



Campus and Student Activity Funds
Internal Audit

December 18, 2013 Board Meeting



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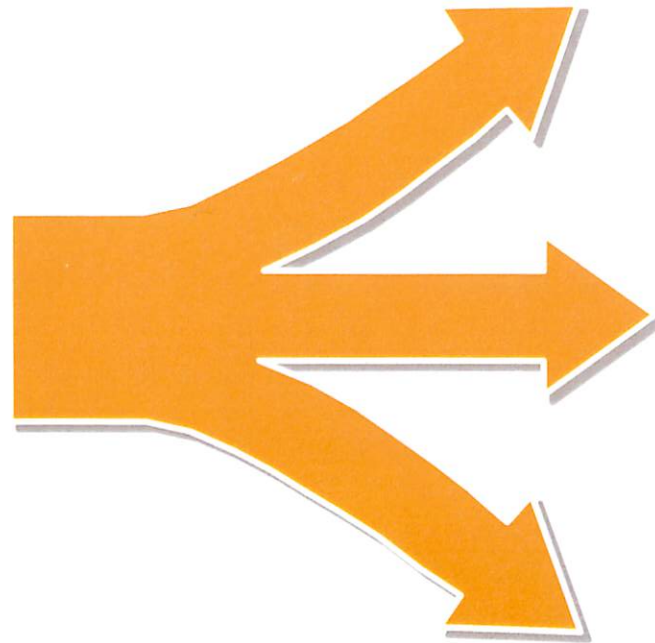


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Executive Summary

Objective

- Assess design and operating effectiveness of internal controls over the Campus and Student Activity Funds:
 - Compliance with TEA guidance and District Manual
 - Deposits and disbursements
 - Bank account reconciliations
 - Monitoring activities performed by the Business Office



Scope

- Interviews, observations and review of policies/guidelines
- Control design evaluation
- Control effectiveness testing

Control Deficiencies

- Account reconciliations and segregation of duties
- Deposit Timeliness / Support
- Fundraiser Reports
- Disbursement Authorization
- Periodic Audits
- Faculty Sponsor forms

Overall Rating

- Unsatisfactory

SIGNIFICANT CONTROL DEFICIENCIES



Account Reconciliations and Segregation of Duties



Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • Duties are not segregated for receipt handling, disbursement processing, transaction recording in Quicken and reconciliation of bank balances • Monthly bank account reconciliations lacked Principal approval for 31% of those tested 	<ul style="list-style-type: none"> • Misstatement of bank balances • Misappropriation and fraud 	<ul style="list-style-type: none"> • Consider assigning bank account reconciliation responsibility to an individual who does not handle receipts, process disbursements and record transactions in Quicken • Principals' review and sign off of monthly bank account reconciliations

Account Reconciliations and Segregation of Duties (cont'd)



Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • Monthly bank account reconciliations were not prepared timely (within 30 days) for 45% of those tested • Reconciling items were not resolved timely (un-cleared checks outstanding more than one year and un-cleared deposits more than one month) for 31% of those tested 	<ul style="list-style-type: none"> • Misstatement of bank balances • Misappropriation and fraud 	<ul style="list-style-type: none"> • Prepare bank reconciliations timely • Research outstanding reconciling items and follow-up to ensure timely resolution • Provide recurring training to reinforce roles and responsibilities

Account Reconciliations and Segregation of Duties (cont'd)



Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • The Quicken book balance on the account reconciliation was either not accurate or could not be verified (due to lack of support) for 31% of those tested • Business office review of bank reconciliations was not documented 	<ul style="list-style-type: none"> • Misstatement of bank balances • Misappropriation and fraud 	<ul style="list-style-type: none"> • Attach support for the Quicken book balance to the monthly bank reconciliation and verify for accuracy • Business Office review and sign off of the monthly bank reconciliations

Deposit Timeliness and Support

Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • Activity fund receipts were not deposited daily for 63% of receipts tested • Adequate supporting documentation was lacking for 15% of the receipts tested • Expenses were paid out of cash proceeds (for example, custodians) 	<ul style="list-style-type: none"> • Misappropriation and fraud of cash receipts • Unsupported and invalid transactions • Unauthorized expenses paid out of cash proceeds 	<ul style="list-style-type: none"> • Deposit cash receipts (\$150+) on a daily basis in compliance with the Manual • Retain supporting documentation • Pay all expenses via check and/or through Payroll • Provide recurring training to reinforce roles and responsibilities

Fundraiser Reports



Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • Annual budgets are not prepared to list each organizations planned fundraising activities (estimate revenue, expense and net profit) • Fundraiser reports were not completed for 66% of receipts tested 	<ul style="list-style-type: none"> • Lack of transparency for fundraising activity revenue and expenses • Misappropriation and fraud • Unauthorized and undocumented fundraising activities 	<ul style="list-style-type: none"> • Prepare annual budgets to document planned fundraising activities and specify intended use of the proceeds; provide monthly reporting of fundraising activities • Provide recurring training to reinforce roles and responsibilities

Disbursement Authorization

Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • Check requests were not authorized by the Principal and/or Faculty Sponsor for 32% of disbursements tested • Student Activity Funds check requests were not approved by Club Treasurer for 100% of Student Activity Funds tested 	<ul style="list-style-type: none"> • Unauthorized disbursements • Invalid disbursements (not in compliance with the Manual) • Misappropriation and fraud 	<ul style="list-style-type: none"> • Documented authorization on the check request form by the Principal, Faculty Sponsor and Club Treasurer as applicable. • Provide recurring training to reinforce roles and responsibilities

Disbursement Validity and Documentation



Observations	Risks	Corrective Action
<ul style="list-style-type: none">• Adequate supporting documentation was lacking for 8% of the disbursements tested• Invalid expenditures were noted in 6% of disbursements tested	<ul style="list-style-type: none">• Invalid disbursements (not in compliance with the Manual)• Misappropriation and fraud	<ul style="list-style-type: none">• Attach adequate supporting documentation to the check request prior to authorization• Disburse funds only for valid expenditures in compliance with the Manual• Provide recurring training to reinforce roles and responsibilities

Periodic Audits



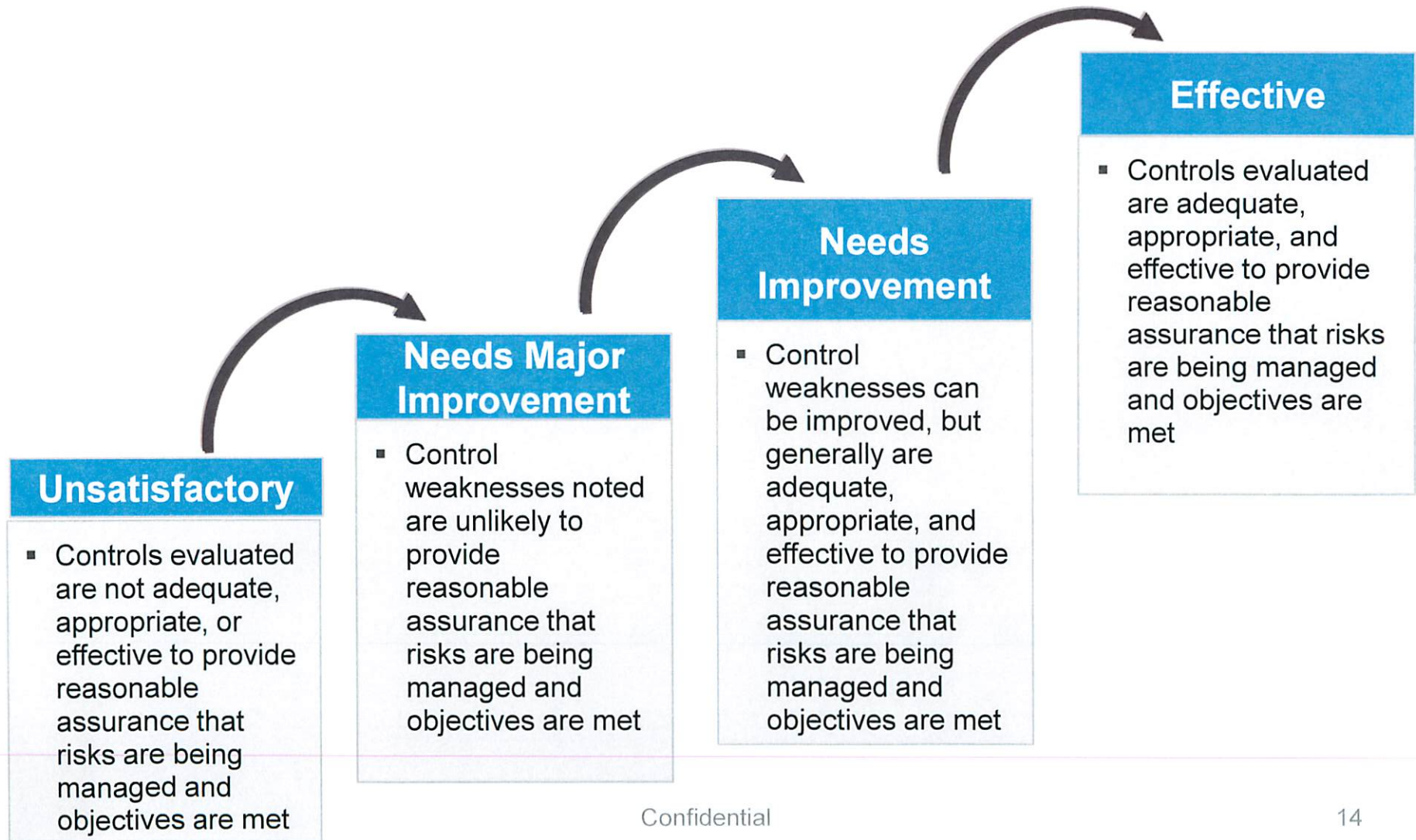
Observations	Risks	Corrective Action
<ul style="list-style-type: none">• Periodic audits by the Business Office had not occurred in more than a year as required by the Manual• Audit reports and work papers were not stored in department files to ensure proper retention	<ul style="list-style-type: none">• Lack of compliance with the Manual• Unauthorized, invalid and unsupported transactions• Misappropriation and fraud	<ul style="list-style-type: none">• Conduct audits for each Campus at least annually (and more frequently as needed for follow-up procedures)• Establish a rotational audit schedule• Report results to the Superintendent and Principals

Faculty Sponsors' Responsibility and Conflict of Interest Forms



Observations	Risks	Corrective Action
<ul style="list-style-type: none"> • <i>Responsibilities of Faculty Sponsors of Student Groups</i> were not completed for 58% of those tested • <i>Conflict of Interest Disclosure</i> forms were not completed for 88% of those tested 	<ul style="list-style-type: none"> • Lack of compliance with the Manual • Faculty is unaware of responsibilities as a Sponsor • Misappropriation and fraud 	<ul style="list-style-type: none"> • Business Office monitors that all required Faculty Sponsor forms are completed • Provide recurring training to reinforce roles and responsibilities

Definition of Ratings





November 14, 2013

Helen Madla
 Board President
 South San Antonio Independent School District
 5622 Ray Ellison Drive
 San Antonio, TX 78242

SUBJECT: Internal Audit Report of the Campus and Student Activity Funds

We have completed the internal audit of the Campus and Student Activity Funds (Activity Funds) processes and related controls of the South San Antonio Independent School District (SSAISD). Overall our opinion is that the controls for the Activity Funds process were **UNSATISFACTORY**. Controls evaluated were not adequate, appropriate, or effective to provide reasonable assurance that risks were being managed and objectives were met.

Audit Objectives

Objectives	Assessment*			
	Effective	Needs Improvement	Needs Major Improvement	Unsatisfactory
Assess the design and operating effectiveness of internal controls and to test whether:				
1. Activity Fund receipts are deposited and recorded timely, completely and accurately.				√
2. Activity Fund disbursements are valid, authorized and processed in compliance with District policies and procedures.				√
3. Bank account reconciliations are prepared and reviewed monthly.				√
4. The Business Office appropriately monitors Activity Fund activity and audits records on a periodic basis.				√

*See table on page 4.

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 FAX 512 437-7923

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6300 Bridgepoint Parkway
 Building I, Suite 575, Austin, Texas 78730



Scope

The scope of the internal audit included:

1. Conduct interviews and evaluate applicable policies, procedures and process narratives to gain an understanding of the process.
2. Conduct walk throughs of individual transactions and controls.
3. On a sample basis, perform tests of transactions to assess the design and operating effectiveness of internal control and compliance with TEA guidance¹ and the District's Campus and Student Activity Funds Manual (Manual).

The audit included Activity Funds transactions from September 2011 through March 2013 for all campuses. In addition, Dwight Middle School Activity Funds transactions from September 2008 through August 2011 were tested.

Methodology

The internal audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

In our professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the audit criteria and the situations as they existed at the time. The evidence gathered meets professional audit standards and is sufficient to provide the Board and senior management with the proof of the conclusions derived from the internal audit.

Conclusion

Based on our internal audit procedures, Activity Funds process controls were **UNSATISFACTORY** overall to achieve objectives in mitigating the risks relative to the Activity Funds process. Satisfactory test results were not included in this report.

Activity Fund receipts were not deposited daily in 63% of the receipts tested and 15% of the receipts lacked adequate supporting documentation. Fundraising reports were not prepared for 66% of the receipts tested and formal annual plans for Activity Funds were not prepared and submitted to the Superintendent for approval. Of the disbursements tested, 32% were not authorized and 6% were for inappropriate expenditures prohibited by the Manual. Bank accounts were not reconciled by a person who is independent of safeguarding the Activity Funds assets. Bank reconciliations were not prepared timely in 45% of the reconciliations tested and 31% lacked Principal approval.

¹ Financial Accountability System Resource Guide (FASRG) Module 5 published by the Texas Education Agency (TEA) contains guidance for Activity Funds process.



Periodic audits of Activity Funds had not been performed by the Business Office in more than a year and training of personnel was not provided at the beginning of the 2012-2013 school year.

The Business Office has made changes to the Manual and plans to communicate the changes during training sessions. A checklist will be implemented to ensure controls are performed and sufficient documentation is retained. A quick reference guide of appropriate uses and prohibited expenditures from Activity Funds has been added for clarity. A training presentation (complete with voice instructions) will be available for those involved in Activity Funds process and completion of training will be tracked. See Appendix A for management's overall response.

We validated the findings with management at the conclusion of our audit. In some cases, remediation and corrective actions were initiated immediately. Other corrective actions may require more extensive design and time to implement. We have attached detailed observations from the audit and associated recommendations along with management's response to address the risks.

Additional Recommendation

Given the conclusions above that Activity Funds process controls do not effectively mitigate risks of fraudulent activity, it is recommended that the Board of Trustees consider examination of additional Activity Funds transactions for validity.

Sincerely,

A handwritten signature in cursive script that reads "Smith, Patterson & Johnson, PLLC".

Smith, Patterson & Johnson, PLLC

cc: Board of Trustees
Pablo Escamilla, General Counsel
Mourette Hodge, Interim Superintendent
David Landeros, Executive Director for Business Services

Campus Principals:

Sandra Reyes, Athens Elementary
Denise Orosco, Benavidez Elementary
Valarie Garcia, Carrillo Elementary
Rodney Bunsen, Five Palms Elementary
Patricia Hinojosa, Hutchins Elementary
Marisa Mendez, Kindred Elementary
Michael Balderrama, Madla Elementary
Jacob Gonzales, Neil Armstrong Elementary

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Rosanna Mercado, Palo Alto Elementary
Florinda Castillo, Price Elementary
David Abundis, Dwight Middle School
Arlo Maldonado-Chapa, Kazen Middle School
Eusebio Vega, Shepard Middle School
Patty Annunzio, Zamora Middle School
Henry Yzaguirre, South San High School
Max Rodriguez, Career and Technical Education

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FAX 512 437-7923

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Building I, Suite 575, Austin, Texas 78730



Internal Audit Report Observations Campus and Student Activity Funds Process

Preface

Significant issues observed in this audit are identified below along with recommendations and management’s response to address the risk. Each of the issues have been graded according to the following guidelines:

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are met.
Needs Improvement	Control weaknesses noted can be improved, but generally are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are met.
Needs Major Improvement	Control weaknesses noted are unlikely to provide reasonable assurance that risks are being managed and objectives are met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives are met.

Management’s action plans to address the internal audit observations and recommended improvements were developed by David Landeros, Executive Director for Business Services. The sufficiency and effective implementation of these action plans are the responsibility of the District’s management.



DETAILED OBSERVATIONS AND RECOMMENDATIONS

Objective 1: Activity Fund receipts are deposited and recorded timely, completely and accurately.

Observation #1: Activity Fund receipts - Unsatisfactory

Activity Fund receipts testing results are summarized in the table below:

- Activity Fund individual and/or cumulative receipts in excess of \$150 were not deposited on a daily basis as required (Manual Chapter 5 and FASRG section 5.5.3). For testing purposes, the activity/event transaction date was compared to the bank posting date. A difference of one business day was considered acceptable to allow for bank posting delays. Receipts were deposited up to 96 days late and 63% of late deposits were deposited more than one week late.
- Adequate supporting documentation, as required by the Manual (Chapter 5) and FASRG section 5.5.4.1, was not located and transactions could not be tested as a result.
- The amount of funds received did not agree with deposited amount. See the supplemental table below.
 - Most exceptions were noted due to a lack of support and the receipt amount could not be compared with the deposited amount.
 - Some exceptions were noted for expenses paid directly out of the cash proceeds rather than by check as required by the Manual (Chapter 4). Further, only the net deposited amount was recorded in Quicken rather than separate entries for the gross amount of the receipt and the expenses. Paying for expenses out of cash receipts increases the risk for lack of proper disbursement authorization and inaccurate record keeping. For example, some athletic event custodial services were paid from cash proceeds rather than through Payroll (Manual Chapter 1 and FASRG section 5.5.4.9).
 - Some exceptions were noted for shortages in the deposited amount.
- The campus or student group account (Quicken sub-account), used to account for money belonging to individual student groups, was not accurately recorded in the system. For example, book fair revenue should have been recorded to the Library sub-account rather than to the Campus sub-account. Further, Quicken activity reports were not routinely distributed to faculty sponsors for review to ensure transactions are entered to the correct Quicken sub-account.

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Schools	Receipts tested	# of exceptions ²			
		Not deposited timely	Lacked support	Receipt did not match deposit ³	Recorded to wrong account
High	64	40	3	4	3
Middle	169	125	6	10	7
Elementary	292	169	69	76	69
Total	525	334	78	90	79
		63%	15%	17%	15%
	\$ tested	\$ Amount of transactions with exceptions ⁴			
High	\$123,950	\$71,699	\$11,827	\$11,895	\$10,053
Middle	99,612	77,691	10,822	11,606	11,635
Elementary	257,079	155,690	77,100	89,959	77,254
Total	\$480,641	\$305,080	\$99,749	\$113,460	\$98,942

Supplemental table for instances when receipts did not match deposited amount:

Schools	Receipt did not match deposit	Due to lack of support	Support did not agree	Expenses paid from cash proceeds	Shortage in deposited amount
	# of exceptions				
High	4	3	1	0	1
Middle	10	6	4	4	0
Elementary	76	69	7	1	6
Total	90	78	12	5	7
	\$ Amount of transactions with exceptions			\$ Amount of exception	
High	\$11,895	\$11,827	\$ 68	\$ 0	\$12
Middle	11,606	10,822	784	177	0
Elementary	89,959	77,100	12,859	110	505
Total	\$113,460	\$99,749	\$13,711	\$287	\$517

² The number of exceptions includes instances when the transaction lacked support and testing could not be completed to test for timeliness and to verify the accuracy of the deposited amount and Quicken sub-account.

³ See supplemental table for further analysis of exceptions.

⁴ The amount of exceptions includes instances when transactions lacked support and testing for timeliness and accuracy could not be completed. The presented amounts are the total of all transactions with noted exceptions.

Recommendation

The Activity Funds receipt process should be modified as follows:

- Receipts should be deposited daily as required by the Manual (Chapter 5) and FASRG section 5.5.3.
- A form that includes details about the payer and a description of the receipt should be completed for cash receipts (FASRG section 5.5.4.1). All Activity Fund records should be maintained in a neat and orderly manner and retained in compliance with the Manual (Chapter 7).
- All expenses should be supported by an authorized check request form and paid via a check rather than out of cash funds. Disbursements for custodial and other employee services should be processed through Payroll as required by the Manual (Chapter 9) and FASRG section 5.5.4.9.
- Monthly Quicken transaction reports for each sub-account should be distributed to the appropriate faculty sponsor for review and approval to ensure the accuracy of recorded transactions and account balance. The approved reports should be returned to the bookkeeper. The principal should be responsible for approving any sub-account that does not have an assigned faculty sponsor. See FASRG section 5.5.3 for responsibilities of the sponsor.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #2: Annual plan for fundraising – Unsatisfactory

Annual budgets were not prepared to list each organization to be engaged in fundraising activities; to plan for estimated receipts, costs, and net funds expected; and to specify the intended use of the funds for each Activity Fund account as advised by FASRG section 5.5.6.

Recommendation

Principals should prepare an annual budget to document its planned fundraising activities and to specify the intended use of the funds. The budget should be submitted to the Superintendent or designated Administrator for approval of activities anticipated during the school year (many will be recurring each year). Schools should report the outcome of each fundraising activity as completed, including how the funds were used. Copies of the approved annual budget and fundraising activity reports should be sent to the Business Office.

Management Response

Target Completion Date: Sep. 2013

Current procedures outlined in the District’s SAF manual (Chapter 6, page 24) require that all fundraising activity be approved at the campus level by the respective principal. The FASRG section 5.5.6 states that “It is often advisable for the various school principals to submit an annual

plan for fundraising to the central office...,” but it is not required. Chapter 6 of the manual includes specific details of how to document a fundraiser. There is a form that is included “Application/Report for Fundraising Activity” (Appendix A-06) that should be used to document all activity from the initial approval of a fundraiser to its completion. In addition, bookkeepers are required to complete a “Summary of Fundraising Activities (Appendix A-05) to provide an overview of the annual fundraising activities at the campus. Starting September 2013, campuses are required to submit this form to the Business Office for review even if there was no activity.

Observation #3: Fundraiser Reports – Unsatisfactory

Fundraiser reports were not consistently prepared to authorize and document fundraising activities as required by the Manual (Chapter 6). The lack of fundraising reports increases the risk of irregularities and misappropriation of funds. Exceptions were noted for the lack of fundraising reports as summarized in the table below:

Schools	Receipts tested	# that lacked fundraiser reports
High	64	64
Middle	169	138
Elementary	292	161
Total	525	347
		66%
	\$ tested	Amount of exceptions
High	\$123,950	123,590
Middle	99,612	85,817
Elementary	257,079	169,467
Total	\$480,641	\$378,874

Recommendation

Fundraiser Reports should be completed to authorize and document fundraising activities as required by the Manual (Chapter 6). Schools should report the outcome of each fund-raising activity as completed, including how the funds were used. Preparation of fundraiser reports should apply to all sources of revenue, not only to traditional campus-wide fundraising events (for example, cookie dough fundraiser).

Updates to the Manual include the use of Quicken fundraiser codes to facilitate the tracking and reporting of fundraiser revenue and expenses. Implementation of this new procedure is recommended.



Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #4: Unsupported Quicken Adjustments – Needs Major Improvement

Analysis of the Quicken transaction reports was performed to identify significant amounts not included in the planned audit procedures for deposits and check disbursements (for example, adjustments, error corrections, transfers between sub-accounts, etc.). The net amount of the transactions for each campus was not considered significant, except for adjustments recorded at Dwight Middle School for the period September 2008 – August 2011.

All September 2008 – August 2011 Dwight Middle School adjustments and error corrections (e.g., coded as ‘ADJ’) greater than \$250 were selected for further audit procedures:

Supporting documentation was not located for 12 of the 23 ‘ADJ’ transactions tested.

- Seven of the 12 undocumented transactions were considered reasonable based upon the transaction description, review of bank statements and data analysis for duplicate data entry error corrections.
- A conclusion regarding the reasonableness and review/approval of the adjustment could not be determined for five of the 12 undocumented transactions. These five transactions totaled \$2,487.78 and represented a bank versus book balance cash shortage.

Recommendation

Sufficient supporting documentation for adjustments recorded to Activity Fund accounts should be retained to evidence authorization and to clearly explain the reason for the adjustment.

It is also recommended that further research and examination of Activity Fund adjustments be performed to assess the validity of the adjustments.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #5: Receipt numbers on deposit slips – Needs Improvement

Deposit slips did not include receipt numbers to allow for a proper audit trail for the disposition of all pre-numbered receipts (FASRG 5.5.4.1). However, deposits slips and applicable supporting documentation were filed together to allow for a proper audit trail.

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FAX 512 437-7923

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Building I, Suite 575, Austin, Texas 78730



Recommendation

Deposit slips should include receipt numbers to allow for a proper audit trail for the disposition of all pre-numbered receipts.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #6: Event change funds – Needs Improvement

No evidence was observed for the establishment of change funds by cashing a check for a predetermined amount and re-depositing the full amount at the end of the event, as required by the Manual (Chapter 6).

Recommendation

The Business Office should communicate the proper method for establishing event change funds and stress the importance of compliance with the Manual requirements.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Objective 2: Activity Fund disbursements are valid, authorized and processed in compliance with District policies and procedures.

Observation #1: Disbursements – Unsatisfactory

Activity Fund disbursements testing results are summarized in the table below:

- Check Requests were not authorized (signed) by the Principal and/or Faculty Sponsor as required by the Manual (Chapter 4).
- Inappropriate expenditures and/or expenses strictly prohibited by the Manual (Chapter 1) were incurred. For example, expenditures for gift cards, and children clothing were observed. See Observation #5 for additional non-compliant expenditures and employee reimbursements.
- Disbursements were not accurately recorded to the correct Quicken sub-accounts. For example, expenses should have been recorded to the Patrol sub-account rather than to the Campus sub-account.
- Supporting documentation as required by the Manual (Chapter 4) and FASRG section 5.5.4.2 was not located and transactions could not be tested as a result.

Schools	# tested	# of exceptions			
		Not authorized	Inappropriate expenditure	Recorded to wrong account	Lacked support
High	79	12	1	0	2
Middle	199	35	17	17	21
Elementary	368	162	21	19	29
Total	646	209	39	36	52
		32%	6%	6%	8%
	\$ tested	\$ Amount of transactions with exceptions			
High	\$39,420	\$5,273	\$ 73	\$ 0	\$ 100
Middle	62,042	16,014	9,072	9,116	12,069
Elementary	85,512	40,645	9,234	8,553	11,330
Total	\$186,974	\$61,932	\$18,379	\$17,669	\$23,499

Recommendation

Disbursements should be made in compliance with the Manual.

- Prior authorization from the Principal (and the Faculty Sponsor in the case of Student Activity Accounts) should be documented in writing on a Check Request Form prior to issuing a check.
- Disbursements should be made only for appropriate and authorized expenditures that are in compliance with the Manual (Chapter 1).
- Review of Quicken sub-account coding should be performed by the Principal and Faculty Sponsors to ensure the accuracy of recorded transactions. See recommendation in Objective 1, Observation #1.
- All Activity Fund records, as required by the Manual (Chapter 4) and FASRG section 5.5.4.2, should be maintained in a neat and orderly manner and retained in compliance with the Manual (Chapter 7).

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #2: Club Treasurer Approval – Unsatisfactory

None of the High School and Middle School Student Activity disbursements were approved by the applicable student Club Treasurer as required by the Manual (Chapter 4). These disbursements were recorded to Fund 865 – Student Activity Account. Student Activity Funds serve as an agency account for student club or class funds and the financial decisions rest solely with the students (FASRG section 5.5.1).

Recommendation

All Student Activity disbursements should be approved by the Club Treasurer as required. The Business Office should stress the importance of compliance with the Manual during annual training of personnel.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #3: PO requirement – Needs Improvement

The Manual (Chapter 4) requires issuance of a purchases order for all expenditures in excess of \$150. This practice was not observed at the campuses.

Recommendation

The purchase order threshold amount of \$150 should be evaluated by the Business Office as part of the updates to the Manual. The importance of compliance with Manual requirements should be communicated to the campus principals and bookkeepers.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #4: Voided checks – Needs Improvement

Two Zamora checks were not properly voided (“VOID” was not written across the checks) as required by the Manual (Chapter 4).

Recommendation

The Business Office should communicate the proper method for voiding checks and stress the importance of compliance with the Manual requirements.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #5: Gifts and reimbursements – Needs Major Improvement

The Manual (Chapter 1) prohibits the purchase of any gift for any person or organization from Campus accounts (this includes gift certificates, retirement gifts, flowers, etc.). Prohibited expenditures of \$6,709 for gifts from campus accounts were identified.

Employee reimbursements for school related purchases should be limited to less than \$150 per reimbursement according to the Manual (Chapter 4). Employee reimbursements in excess of \$150 each were identified through data analytics and totaled \$50,017. Examples included employee reimbursements for concession supplies, Robotic parts, and supplemental athletic uniforms.

Recommendation

The Business Office should communicate appropriate uses of Activity Funds and prohibited expenditures and stress the importance of compliance with the Manual requirements.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Objective 3: Bank account reconciliations are prepared and reviewed monthly.

Observation #1: Segregation of duties – Unsatisfactory

Bank reconciliation duties were not appropriately segregated. Activity Fund bookkeepers have responsibility to process fund receipts and disbursements, record activity fund transactions and prepare bank reconciliations. FASRG section 5.5.4.5 states that all bank accounts should be reconciled by a person independent of safeguarding the activity fund assets.

Recommendation

Assign bank account reconciliation responsibility to an individual who is independent of processing/recording transactions and safeguarding Activity Fund assets. Specifically, it is recommended that a Business Office employee prepare the monthly reconciliations. The principals should continue to review and approve bank reconciliations.

Management Response

Target Completion Date: Sep. 2014

In the guidelines currently in place, the Principal is responsible for reviewing all transactions related to activity funds. Although the secretary is responsible for preparing the reconciliation, the Principal has to review and sign off on the process each month. In addition, the Business Office added a checklist to guide them on what needs to be looked at on a monthly basis. The Business Office then does a second review of the reconciliation just in case something got missed in the

process. In the future, the Business Office is looking into the feasibility of hiring a bookkeeper at the campus or the possibility of centralizing the activity accounts.

Observation #2: Bank Reconciliations– Unsatisfactory

Activity Fund bank reconciliation testing results are summarized in the table below:

- Bank reconciliations were not signed by the Principal to evidence review as required by the Manual (Chapter 3).
- Quicken Banking Summary reports were either not provided to ensure the accuracy of the book balance on the bank reconciliation or the report balance did not agree with the book balance on the bank reconciliation.
- The bank balance on the bank reconciliation did not agree with the bank statement balance.
- Bank reconciliations were not prepared timely. Though the Manual (Chapter 3) requires bank reconciliations be prepared by the 15th working day of the subsequent month, bank reconciliations prepared by the last day of the subsequent month were considered acceptable by the Business Office and for audit testing purposes. Bank reconciliations prepared after the end of the following month were considered exceptions.
- Reconciling items were not reasonable. Uncleared checks outstanding more than one year (see Manual Chapter 4) and uncleared deposits outstanding more than one month were considered unreasonable.

Schools	# tested	# of exceptions				
		Lacked Principal Approval	Book balance ≠ Quicken	Bank balance ≠ bank statement	Not prepared timely	Unreasonable reconciling items
HS & CTE	25	8	2	0	12	4
Middle	36	7	13	0	19	14
Elementary	35	15	15	4	12	12
Total	96	30	30	4	43	30
		31%	31%	4%	45%	31%

Recommendations

Bank reconciliations should be prepared in a timely manner and should be reviewed and approved by the Principal each month. (See related recommendation in Objective 3 Observation #1). The book balance per the bank reconciliation should be verified to the Quicken Banking Summary report and the bank balance per the bank reconciliation should be verified to the bank statement. Reconciling items should be reviewed to ensure checks outstanding for more than twelve months are researched and re-cut or escheated to the State through unclaimed property reporting. Uncleared deposits should be researched and resolved timely. Particular attention should be given to uncleared deposits to timely identify potential irregularities.

Management Response	Target Completion Date: Sep. 2014
See Appendix A for Management Response	
Objective 4: The Business Office appropriately monitors Activity Fund activity and audits records on a periodic basis.	
Observation #1: Periodic Audits – Unsatisfactory	
<p>Periodic audits of Activity Funds by the Business Office, as required by the Manual (Chapter 1) and FASRG (section 5.5.3), have not occurred in more than a year. The lack of monitoring Activity Funds increases the risk of unauthorized, inappropriate and unsupported transactions. Refer to observations above for Objectives 1-3. Further, audit reports and workpapers were not stored in department files to ensure proper retention of audit workpapers.</p>	
Recommendation	
<p>Annual audits should be completed for each Activity Fund to ensure transactions are processed in compliance with the Manual and FASRG guidance.</p> <p>A recurring rotational audit schedule should be established and results (e.g. a scorecard) should be documented and distributed to the Superintendent and the principals. For example, each quarter four campuses should be audited to ensure that all Activity Fund accounts are audited within a 12 month period. Results of previous audits should be taken into consideration when determining the level of audit procedures performed.</p> <p>Audit reports and workpapers should be retained in central department files to ensure proper retention.</p>	
Management Response	Target Completion Date:
<p>The Business Office is working on putting together an audit schedule. We are currently making use of the shared drive in order to do some “spot checking” at random campuses and creating a template on which campuses are going to be audited during year.</p>	
Observation #2: Maintenance of positive account balances – Needs Major Improvement	
<p>Exceptions were noted for certain Quicken sub-accounts that failed to maintain a positive balance in the account as required by the Manual (Chapter 1) and FASRG section 5.5.4.2. In some cases, Banking Summary reports were not available for review to ensure each Quicken sub-account maintained a positive balance.</p>	

The number of monthly reports tested that either did not include the Banking Summary report or positive balances were not maintained for all Quicken sub-accounts is detailed in the table below:

Schools	# tested	# of exceptions
		Lacked Banking Summary report or positive balance was not maintained
HS & CTE	25	7
Middle	36	9
Elementary	35	16
Total	96	32
		33%

Recommendation

The Business Office should ensure that monthly Banking Summary reports are provided by all schools for all accounts, and monitor that each Quicken sub-account retains a positive balance.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #3: Responsibility and Conflict of Interest Forms – Unsatisfactory

The *Responsibilities of Faculty Sponsors of Student Groups* and *Conflict of Interest Disclosure* forms were not submitted to the Business Office as required by the Manual (Chapter 1). Further, the Business Office did not follow-up to ensure the forms were completed by all personnel involved with the process.

The audit tested whether *Responsibilities of Faculty Sponsors of Student Groups* and *Conflict of Interest Disclosure* forms were completed. The number of Activity Fund accounts tested and the number of exceptions (lack of required forms) are outlined in the table below. Further, in instances when forms were prepared, missing forms were identified for key individuals (for example, forms were not prepared by the principal).



Year	Schools	accounts tested	# that lacked required forms	
			Responsibility	Conflict
2008-2009	Dwight MS	2	2	2
2009-2010	Dwight MS	2	2	2
2010-2011	Dwight MS	2	2	2
2011-2012	HS & CTE	3	2	3
	Middle	8	4	8
	Elementary	10	7	8
2012-2013	HS & CTE	3	1	2
	Middle	8	4	8
	Elementary	10	4	7
Total		48	28	42
			58%	88%

Recommendation

The Business Office should follow-up with each campus principal to ensure required *Responsibilities of Faculty Sponsors of Student Groups* and *Conflict of Interest Disclosure* forms are completed by all required individuals each year.

Management Response

See Appendix A for Management Response

Target Completion Date: Sep. 2014

Observation #4: Training of Personnel – Needs Major Improvement

Annual Activity Funds training was not provided at the beginning of the 2012-2013 school year. The Business Office responds to inquiries and provides guidance when requested.

Training was requested by many of the individuals involved in the process that were interviewed during the audit. This included both personnel new to their role and personnel that have been performing activity fund related responsibilities for a number of years. Common compliance issues identified in the audit (for example, lack of timely deposits, lack of approvals, lack of fundraising reports, lack of sponsor forms, etc.) should be stressed during training sessions.

Recommendation

Mandatory training should be provided on an annual basis and in the interim when necessary for new Principals, faculty and bookkeepers. Documentation of the training (e.g., attendance records) should also be retained.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #5: Annual Journal Entry amount – Unsatisfactory

The Business Office did not ensure all Activity Fund bank reconciliations were complete during the August 2012 fiscal year end process. As a result, the external auditor advised the Business Office to compare the beginning Quicken book balance with the ending bank balance (rather than to the ending Quicken book balance) to calculate the current year activity. The Activity Funds balance in the District’s general ledger (the sum of bank balances) did not agree with the Quicken book balances, resulting in the following variance:

Description	Amount
GL Total (sum of bank balances)	\$398,987
Quicken Total	\$418,450
Variance	\$19,463

Recommendation

The Business Office should ensure that the bank reconciliations are complete on a monthly basis and especially during the year end process so that the annual journal entries recorded for Activity Funds in the District’s general ledger agree with the Quicken books of the individual campuses.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #6: Annual Journal Entry Coding – Needs Major Improvement.

Six Activity Fund bank accounts were considered Student Activity funds and annual entries were recorded to Fund 865 – Student Activity Account even though the financial decisions did not rest solely with the students.

FASRG section 5.5.1 defines Student Activity accounts as those which serve as an agency account

for student club or class funds and the financial decisions rest solely with the students. Expenditures from these six bank accounts were not approved by the student Club Treasurer (see Objective 2, Observarion #2); the financial decisions did not rest solely with the students; and other individuals besides the students involved in the activity fund (sponsors, principals, etc.) had access to the funds.

Recommendation

The Business Office should evaluate each of the bank accounts that were recorded to Fund 865 – Student Activity Account and ensure that they meet FASRG section 5.5.1 definition before recording the annual activity to Fund 865 – Student Activity Account.

Management Response

Target Completion Date: Sep. 2014

As part of the conversion to the new Kev Group Software, the Business Office will be evaluating accounts based on campus information in order to determine whether an account should be recorded in 865 or 461. Part of the training that was provided included the proper identification of an account. There was specific emphasis put on the fact that student accounts must have student officers that are partially responsible for the decision making of the group they represent.

The Business Office has been working with the Kev Group in order to ensure a successful and accurate implementation. Due to previously understaffed level at the Business Office, we will be working to finalize the transition in the summer so that we can be ready for the 2014-2015 fiscal year.

Observation #7: Palo Alto’s Quicken accounts – Needs Improvement

The set of Quicken books at Palo Alto is unique compared to all of the other campuses. At all campuses except Palo Alto, a single Quicken primary account is established for each bank account. Quicken sub-accounts (the “Category” field) are used to account for the separate student/campus activity groups at all campuses, including Palo Alto. However, at Palo Alto, additional secondary accounts have been established for each student/campus activity group. Dual offsetting entries are recorded on the primary account and on the applicable secondary student/activity group accounts.

The Palo Alto principal and secretary could not explain the purpose of the dual entry system. There is a risk that the balances in each primary account sub-account do not agree with the applicable secondary accounts for student/activity groups and the incorrect balance could be relied upon when determining available funds.

Only the Quicken primary account is used for Pal Alto’s monthly bank reconciliations and for inclusion in the District’s annual journal entry.



Recommendation

The Business Office should provide direction to Palo Alto's principal and secretary to ensure a single Quicken set of books is maintained consistent with the other campuses.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

Observation #8: General Accountant's review – Unsatisfactory

Evidence of the General Accountant's review of monthly bank reconciliations and Activity Fund transaction reports was not documented. Review of monthly bank reconciliations and Activity Fund transaction reports, as required by the manual (Chapter 1) is critical in the timely identification of errors and potential irregularities.

Recommendation

The Business Office personnel responsible for reviewing Activity Fund bank reconciliations should document the review by signing and dating the bank reconciliation and transaction reports. Also, see Objective 3 Observation #1 for bank reconciliation recommendation.

Management Response

Target Completion Date: Sep. 2014

See Appendix A for Management Response

APPENDIX A

Management Response

Student activity funds consist of money, which is received and held by the school as trustee. As such, South San Antonio I.S.D., principals, teachers, bookkeepers and other staff are placed in a position of trust by parents and students when funds are placed in their care. Adequate measures to control these funds will ensure that the funds are handled properly. It is the goal of the Business Office to account for student activity funds in compliance with the TEA Financial Accountability System Resource Guide and to ensure that these funds are being used for the intended purpose and in accordance with the District's policies and procedures. Within this scope, South San Antonio I.S.D.'s Business Office has developed procedures to monitor activity funds and provide support and training to campuses in this area and has also acquired a more robust accounting software that will help the campuses and the Business Office streamline account codes for better descriptions and documentation.

Many of the findings outlined in this report had been concerns for the Business Office since before the onset of this audit. These concerns were discussed with the internal auditors assigned to do the work for this Activity Funds Audit. Because of these concerns, the Business Office had already begun the process of updating the Activity Funds Manual with plans to also produce a series of videos that will serve as training tools for principals, secretaries and any other individual who undertakes the responsibility of raising funds for or in behalf of our students. The accounting software offered by the Kev Group had already been acquired and the work for the conversion is currently in process.

- The manual has been updated with a series of forms that will help the campus staff document fundraising activity from the beginning, starting with the principal's approval through the end when they calculate how much profit they earned. The SAF manual is also posted on the District's Q: drive, which is a shared drive for principals, secretaries, and the business office in order to securely share information. This drive was requested by the Business Office before fiscal year 2013-14 for the primary purpose of sharing SAF information. In addition to submitting reconciliations as a monitoring tool for the Business Office, effective 2013-14, bookkeepers are required to complete a "Summary of Fundraising Activities" (Appendix A-05 of the SAF Manual) to provide an overview of the fundraising activities at the campus, even if there was no activity for the month.
- Principals were trained on August 9th, 2013 on various Business Office procedures including Student Activity Funds. At that training, principals were provided with all Business Office procedures manuals and they were asked to review them and provide any recommendations for changes by September 30th, 2013 if they felt changes were warranted.



Training was also provided to secretaries and new principals on September 25th & 26th on various topics, including Student Activity Funds. They were provided with the SAF manual and the power point presentation that included various examples and a condensed version of SAF procedures for a quick reference guide. They were also made aware that the manual is currently posted on the shared drive for reference at any time.

- The Business Office is also working with the Kev Group in order to streamline all of the account code structures for the activity funds. This will be a great tool because the system will allow us to set up a series of accounts with uniformity. This is important because in the future, when and if there is a change of personnel at the campus levels where a secretary or principal may go from one campus to another, the account codes will be the same, allowing for a much shorter learning curve in the area of activity funds. The Business Office has been working with the Kev Group in order to ensure a successful and accurate implementation. Due to previously understaffed level at the Business Office, we will be working to finalize the transition in the summer so that we can be ready for the 2014-2015 fiscal year.
- In addition, work is underway to develop a series of short “how to” videos that should help as training or learning tools for activity funds processes. These will be great refresher tools for anyone who has already been trained but most importantly, it will serve to train anyone who might be new to fundraising that needs to be trained before being allowed to handle any SAF monies.

The Business Office will continue to review other processes that may be available in order to help the campuses and the District be successful in its goal to account for student activity funds in compliance with the TEA Financial Accountability System Resource Guide and to ensure that these funds are being used and accounted for in accordance with the District’s policies and procedures.

*Smith Patterson & Johnson PLLC is
an affiliate of Bridgepoint Consulting*

MAIN 512 437-7900
FAX 512 437-7923

BridgepointConsulting.com

6300 Bridgepoint Parkway
Building I, Suite 575, Austin, Texas 78730