



Preparing Your Schools for Audit

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Dava spent 15 years working in the Finance Office of the Austin Independent School District. Starting out as a Campus Bookkeeper at Austin ISD, Dava also worked as a System Support Specialist and Activity Fund Accountant supporting 130 campuses and bookkeepers in Activity Fund management. These roles included developing and implementing policies and procedures around Student Activity Funds, as well as training school bookkeepers and principals in cash management and accounting best practices.

While at Austin ISD, Dava helped lead the implementation of the KEV Group's *School Cash Suite* for school accounting and cash management, and she now works as an Activity Fund Consultant for the KEV Group, helping districts across the US and Canada in the areas of audit preparation, fraud prevention, and streamlined cash handling.

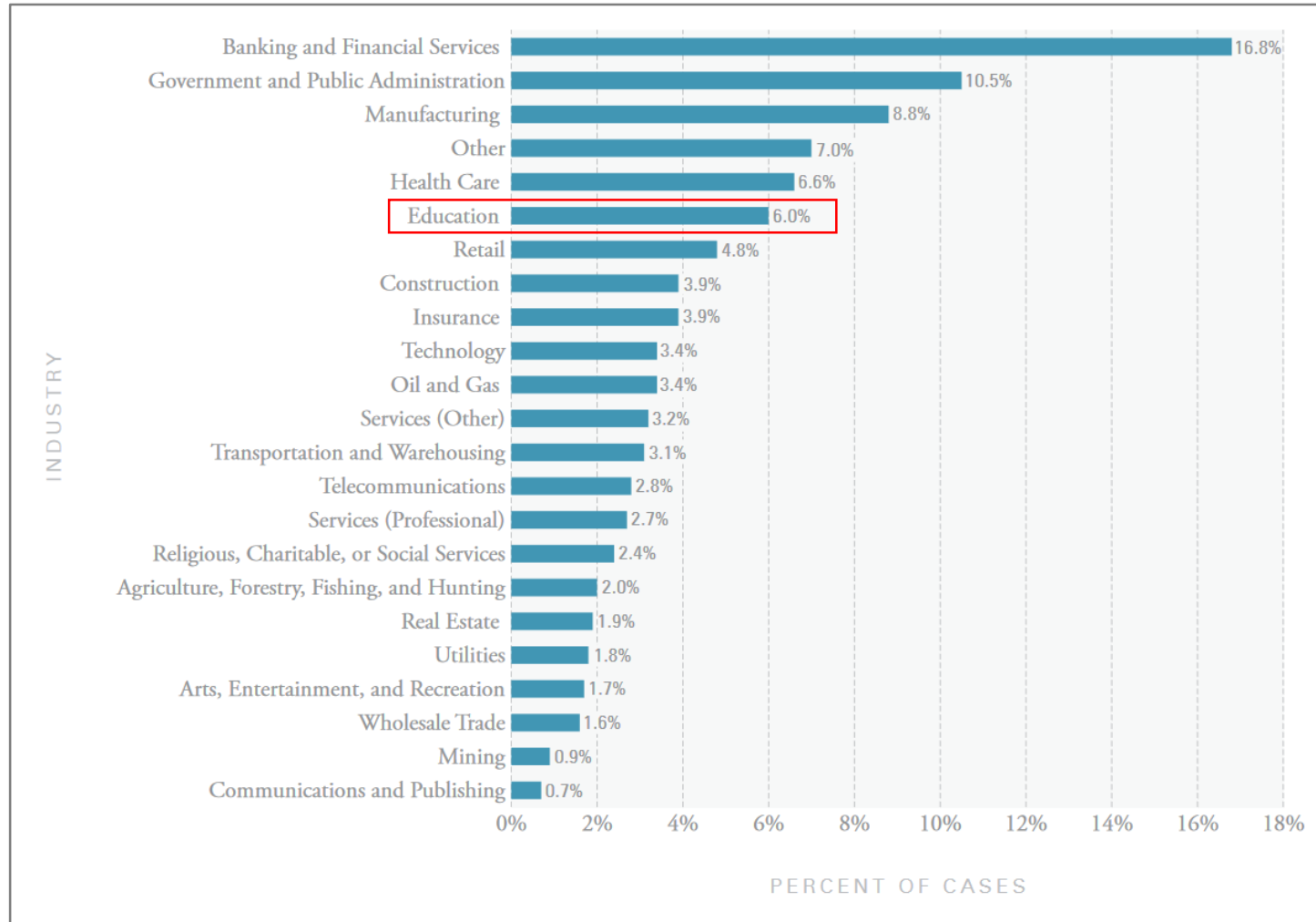
What Can Go Wrong?

- **Washington, DC** – A school employee was charged with fraud for use of school activity funds to pay for lavish restaurant meals, night club jaunts, and a visit to an adult entertainment establishment.
- **Portland, Oregon** – Instances of fraud were found at three schools, including improper purchases and improper bidding.
- **Pigeon Forge, Tennessee** – A cheer coach failed to turn in more than \$50,000 in fees paid by parents and failed to submit more than \$4,500 in advertising revenue.

What Can Go Wrong?

- **Jacksboro, Tennessee** – A principal purchased 33 air purifiers for the school from herself – but only five were found at the school. She profited \$2,500 from the sale of each purifier, and the school's bank balance dropped from \$44,000 to just \$4,000 during her tenure.
- **Jacksboro, Tennessee** – A principal made several cash payments to school employees using unreceipted/undeposited collections. He gave one employee \$1,000 as a bonus, and spent \$3,000 on gifts for staff.
- **Radford, Virginia** – The long-time Director of Food Services embezzled more than \$250,000 over the course of ten years by falsifying audit reports, taking cash from student meal plans, and inflating numbers for the free and reduced lunch program.

Education: An Industry Rampant With Fraud



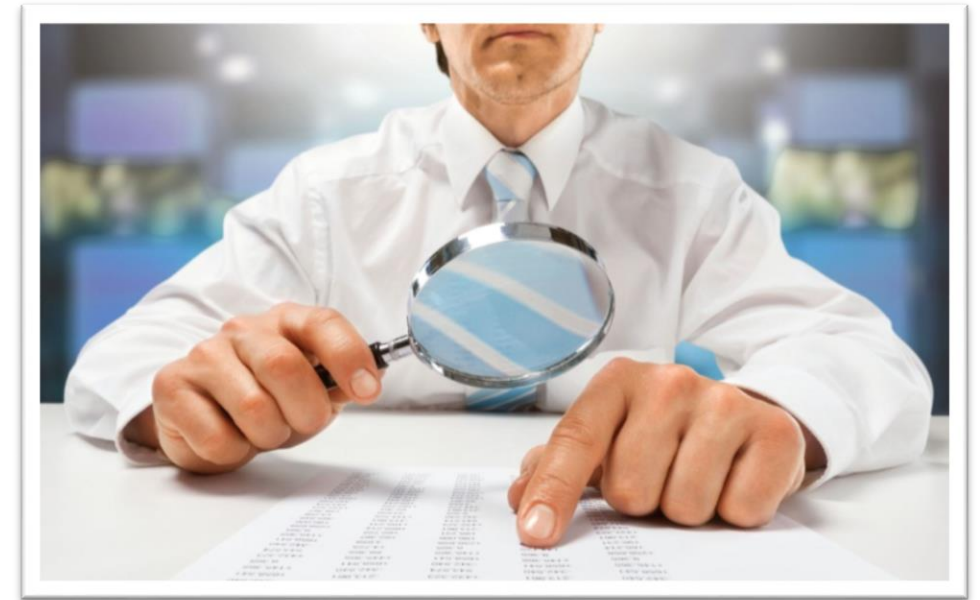
In 2016, the Association of Certified Fraud Examiners identified **Education** as the **6th highest industry** at risk of fraud.

Why?

- Millions of dollars flow through thousands of hands – students, teachers, coaches, volunteers, and bookkeepers.
- Large volumes of cash are simply too vulnerable to loss and theft.

Why Does It Go Wrong?

- **Lax Oversight** – School bookkeepers and principals are often given too much individual authority for transaction initiation and approvals.
- **Lack of District Involvement** – Many district offices fail to carefully review school-level records surrounding Student Activity Funds.
- **Greed or Desperation** – Some school staff may feel they are underpaid or they may be facing financial pressures in their personal lives.
- **Inadequate Training** – Principals bear the ultimate responsibility for financial integrity at their schools, but most have no background in accounting or financial matters.



“Our school activity fund accounts are audited by external auditors and they didn’t report anything. So there must not be any fraud.”



- Audits are **not designed** to find every potential instance of fraud. Auditors do not test every single transaction, so there is always a risk that improper items will not be discovered. According to the ACFE only **4% of fraud** is detected through external audits.
- An effective audit will often **point out deficiencies** in internal controls. These should be taken seriously. Even if the auditor didn’t find anything to indicate fraud, a deficient internal control structure invites fraud.
- Auditors can see that a responsible official signed off on a transaction; but it is **impossible to tell** whether it was “properly reviewed” by that official.

How To Keep Your District Out of the News

- Develop a **comprehensive policies and procedures** manual for student activity funds and mandate that those policies are applied consistently across all schools.
- Provide **regular training** to principals, bookkeepers, and account sponsors regarding their responsibilities.
- Make sure that principals and bookkeepers know that the information they are submitting **will be reviewed**. This is by far one of the strongest fraud prevention techniques. If they know someone is looking, they are less likely to do something improper.
- **Get Involved. Stay Involved.**



Internal Controls – Processes for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.

- **Invoices** – All invoices should be approved by the principal. The buck stops with the principal. He or she must know what is being expensed.
- **Timeliness of Deposits** – We recommend that deposits be required each day unless the amount of cash on hand is small (e.g., less than \$100).
- **Recommendation:** Tell bookkeepers that the amount of cash left overnight should be no more than what they are comfortable reimbursing should something go wrong.



Outside of the external audit process, we recommend that you also set up internal auditing procedures.



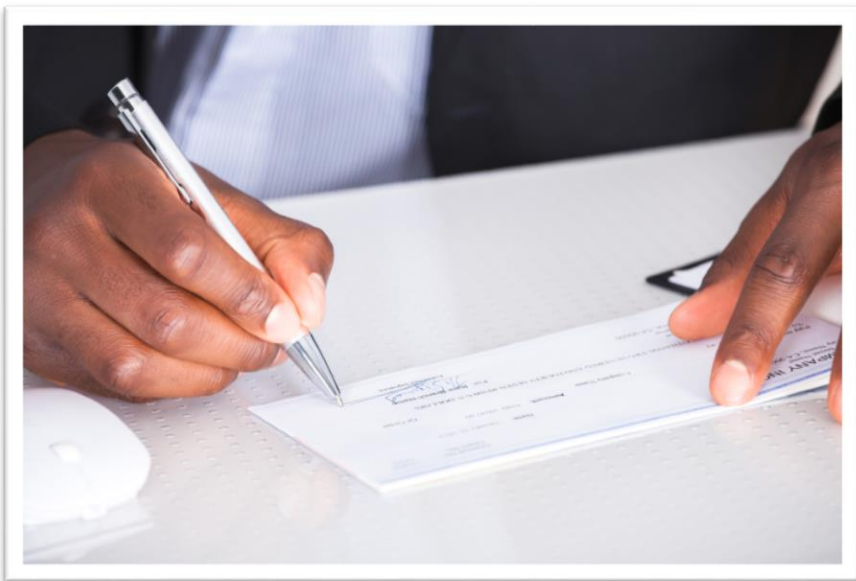
- Conduct **random internal audits** of activity funds to enhance the internal control structure and to reiterate that oversight is being done. This is a very strong fraud deterrent and, if planned and conducted correctly, should not be time-consuming.
- Have in place a strong and specific **conflict of interest policy**. Have principals, bookkeepers, and sponsors sign the policy annually.

Cash Receipts

- Use online payments to collect student fees, fundraising donations, and payments for catalog items purchased.
 - Complete audit trail
 - Reduce risk of fraud, loss, and misappropriation
 - Save time for your staff
- Mandate that a receipt be signed and issued for all transactions, including money collected at the school and through the mail.
- Never use your cash receipts to cash checks, make change, or as a petty cash fund at anytime.
- A physical count of cash and equivalents should equal the total of all receipts issued.



- Establish strong procurement policies and ensure that they are communicated and followed.
- The principal should approve all disbursements by signing an expenditure voucher, the invoice, check request form, and the school-issued purchase order.



- After payment, all invoices, check requests, expenditure vouchers, and purchase orders should be marked "PAID".
- No checks should ever be signed in advance or blank.
- No checks should ever be made payable to "CASH".
- Two signatures should be required on all checks, and the payee should never be one of the authorized signatories – **and never allow the use of signature stamps.**

We strongly recommend that you restrict or completely disallow school staff from using debit and credit cards for purchases made out of Student Activity Funds.

- The lack of internal controls around Student Activity Funds and the nature of debit and credit cards both invite improper purchases.
- If you must use debit or credit cards, put limits on the size of individual transactions and on the card's overall spending limit.



Ticket Sales

- Tickets should be maintained in a safe place and custody should be controlled at all times.
- For each event requiring ticket sales, the bookkeeper should prepare ticket boxes with pre-numbered tickets and sufficient cash to make change.
- The numbers of the first and last tickets on the roll and the cash provided in the change fund should be recorded by the bookkeeper on the reconciliation sheet and a copy retained.
- After the event, each ticket seller should count and reconcile the cash and tickets in the ticket box in the presence of another person. Turn in reconciliation to the bookkeeper.
- Expenses associated with each event should be paid by check, and no expenses should be paid out of cash gate receipts.





- Cash transfers and adjustments between accounts should always be approved by the principal and include supporting documentation.
- Do not allow the use of adjustments to record transactions except for specified circumstances.

Bank Reconciliation and Statements

- All statements should be received **unopened** by the principal and reviewed for improper transactions (e.g., debit card transactions) before submitting to the bookkeeper. Many frauds have occurred through modifications to bank statements using computer programs.
- The principal should review all canceled checks for proper signatures and make copies of the statement to compare to the final reconciliation.
- The principal should review the reconciliation and make sure that it is mathematically accurate and agrees to the monthly financial reports and bank statements.
- Principals should never sign the statements without a proper review.
- Require all bank statements and bank reconciliations to be submitted to the district office.





- While it is important to maintain reserves, it is also important to actually expend the money on the students who raised it.
- Be mindful of account sponsors who raise money and keep big balances. This is a red flag for potential fraud.

The Principal is **ultimately responsible** for the proper collection, disbursement, and control of all student activity funds. Those responsibilities must include:

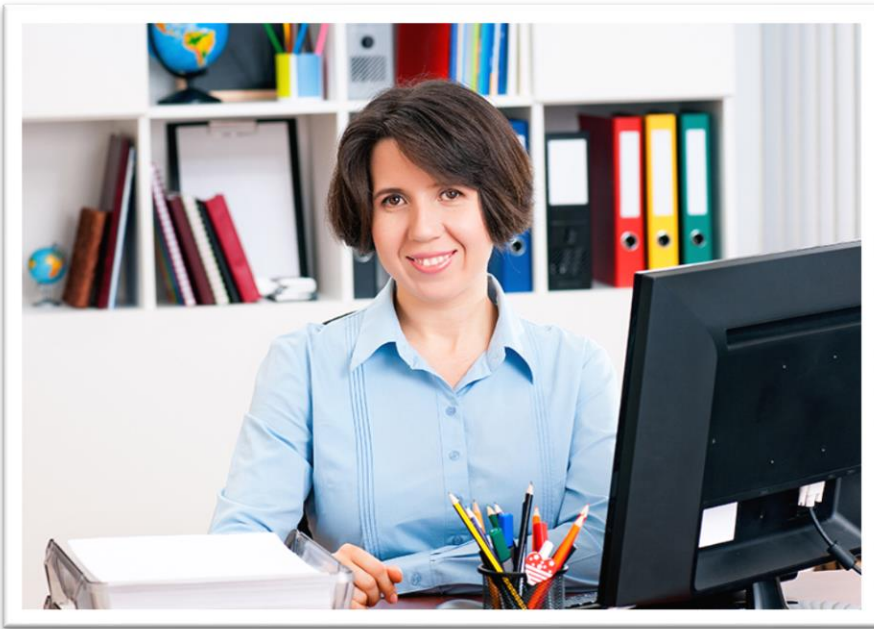
- Approving budgets and safekeeping of the funds
- Proper accounting, administration, and authorization of all transactions
- Compliance with applicable state laws, local board policy, and administrative guidelines
- Familiarity with district policies and procedures around activity funds
- Thorough review of monthly reports



- Providing adequate training and supervision of all personnel authorized to administer student activity funds.
- Ensuring that adequate facilities and controls are available for the protection of cash and other assets.
- Having access to all accounting records and assets at all times.
- Monitoring the operation of revenue-producing activities to avoid unanticipated losses.
- Checking in with sponsors monthly and asking questions about their accounts, especially to determine if they are getting receipts and reimbursements on-time
- **Note that fraud is uncovered when principals are checking and confirming with both bookkeeper and sponsor**

Responsibilities of the Bookkeeper

Fraud is most often initiated and covered up by a school bookkeeper. Ensure that your bookkeepers are:



- Depositing all funds promptly and fully intact
- Maintaining all required records on a current and accurate basis
- Submitting reports promptly at least once each month
- Keeping the principal informed of all actual or potential problems
- Reconciling monthly or at least bi-monthly with Account Sponsors

Responsibilities of the Sponsor

A sponsor should be appointed to supervise each activity fund account, and all sponsors should be familiar with activity fund policies and procedures. Sponsors must also:

- Review and approve all invoices for accuracy prior to final payment
- Provide the bookkeeper with copies of contract agreements
- Submit all collected funds daily to the bookkeeper
- Control inventories of salable merchandise
- Enforce ticket control requirements and reporting for events requiring ticket admission



Responsibilities of the District Office



- Train principals, bookkeepers, and other staff in accounting procedures
- Purchase and implement automated accounting software for your schools
- Ensure compliance with accounting procedures through an internal audit program
- Coordinate the annual external audit
- **Stay involved!**

Cash Receipts	
<input type="checkbox"/>	All cash and checks are properly collected with supporting documentation and receipts
<input type="checkbox"/>	Face-to-face counting is being performed and documented
<input type="checkbox"/>	Undeposited funds are locked in a safe or vault overnight
<input type="checkbox"/>	Locking money bags are being utilized
<input type="checkbox"/>	Deposits are being made when amounts reach a certain threshold
<input type="checkbox"/>	Tickets sold for fundraising events are pre-numbered and reconciled to monies collected
<input type="checkbox"/>	Cash receipts and documentation are confirmed to match amounts being deposited

Cash Disbursements	
<input type="checkbox"/>	Purchases are authorized <i>in writing prior</i> to distributing funds
<input type="checkbox"/>	Supporting documentation is maintained, including proof of receipt of goods
<input type="checkbox"/>	Checks are being properly voided when required
<input type="checkbox"/>	Payments and reimbursements are issued within 30 days
<input type="checkbox"/>	No pre-signed checks and no signature stamps
<input type="checkbox"/>	Two signatures on every check

Bank Statements and Journal Entries

- | | |
|--------------------------|--|
| <input type="checkbox"/> | Statements are reconciled against bank balances monthly |
| <input type="checkbox"/> | The principal is responsible for approving all transfers, journal entries, and modifications |

Sales Taxes

- | | |
|--------------------------|--|
| <input type="checkbox"/> | Student groups are qualified for one-day tax-free sales |
| <input type="checkbox"/> | Taxable and tax-free sales are properly reported on the sales tax report |
| <input type="checkbox"/> | Sales taxes are paid on all purchases benefiting faculty |

Fundraising Events

- | | |
|--------------------------|---|
| <input type="checkbox"/> | Fundraisers are properly approved and documented |
| <input type="checkbox"/> | Sponsors are following fundraising guidelines |
| <input type="checkbox"/> | Sponsors always complete a fundraiser analysis report |

For more information, visit us online at

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