

ASD INTERNAL AUDIT REPORT

2013-02

Cash Controls

Anchorage School District

November 27, 2013

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Mayor Dan Sullivan

November 27, 2013

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present **ASD Internal Audit Report 2013-02, Cash Controls, Anchorage School District** for your review. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Cash Controls. The objective of this audit was to determine the adequacy of controls over funds collected for student activities and school fees, and whether receipts were properly recorded in the financial systems. To achieve our objective we conducted surprise cash counts at 12 judgmentally selected schools and interviewed District staff. In addition, we judgmentally selected cash receipt transactions and deposit packets from each selected school to determine if cash sources were documented and accounted for properly. The scope of our review consisted of cash receipt transactions processed during the 2012-13 school year for the 12 selected schools, and did not include student nutrition money or online payments.

Based on our review, we found cash controls at the District need improvement. Our review revealed that teachers and cash handlers did not always provide receipts to students or parents upon payment for various fees. In addition, cash handling procedures did not always comply with the requirements of the IFAS (Integrated Financial and Administrative Solution) Cash Handling User Guide and the Student Activity Funds Accounting Manual and manual receipts were not always accounted for properly. Moreover, it appeared that cash was not always deposited timely and exceeded the daily on hand limit of \$1,500, and cash handling duties were not always segregated. Finally, decentralized checking accounts used by some schools may not be needed, transactions for identical items were sometimes entered in both the IFAS system and in AA Pro (Datateam Activities Accounting Pro), and an incorrect parking permit fee was used in the student handbook.

There were nine findings in connection with this audit. Management was responsive to the findings and recommendations.

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Anchorage School District

Introduction. The Anchorage School District (District) collects money for a variety of items such as gate admissions, parking permits and fines, lost book fines, concession and clothing apparel sales, and extracurricular student activities. Extracurricular activities include clubs, classes, intramurals, fine arts, and inter-scholastic programs. District staff, including Financial Data Control Clerks (FDCC), Activities Clerks and Administrative Assistants (cash handlers), are designated to collect and deposit cash and checks at over 100 schools. Field trip money and class fees are also collected by teachers or other personnel. These funds should be delivered to the cash handlers for deposit. Credit card payments for some activities are accepted online through Zangle ParentConnect.

Cash receipts are entered either in the Integrated Financial and Administrative Solution (IFAS) system or in Datateam Activities Accounting Pro (AA Pro). The District created the IFAS Cash Handling User Guide and the Student Activity Funds Accounting Manual to address the proper way to collect, document, and monitor cash receipts in IFAS and AA Pro. Funds are classified as either centralized funds or decentralized funds.

Centralized funds are deposited in the District's centralized bank account. The bank reconciliation is prepared by Accounting staff. Centralized transactions include fees such as parking permits, sports activity fees, class fees and book fines. IFAS is used to account for centralized funds.

Decentralized funds are deposited in decentralized checking accounts established, reconciled, and managed by each individual school. Decentralized transactions include parking fines, club money, and student store sales. AA Pro is used to account for the District's 25 decentralized accounts, with some schools having more than one decentralized account. Some payments initially accounted for in IFAS are reconciled monthly and later allocated to decentralized accounts.

IFAS and AA Pro generate automatic receipts when money is received. Additionally, staff can issue manual receipts using a pre-numbered 4-part receipt book, in the event that an electronic receipt cannot be issued. The manual receipt is later entered into the appropriate system. IFAS and AA Pro receipts totaled about \$27.5 million for the 2012-13 school year.

Total Receipts
FY 2012-13

Cash and checks received through IFAS	\$ 21,384,821
Refunds processed through IFAS	(73,149)
Online credit card payments received through IFAS	1,234,306
Cash and checks received through AA Pro	4,970,772
Total:	\$ 27,516,750

Source: Unaudited IFAS and AA Pro data

Objective and Scope. The objective of this audit was to determine the adequacy of controls over funds collected for student activities and school fees, and whether receipts were properly recorded in the financial systems. To achieve our objective we conducted surprise cash counts at 12 judgmentally selected schools and interviewed District staff. In addition, we judgmentally selected cash receipt transactions and deposit packets from each selected school to determine if cash sources were documented and accounted for properly. The scope of our review consisted of cash receipt transactions processed during the 2012-13 school year for the 12 selected schools, and did not include student nutrition money or online payments.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through June 2013. The audit was requested by the Anchorage School Board Budget and Audit Committee.

Overall Evaluation. Cash controls at the District need improvement. Our review revealed that teachers and cash handlers did not always provide receipts to students or parents upon payment for various fees. In addition, cash handling procedures did not always comply with the requirements of the IFAS Cash Handling User Guide and the Student Activity Funds Accounting Manual and manual receipts were not always accounted for properly. Moreover, it appeared that cash was not always deposited timely and exceeded the daily on hand limit of \$1,500, and cash handling duties were not always segregated. Finally, decentralized checking accounts used by some schools may not be needed, transactions for identical items were sometimes entered in IFAS and AA Pro, and an incorrect parking permit fee was used in the student handbook.

FINDINGS AND RECOMMENDATIONS

1. Receipts Not Always Issued by Teachers.

- a. Finding.** Teachers did not always provide receipts to students or parents upon payment for various fees. In addition, after cash was collected teachers did not always submit it to the cash handlers using a Funds Transfer Form. However, this form only documents how much cash was given to another employee for deposit and may not document the total amount collected. As a result, we were not able to verify that the cash we counted in our surprise cash counts at the 12 schools we visited was the correct amount. In addition, without proper documentation evidencing the amount collected, it was not possible to determine any cash overages or shortages when making deposits. The lack of proper documentation of cash collections precludes the detection of cash losses or misappropriation. Proper cash controls over the receipt of cash protect both the employee and the District in case of loss.

Teachers collect money from students and parents for a variety of purposes such as field trips, school supplies, snacks, and so forth. Proper cash controls dictate that the receipt of cash be documented through a cash receipt provided to the individual

giving the cash and as a record for how much was received to support the cash deposit. Without this documentation it becomes almost impossible to verify that all cash received was properly accounted for and deposited.

b. **Recommendation.** The Chief Financial Officer and the Chief Academic Officer should carefully evaluate the risks of allowing teachers to collect cash from students and parents without proper documentation. In addition, consideration should be given to implementing a process to document all cash receipts for all school activities collecting cash.

c. **Management Comments.** Management stated, “The IFAS Cash Handling User Guide does not require personnel other than cash handlers to issue receipts for funds received for field trips, class fees, or other purposes. It is district policy that a Funds Transfer Form be used in these situations when funds are submitted to the “cash handlers”. At that time, the cash handler will issue a single receipt to the person submitting the funds.

“Current procedures and practices will be reviewed as appropriate. Additional communication and trainings will be provided to school based personnel to ensure policies and procedures are being adhered to.”

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Receipts Not Always Issued by Cash Handlers.**

a. **Finding.** During our surprise cash count, we observed cash handlers did not always issue receipts to students or parents upon payment for a fee, or when money was

turned in by student clubs for deposit. The Student Activity Funds Accounting Manual states that receipts will be given for all money received. As a result, we were not able to verify that the cash we counted in our surprise cash counts at the 12 schools we visited was the correct amount. In addition, there was little assurance that funds were not misappropriated. Finally, since receipts were not always issued it was difficult to determine if deposits were made timely. For example:

No Receipt Issued for Club Money - At one high school we observed a student turning in club money in an unsealed envelope, but no receipt was issued. The cash handler accepted the cash without double-counting it in front of the student. We were told that this was not unusual. Cash handlers at various schools indicated that they did not always double count money when it was turned in and a receipt is not always issued when funds are received.

No Receipt Issued for Extra-Curricular Activity - At one charter school a parent paid \$60 in cash for one student for before and after hour school programs. The parent was not given a receipt since it was not immediately entered into IFAS. While performing our surprise cash count on May 6 we found cash on the administrative assistant's desk in an unsealed envelope with the student's name on both the envelope and sticky notes on the cash. The money was entered into IFAS on May 14. According to the administrative assistant, she was instructed not to enter the money into IFAS until the bank deposit was ready to be prepared. When the deposit was made we checked IFAS records and found that only \$55 was deposited. There was no record showing a \$5 refund was made and no record in IFAS showing the student had received credit for the payment.

- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should coordinate with schools to ensure that receipts are issued promptly to students and parents paying for fees and all cash and checks are deposited timely.

- c. **Management Comments.** Management stated, “The IFAS Cash Handling User Guide (p. 4) states ‘All funds received whether it is by check, money order, or cash must be receipted.’ However, in the case of student groups submitting collected funds to the cash handler, the Student Activity Funds Accounting Manual (SAFAM) p. 45, #3 states ‘In the event it is not possible to count the deposit in the presence of a representative of the organization turning the money in due to time constraints, a Money Bag Receipt should be completed and given to the representative of the organization turning the money in. The money bag receipt will provide the student organization with proof of delivery of funds, but does not verify or confirm the amount submitted.’

“The Anchorage School District (ASD) Finance Department will continue to work with school based personnel on the proper procedures for receipting, including prompt receipting of funds collected and timely deposit of those funds.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Cash Handling Procedures Need Improvement.**

- a. **Finding.** Cash handling procedures did not always comply with the requirements of the IFAS Cash Handling User Guide and the Student Activity Funds Accounting Manual. As a result, an environment existed where undetected losses or misappropriations could occur. According to the National Center for Education Statistics, “All activity funds should be subject to sound internal control procedures.” In most schools we visited, cash handling procedures were not followed because

school staff told us they were busy with other tasks, even though these schools collected large sums of money each year. Although District administration updated their cash handling policies and procedures, we found the following:

Deposits Not Always Documented – Deposits prepared at the schools were not always properly supported by required documentation. We reviewed 19 deposit packets, totaling \$101,676, to determine if cash receipts and transactions were properly documented and supported as required by the cash handling procedures. In addition, we conducted surprise cash counts schools. We found that:

- Eleven of 19 deposit packets were not supported by a funds transfer form. These forms are used when transferring collected funds to a cash handler. For example, a teacher may collect money for a field trip and submit the money to a cash handler for deposit. When submitting the money a funds transfer form is used which itemizes the amounts collected from each person and the payment type, such as cash or check. During our surprise cash count 4 of 12 schools had a total of \$1,530 in checks and cash turned in by a teacher or club sponsor. The cash and checks were not supported by money count sheets or funds transfer forms.
- Five of 19 deposit packets did not include a duplicate copy of the deposit slip or bank deposit receipt.

Funds Not Processed Correctly – During our surprise cash count at one high school we found a \$375 check had not been entered into IFAS. The check was not entered because the FDCC was not sure how to code the transaction in IFAS. In addition, at the same high school, we identified duplicate entries of \$50 each in IFAS. These duplicate entries were made because the FDCC could not recall if the money had been entered in IFAS already.

Confusing Procedures – Cash handling procedures for IFAS and AA Pro were sometimes confusing. For example:

- AA Pro procedures require that a bank deposit receipt be maintained as part of the supporting deposit documentation. IFAS procedures do not have this requirement.
- AA Pro procedures require that a money count sheet be prepared by anyone making a deposit to the Activities Office. IFAS procedures do not require a money count sheet, but do require that a funds transfer form be completed, which is not mentioned in the AA Pro procedures.
- AA Pro procedures state that deposits should be made at least once a week and daily if necessary if the cash is \$1,500 or more. IFAS procedures do not specify the \$1,500 limit.

b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should ensure that cash handling procedures found in the IFAS Cash Handling User Guide and the Student Activity Funds Accounting Manual are followed and are consistent between each other.

c. **Management Comments.** Management stated, “The IFAS Cash Handling User Guide and SAFAM both state that supporting documentation and a copy of the deposit slip must be included in the deposit package. Supporting documentation may vary depending on the type of product, service, or fee that funds were collected for. Not all deposits require a funds transfer form; examples of these include gate receipts, student store proceeds, concession sales, bake sales, and book fairs.

“Additional communication and training will be provided to school based staff on the proper processing and recording of transactions, as well as ensuring adequate supporting documentation for all deposits made. The District is currently in the process of reviewing and updating the IFAS Cash Handling User Guide and SAFAM.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Manual Receipts Not Always Accounted for Properly.**

- a. **Finding.** Manual receipts were not always accounted for properly. As a result, there was little assurance that funds were not misappropriated. We reviewed the manual receipt books to account for any manual receipts that were not entered in the system and found the following:

Charter School Manual Receipts Not Recorded - One charter school had two manual receipts for cash transactions totaling \$85 that were not recorded in IFAS. One receipt was for a \$10 locker fee and the other receipt was for a \$75 class supply fee. We found no evidence that the funds were deposited, that refunds were issued, that the transactions were voided, that the received funds were credited to the students' accounts, and that the manual receipts were reconciled to IFAS. In addition, the yellow copy receipts, which are used as supporting documentation for deposits, were still attached to the manual receipt books, indicating no deposit was made.

High School Manual Receipts Not Recorded - One high school had two manual receipts for cash transactions totaling \$70 that were not recorded in IFAS. One receipt was for a \$50 parking ticket and the other receipt was for a \$20 book replacement fee. We found no evidence that the funds were deposited, that refunds were issued, that

the transactions were voided, that the received funds were credited to the students' accounts, and that the manual receipts were reconciled to IFAS. In addition, the yellow copy receipt was no longer attached to the manual receipt book, indicating a deposit may have been made, yet no deposit was made.

Manual Receipt Not Fully Entered - We found a manual receipt at one high school that was not fully entered into IFAS. The manual receipt showed that \$24 in cash was received for the payment of lost books. However, only \$8 was entered in IFAS. We found no evidence that a refund was issued.

Manual Receipt Numbers Entered Incorrectly - We found nine manual receipts at three high schools and one charter school that were not entered into IFAS using the pre-numbered receipt number on the manual receipt. Instead, most of the receipts were entered in IFAS using the automatic generated number. As a result, it was difficult to properly track and reconcile manual receipts. In addition, we found two manual receipts that were incorrectly entered into AA Pro. One entry included an additional digit in the receipt number and another receipt number was entered twice for two different transactions. Cash handlers indicated that AA Pro does not recognize when a duplicate cash receipt number is entered in the system.

- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should coordinate with schools to establish accountability over manual receipts, and enforce existing cash handling guidelines.

- c. **Management Comments.** Management stated, "The IFAS Cash Handling User Guide (pg. 11) states that when manual receipts are used and then entered into IFAS

the manual receipt number should be used instead of the system generated receipt number. This provides the ability to electronically reconcile transactions and insure that funds have been posted to student accounts.

“Further review will be completed to evaluate if school based personnel are following procedures for manual receipting. In addition further training and guidance will be given to those that have decentralized accounts on the proper use of manual receipts when inputting them into AA Pro. ASD Finance personnel will continue to periodically monitor the cash handlers at schools to ensure proper procedures are being followed.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Deposits Not Always Made Timely and Within Designated Limit.**

- a. **Finding.** It appeared that cash was not always deposited timely and exceeded the daily on hand limit of \$1,500. The Student Activity Funds Accounting Manual states that deposits should be made at least once a week and daily if necessary if the cash is \$1,500 or more. Large sums should be deposited the same day to the bank and not held overnight.

Based on check dates and money count forms we reviewed when conducting the surprise cash counts, we saw checks and cash that were one to three months old, and money that exceeded \$1,500. Although we could not determine if money was turned

in late by the student or parent, or if school staff kept the money after collecting it from a student or parent, it appeared that deposits were not made timely. Specifically, we noted the following:

- A high school had \$5,346 that was not deposited;
- A middle school had \$1,925 that was not deposited;
- An elementary school had checks that were three months old. Cash received three weeks prior was not deposited;
- A middle school had a check that was one month old;
- A charter school had a check that was one month old.

b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should coordinate with schools to establish the accountability and monitoring of cash deposits to ensure that they are deposited timely as required in the cash handling guidelines. Additionally, the Chief Financial Officer should consider decreasing the daily amount limit and increasing the frequency of deposits.

c. **Management Comments.** Management stated, “The IFAS Cash Handling User Guide (p. 3) states that funds should be deposited on a regular basis (at least weekly) and in coordination with Student Nutrition pickup. The SAFAM (p. 47) states that in general, deposits should be made at least once a week and more often if the cash is \$1,500 or more. Large sums should be deposited the same day and not held overnight.

“Additional training and guidance will be provided to school based personnel who are involved in cash handling and to those who oversee cash handlers.”

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Duties Not Always Segregated.**

- a. **Finding.** Cash handling duties were not always segregated in the 12 schools we reviewed. For example, 9 of the 12 schools we reviewed performed their own bank reconciliations because they had decentralized accounts which are not managed by the District's main office. Cash handlers at some of these schools prepared the reconciliation, the deposit, and in some cases also delivered the deposit to the bank.
- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should coordinate with schools to implement segregation of duties, as recommended in the cash handling procedures.
- c. **Management Comments.** Management stated, "The SAFAM (p. 57) states that the Principal or Assistant Principal should review the bank statements, sign and date the bank statements to indicate they have reviewed it thoroughly before giving the bank statement to the Activities Clerk for reconciliation to the school's records. The SAFAM (p. 47) also states that the deposits should be made by the Principal, Assistant Principal over Student Activities, or the Principal's designee.

"If the Principal designates a staff member to deliver the deposit to the bank, additional security measures should be in place to ensure the deposits accuracy and completeness. The ASD Finance Department will work with school based staff to ensure that these additional security measures are in place and followed to provide an adequate level of segregation of duties."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Decentralized Checking Accounts May Not Be Needed.**

- a. **Finding.** Decentralized checking accounts used by some schools may not be needed. Twenty-two schools have decentralized checking accounts. Funds collected for these decentralized accounts are received through AA Pro or adjusted by IFAS entries. Decentralized checking accounts are managed and reconciled by the individual schools. Cash receipts for various student activities are collected and deposited into the decentralized checking accounts by school staff. Additionally, schools have check-writing abilities that do not require additional approval by Accounting. While decentralized accounts provide greater flexibility at individual schools, a corresponding increase in accountability is needed to protect school funds.

The District recently implemented a procurement card program. The intent of the procurement card program is to provide a stream-lined, efficient means to procure low cost items while reducing the need for petty cash funds, employee advances, employee reimbursements, small dollar purchase orders and the number of vendor payments currently being processed. As a result, using a decentralized bank account to collect funds and make purchases may no longer be necessary.

- b. **Recommendation.** The Chief Financial Officer should determine if having two different accounting systems for fees and student activities addresses the District's needs.
- c. **Management Comments.** Management stated, "The District has plans to review decentralized checking accounts and determine if those accounts should remain active or if they are no longer needed. The District is continuing to look at additional options

and resources to streamline activities and reduce the need for decentralized checking accounts, such as procurement cards, expanding online payment options, system upgrades or enhancements.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Transactions Not Consistently Entered.**

- a. **Finding.** We found that transactions for identical items were sometimes entered in IFAS or AA Pro. For example, uniforms for physical education and yearbooks were entered in IFAS at one school, but entered in AA Pro at another school. Subsequently, funds needed to be allocated and adjusted between the two systems so that each system properly accounted for centralized and decentralized funds. Additional staff resources were required to reconcile the two systems and make appropriate entries.
- b. **Recommendation.** The Chief Financial Officer should clearly define which transactions are entered into IFAS and which transactions are entered into AA Pro.
- c. **Management Comments.** Management stated, “Because the District has both decentralized and centralized accounting, items are recorded in either IFAS or AA Pro based on the set-up and business practice of a specific school. Due to the current accounting software used by the District, decentralized accounts cannot be automated and streamlined to interface with IFAS. In an effort to enhance controls, the District has elected to have some decentralized items, such as yearbooks, to have the option of being paid online or through electronic receipting in IFAS. This does require the District to allocate additional resources but is worth the added security as well as the convenience to parents and students.

“Future review of decentralized accounts may eliminate the need for AA Pro at the school level and reduce the additional time required to enter into IFAS.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Parking Permit Fee Inconsistent.**

- a. **Finding.** An incorrect parking permit fee was used in the student handbook. As a result, the District undercharged some high school students a total of \$190 for 31 transactions. Specifically, the student handbook states that semester and annual parking fees are \$50 and \$100. However, IFAS shows that the approved fees are \$55 and \$110. School staff indicated that parents will sometimes pay the lesser fee because that is what is stated in the handbook.
- b. **Recommendation.** The Chief Financial Officer should review the fees outlined in the upcoming student handbook to ensure that fees are updated.
- c. **Management Comments.** Management stated, “The Anchorage School District Student Handbook correctly listed the amounts for semester parking fees at \$55. However, High Schools produce school specific student handbooks for distribution. The handbooks produced and distributed by several high schools incorrectly stated the semester parking fee as \$50.

“The District will communicate with high schools to ensure all fees are accurately stated in student handbooks.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate District officials.

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