they can be taken out of context to sound worse than the facts justify.
- State the obvious. When interviewing central treasurers and faculty advisors for audits of the extraclassroom activity funds, it becomes obvious that they often lack an understanding of what is inappropriate when handling club funds. Central treasurers and faculty advisors have admitted the behaviors noted below. These actions sound absurd to most business office employees, but to those with no accounting background, they can seem like a good idea at the time. Make sure to communicate exactly what is and isn't acceptable so there is no misunderstanding. Directly warn against:
  - taking cash home with them that hasn't been counted so they can count it over the weekend,
  - charging thousands of dollars in club expenses on their personal credit cards for the rewards points,
  - taking cash from the school store register to buy more inventory,
  - refunding students for cancelled trips with cash from the extraclassroom activity funds account, or
  - issuing blank checks because they will be on vacation when a check is needed.

### **School Spirit Supported by Good Business Practices**

Knowing and practicing the rules surrounding extraclassroom activity funds should be a source of good governance and support student pride in their school. Students will also learn business methods from their mentors along with responsibility.

### **Contact Us**

PKF O'Connor Davies provides accounting, auditing and consulting services to a wide variety of municipal entities, including counties, cities, towns, villages, school districts and fire districts. For more information on rules and regulations associated with common extraclassroom activity funds or other municipal entity topics, please contact the partner in charge of your engagement or a member of the Firm's Public Sector Division, including:

Jennifer Clark, CPA  
Senior Manager  
631.299.3476 | [jclark@pkfod.com](mailto:jclark@pkfod.com)

Jeffrey C. Shaver, CPA  
Partner  
914.421.5639 | [jshaver@pkfod.com](mailto:jshaver@pkfod.com)

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