

How To Keep Your District Out of the News

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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.

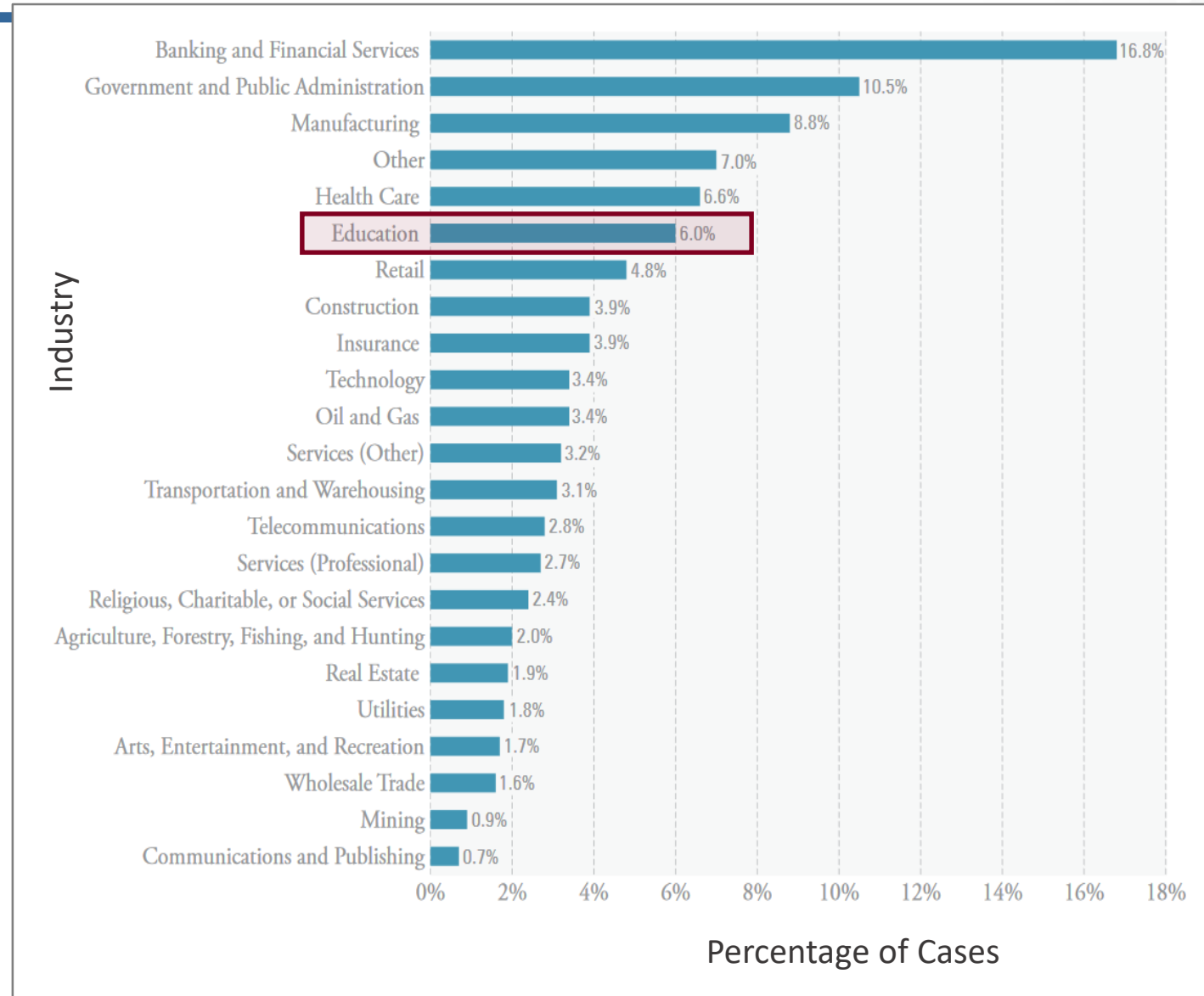
What Can Go Wrong?

- **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.

Examining Fraud

- Millions of dollars flow through the hands of students, teachers, coaches, volunteers & bookkeepers
- Liquidity of cash makes money more vulnerable to loss & theft
- ACFE estimates districts lose 5-7% of School Activity Funds or ASB Funds to theft & loss each year

Association of Certified Fraud Examiners (ACFE) Risk of Fraud 2016



Why Is Cash a Problem?



- \$1 Million in ASB Funds
- 8,000 student backpacks
- Hundreds of teachers and office staff
- Thousands of cash transactions and paper forms

With just 5-7% of cash disappearing due to fraud or theft, this district could be losing **\$50,000-\$70,000** each year.

Why Does the Problem Exist?

- Skimming is easy
- Personal financial struggles
- Lack of policy & procedures
- Cash gets lost
- Inadequate training



How To Solve the Problem

- Digital Money Trail
- Electronic Approvals
- District & Auditor Oversight
- Tight Audit Trail
- Fraud Reduction



Internal Controls

It's important that processes support reporting and compliance to regulations and policies while also driving operational effectiveness and efficiency.

tip

Tell bookkeepers the amount of cash left overnight should be no more than what they feel comfortable reimbursing if something goes wrong

- Invoices Approvals
- Timeliness of Deposits
- Conduct Random Internal Audits
- Have a Conflict of Interest Policy

Audit vs Fraud Detection

- Audits are not designed to find every potential fraud
- Not every transaction is checked by an auditor
- According to the ACFE, **only 4% of fraud is detected through external audits**
- An effective audit will often point out deficiencies in internal controls
- Responsible official signature does not necessarily mean it was “properly reviewed” by that official

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

Fraud Red Flags

- ▶ Multiple transfers between ASB Fund Accounts
- ▶ Raising large amounts of money & not spending it
- ▶ Bookkeepers who refuse to take time off
- ▶ School Administration who cannot answer questions about funds
- ▶ Staff that will not answer questions about funds/accounts
- ▶ Incomplete/Untimely bank reconciliations/monthly reports
- ▶ Increased staff or parent complaints

4 Areas to Highlights



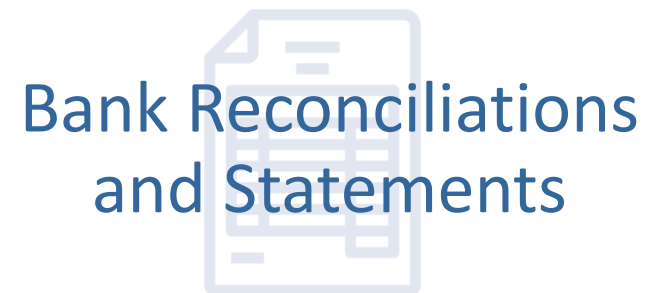
Cash Receipts



Ticket Sales



Cash Disbursements



Bank Reconciliations
and Statements

4 Areas to Highlights



Cash Receipts

- Use Online Payments for a complete audit trail
- Mandate signed receipts for all transactions
- Never use cash receipts to cash checks, make change or as a petty cash fund
- Physical count of cash and equivalents should equal total of all receipts issued

4 Areas to Highlights



Ticket Sales

- Maintained in a safe place & completely monitored
- Bookkeeper should prepare ticket boxes with pre-numbered tickets and sufficient cash to make change
- Ticket numbers and cash should be recorded by the bookkeeper on a reconciliation sheet and a copy retained
- Count & reconcile cash & tickets in front of another person to then be turned into the bookkeeper
- Expenses associated with each event should be paid by check
- No expenses should be paid out of cash gate receipts

4 Areas to Highlights



Cash Disbursements

- Strong Procurement Policies
- Principal to Approve **ALL** disbursements
- Purchase Orders should be marked **PAID**
- No checks signed in advance or blank
- No checks should be made payable to **“CASH”**
- Two signatures should be required on **ALL** checks
- **NEVER** allow signature stamps

tip

We recommend that districts not allow school staff to use debit or credit cards for purchases made out of ASB Funds

4 Areas to Highlights



Bank Reconciliations and Statements

- Statements should be received **UNOPENED** & reviewed by principal before submitting to the bookkeeper
- Principal to review all canceled checks for proper signatures & make copies to compare to the final reconciliation
- Principal to review reconciliation for mathematical accuracy
- Principals should **NEVER** sign statements without proper review
- Require all Bank Statements & Bank Reconciliations to be submitted to the district office

4 Groups of People Can Help Us Prevent Fraud



Bookkeeper Responsibilities

- Depositing all funds promptly & fully intact
- Maintaining all required records
- Submitting reports promptly (at least once a month)
- Keeping the principals informed of all potential problems
- Reconciling monthly



Sponsor Responsibilities

- Reviewing & approving all invoices
- Providing bookkeepers with copies of contract agreements
- Submitting all collected funds **daily**
- Controlling inventories of salable merchandise
- Enforce ticket control requirements & reporting for events with ticket admission



Principal Responsibilities

- Approving budgets & safekeeping of the funds
- Proper authorization of all transactions
- Compliant with applicable state laws, local board policy & administrative guidelines
- Familiar with district policies & procedures around ASB funds
- Thoroughly reviewing monthly reports



District Responsibilities

- Training principals, bookkeepers & other staff in accounting procedures
- Purchasing & implementing automated accounting software in the schools
- Ensuring compliance with accounting procedures through internal auditing
- Coordinate the annual external audit
- **STAY INVOLVED!**



Audit Checklist

Cash Receipts

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

Audit Checklist

Cash Disbursements

- Purchases are authorized *in writing prior* to distributing funds
- Supporting documentation is maintained, including proof of receipt of goods
- Checks are being properly voided when required
- Payments and reimbursements are issued within 30 days
- No pre-signed checks and no signature stamps
- Two signatures on every check
- Supporting documentation is maintained, including proof of receipt of goods

Audit Checklist

Bank Statements and Journal Entries

- Statements are reconciled against bank balances monthly
- The principal is responsible for approving all transfers, journal entries, and modifications

Fundraising Events

- Fundraisers are properly approved and documented
- Sponsors are following fundraising guidelines

Questions?

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