

# ASD INTERNAL AUDIT REPORT

2016-02

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Decentralized Student Activities

Anchorage School District

July 21, 2016

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 21, 2016

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present **ASD Internal Audit Report 2016-02, Decentralized Student Activities, 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 Decentralized Student Activities. The objective of this audit was to determine if decentralized student activity funds were consistently and effectively managed and controlled throughout the District according to its policies and procedures. To achieve our objective, we judgmentally selected cash receipts and deposits to ensure funds were deposited and accounted for properly. We also reviewed disbursement and account adjustments to determine if they were properly supported. In addition, we reviewed bank reconciliations, raffle ticket activity, and evaluated the effectiveness of internal controls. The scope of our review consisted of decentralized transactions processed during the 2014-15 school year.

Improvements are needed to better account for decentralized student activity funds. Specifically, decentralized student activity accounts were not consistently and adequately managed at the school level; actual cash and checks deposited at the bank did not always match what was collected by three schools; cash was not always deposited timely; and cash receipt numbers were not always accounted for in Datateam Activities Accounting Pro or were not on file. Moreover, raffle ticket activity was not always documented at one high school, and receipt and disbursement transactions for a high school raffle account were not accounted for in Datateam Activities Accounting Pro. In addition, some questionable reimbursements were paid to District personnel from student activity funds; adjustments in Datateam Activities Accounting Pro were not always documented by signed fund transfer forms or adjustment journals; and disbursements were not always consistently documented and initiated as required by the Activity Manual. Furthermore, some schools made donations to organizations that were not on the approved Anchorage School District Charitable Giving Campaign list, nor were they approved by the appropriate Instructional Division Executive Director. Finally, end of year balances in some principals' accounts were not always transferred back to the general student activity accounts and completed bank reconciliations were not always timely submitted to the Accounting Department.

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

Michael Chadwick, CICA  
Acting Director, Internal Audit



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 21, 2016

**ASD Internal Audit Report 2016-02**  
**Decentralized Student Activities**  
**Anchorage School District**

**Introduction.** The Anchorage School District (District) allows schools to manage their own student activity funds with their own checking accounts and accounting system. These funds, known as decentralized funds, are kept separate from the central accounting system. Datateam Activities Accounting Pro (AA Pro) serves as the decentralized accounting system for cash receipts, disbursements, and accounting adjustments for decentralized funds. There were 23 schools that had decentralized accounts. According to the Comprehensive Annual Financial Report for fiscal year ended June 30, 2015, nearly \$6.5 million in revenues were generated from decentralized student activity accounts. Additionally, nearly \$6.4 million was expended from decentralized student activity accounts.

Schools with decentralized accounts are generally responsible for accounting and depositing their own cash and checks collected from student activities such as field trips, dances, ticket sales for sporting events, and vending machine proceeds. Schools are also responsible for maintaining their own documentation for checks issued to purchase supplies and equipment, pay vendors, and reimburse staff. Bank deposits, disbursements and account adjustments are initiated, processed, documented, and reconciled at the school level. Activities Clerks and Financial Data Control Clerks (FDCC) at high schools and middle schools, respectively, are assigned to collect funds, print checks, and input and modify data in AA Pro. The District created the Student Activity Funds Accounting Manual (Activity Manual) to address the proper way to manage and account for funds from decentralized student activities.

**Objective and Scope.** The objective of this audit was to determine if decentralized student activity funds were consistently and effectively managed and controlled throughout the District according to its policies and procedures. To achieve our objective, we judgmentally selected cash receipts and deposits to ensure funds were deposited and accounted for properly. We also reviewed disbursement and account adjustments to determine if they were properly supported. In addition, we reviewed bank reconciliations, raffle ticket activity, and evaluated the effectiveness of internal controls. The scope of our review consisted of decentralized transactions processed during the 2014-15 school year.

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 January through April 2016. The audit was requested by the Anchorage School District Finance Committee.

**Overall Evaluation.** Improvements are needed to better account for decentralized student activity funds. Specifically, decentralized student activity accounts were not consistently and adequately managed at the school level; actual cash and checks deposited at the bank did not always match what was collected by three schools; cash was not always deposited timely; and cash receipt numbers were not always accounted for in AA Pro or were not on file. Moreover, raffle ticket activity was not always documented at one high school, and receipt and disbursement transactions for a high school raffle account were not accounted for in AA Pro. In addition, some questionable reimbursements were paid to District personnel from student activity funds; adjustments in AA Pro were not always documented by signed fund transfer forms or adjustment journals; and disbursements were not always consistently documented and initiated as required by the Activity Manual. Furthermore, some schools made donations to organizations that were not on the approved ASD Charitable Giving Campaign list, nor were they approved by the appropriate Instructional Division Executive Director. Finally, end of year balances in some principals' accounts were not always transferred back to the general student activity accounts and completed bank reconciliations were not always timely submitted to the Accounting Department (Accounting).

## FINDINGS AND RECOMMENDATIONS

### 1. **Decentralized Accounts Need Improved Oversight.**

- a. **Finding.** Decentralized student activity accounts were not consistently and adequately managed at the school level. Although the Activity Manual provides guidance and rules for managing decentralized student activity funds, throughout this report, we have identified irregularities and inconsistencies involving cash receipts, check disbursements, and account adjustments within AA Pro. Irregularities and inconsistencies were reported to management when they were discovered.

In addition, because of the lack of adequate oversight we question the risks and benefits for placing student activity funds in decentralized accounts with little direct oversight from Accounting because the accounts are administered by the schools. A management review completed by the District's Finance Department in FY 2010-11 stated that ". . . with this autonomy comes the responsibility to maintain accountability." In addition, the management review stated that "In the future, the district could consider some of the following solutions to minimize the risks with regard to student activity funds including . . . Require centralization of deposits and disbursements" and "Incorporate student activity accounting into the district accounting system (IFAS)." Placing district activity funds in accounts managed by Accounting minimizes the risk of misappropriation by providing an environment with better internal controls.

Moreover, the District recently implemented a procurement card program. The intent of the procurement card program is to provide a streamlined, efficient means to procure low cost items while reducing the need for employee reimbursements, small dollar purchase orders and the need to write checks from decentralized accounts. As a

result, using a decentralized bank account to collect funds and make purchases may no longer be necessary.

Decreased oversight from Accounting requires compensating oversight at the school level from school administrators. Failing to implement and maintain internal controls such as segregating duties, double counting money, and requesting proper documentation for disbursements may create opportunities for inappropriate uses of student activity funds. Internal controls stop being effective when staff or supervisors circumvent the processes and procedures established in the Activity Manual.

- b. **Recommendations.** The Chief Financial Officer and Chief Academic Officer should:
  - 1) Provide training to school administrators to ensure that decentralized student activity accounts are properly managed.
  - 2) Determine whether the risks outweigh the benefits of allowing schools to manage and account for decentralized student activity accounts and determine if the District is willing to accept the risks.
  
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation. Additional training has been planned for August 2016 with all High School Activity Clerks and Middle School FDCC’s. Management will request all principals who oversee the activities offices to be included in all training opportunities as well. The district has recently moved two of the decentralized accounts to be centrally managed due to lower volume of activity. We continue to monitor the activity levels of decentralized accounts to move towards centralized software and pilot opportunities to incorporate additional accounts to be centrally managed.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendations.

## 2. Variances in Checks and Cash Deposited.

- a. **Finding.** Actual cash and checks deposited at the bank did not always match what was collected by three schools. Specifically, bank deposit records varied from money count sheets. Money count sheets were prepared by staff that collected money from students. The money count sheets indicated the types of currency and amount of checks collected. The money count sheets were then submitted to the Activities Office to help prepare the deposit. We found 19 bank deposits from two high schools and one middle school that contained variances between what was deposited and what was reported on the money count sheets.

As noted in the Activity Manual, “. . . the deposit should be counted by the Activities Clerk in the presence of a representative of the organization turning the money in. The Activities Clerk will count the cash and checks and verify the correct amount has been listed on the money count sheet.” It is a critical and necessary internal control to have two people count the cash and checks and compare the totals to the money count sheets prior to taking the deposit to the bank. Failing to maintain dual controls may lead to fraudulent opportunities.

- b. **Recommendations.** The Chief Financial Officer and Chief Academic Officer should:
- 1) Further review discrepancies in actual checks and cash deposited.
  - 2) Provide training to school administrators about risks associated with poor internal controls over cash handling.
  - 3) Implement the practice of having two people count the deposit and compare totals against the money count sheets before the deposit is made.
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation, noting that the majority of the discrepancies were found at one

school location. The administration will be including principals in all offered training opportunities for decentralized student activities.”

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

3. **Cash Not Always Deposited Timely.**

- a. **Finding.** Cash was not always deposited timely. We reviewed 115 deposits, from 15 checking accounts, prepared from January through June 2015, totaling \$870,510. We found that 34 of 115 deposits were not taken to the bank on time. According to the Activity Manual, “All cash or checks received by the Activities Office are to be deposited intact and on a timely basis. . . . 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.” Holding on to money creates an opportunity for loss and misappropriation of funds. Additionally, student clubs and organizations may not have access to their funds if money is not deposited timely.

Delays in depositing money when it was initially collected from students or when it was sent to the Activities Office ranged from one week to three months. For example:

- One middle school received \$1,832 in cash on February 23, 2015. On May 28, 2015, \$1,832 was deposited as part of a larger deposit.
- One high school received \$10,500 in checks and cash on January 18, 2015, but did not deposit the funds until February 25, 2015.
- Some cash was not deposited and remained at schools during the District’s winter break. For example, \$50,515 in checks and cash were held during



winter break at five schools. Of this amount, \$33,785 received on December 3, 2014, was not deposited until February 10, 2015.

Untimely deposits were the result of staff holding on to money and not turning it in to the Activities Clerks and FDCCs on time, or the Activities Clerks and FDCCs not preparing the bank deposits timely.

- b. **Recommendations.** The Chief Financial Officer and Chief Academic Officer should:
  - 1) Provide training to school administrators and staff regarding the risks associated with inadequate cash handling and not depositing money on a timely basis.
  - 2) Require that school administrators monitor the frequency of cash deposits to ensure that they are deposited timely as required by the Activity Manual.
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation and will continue to reinforce district procedures and the importance of timely deposits in trainings with staff and administrators.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendations.

4. **Gaps in Cash Receipt Numbers Existed in AA Pro.**

- a. **Finding.** Cash receipt numbers were not always accounted for in AA Pro or were not on file. We identified 161 gaps in cash receipt numbers. Some schools use three-part manual receipts when collecting money. One copy is issued to the person who submitted money, one copy is filed with the bank deposit backup, and one copy is filed numerically. Staff enters the receipt number and amount collected in AA Pro.

We noted that 142 of 161 receipt gaps appeared to be bookkeeping errors at two schools. Instead of entering individual receipt numbers in AA Pro for funds collected for tests and instrument rental fees, receipt numbers were grouped and entered as lump sum amounts. For example, one high school entered testing receipts in three lump sum amounts totaling \$1,820. These lumped totals consisted of various funds collected from various students or adults.

At four other schools, we identified 17 receipt gaps. Copies of the receipts were not retained, so we could not determine if receipts were voided or if money was collected and deposited. Additionally, two receipt copies indicated that \$20 in cash and \$214 for café sales were submitted for deposit. However, there was no evidence to show that receipts were entered in AA Pro. As a result, we were not able to determine that the money was deposited.

According to the Activity Manual, sequential receipts should be numerically controlled and recorded in AA Pro and voided receipts should be retained and filed in sequential order. Missing receipt numbers and receipt copies may be indications of questionable and inappropriate cash handling practices at schools.

- b. **Recommendation**. The Chief Financial Officer and Chief Academic Officer should remind staff to enter individual receipt numbers in AA Pro and to retain voided receipts.
- c. **Management Comments**. Management stated, “The administration agrees with the recommendation and will reiterate the need for receipt documentation in trainings with staff and administrators.”
- d. **Evaluation of Management Comments**. Management comments were responsive to the audit finding and recommendation.

5. **Raffle Ticket Amounts and Quantities Not Always Documented.**

- a. **Finding.** Raffle ticket activity was not always documented at one high school. As a result, we could not determine that all raffle ticket sales were submitted to the Activities Office. On March 15, 2015, the school reported that raffle ticket proceeds totaled \$49,251 for calendar year 2014. We found incomplete raffle records on file that did not document how many raffle tickets were printed, how many were sold, how many were not sold, and the price for each ticket. According to Alaska Revenue Regulations, *15 AAC 160.670, Raffle record*, a permittee shall keep record of the number of raffle tickets printed, the number of raffle tickets sold, the number of unsold raffle tickets and the price collected for a raffle ticket.
- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should remind staff to consistently document raffle ticket usage and sales, as required by Alaska Revenue Regulations.
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation, noting that only one school site has a gaming permit and will reiterate to staff and administrators that they must comply with documentation requirements of raffle activity to be in compliance with Alaska Revenue Regulations.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Raffle Transactions Not Tracked in AA Pro.**

- a. **Finding.** Receipt and disbursement transactions for a high school raffle account were not accounted for in AA Pro. As noted in the Activity Manual, one of the objectives of a student activity fund accounting system is to account for funds on a uniform

basis. Failing to consistently track cash receipts and disbursements in a uniform process may lead to decreased transparency and oversight by Accounting. This finding was previously noted in ASD Internal Audit Report 2014-03.

- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should require that cash receipts and disbursements for raffle activity be entered in an accounting system such as AA Pro or the centralized accounting system.
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation and will include raffle documentation procedures that need to be included in AA Pro.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Some Questionable Reimbursements.**

- a. **Finding.** Some questionable reimbursements were paid to District personnel from student activity funds. We identified seven reimbursements for questionable purchases totaling \$1,394. For example:
  - Reimbursements were processed for purchases such as gift cards for farewell gifts and gift cards for book stores, movie theatres, and iTunes to recognize students. Although written policies exist prohibiting the purchase of gift cards using a procurement card, written policies and procedures do not exist to define the appropriate uses of gift cards purchased with checks or how to distribute them. As a result, there was some confusion regarding the purchase of gift cards. According to Accounting staff, gift card purchases generally are not allowable and purchases are evaluated on a case-by-case basis.

- A reimbursement of \$230 was processed for a temporary employee for out-of-state travel expenses associated with coaching. Expenses included a knit top from Victoria's Secret for \$50, clothing from theme parks, and a \$106 purchase for an undisclosed item(s) from a souvenir shop at a theme park. Although receipts were provided, there was no documentation to explain the need for these purchases.

**b. Recommendations.** The Chief Financial Officer and Chief Academic Officer should:

- 1) Establish a gift card policy to address the appropriate uses and management of gift cards.
- 2) Promote accountability by requiring staff to provide proof of payment and to substantiate the need for irregular travel expenses prior to requesting reimbursements.

**c. Management Comments.** Management stated, "The administration agrees with recommendation #1 and will incorporate additional policy revisions for continuity across all district policies regarding gift cards. Management would like it to be noted that other questionable reimbursements described in finding #7, bullet point #2, had documentation in accordance with district procedures and were approved for reimbursement by the school principal. The district does not require a validation of need for other student activities purchases and doing so for what could be considered irregular travel expenses would be too subjective in nature to enforce on a small subset of transactions."

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

8. **Adjustments Not Always Supported by Documentation.**

- a. **Finding.** Adjustments in AA Pro were not always documented by signed fund transfer forms or adjustment journals. We found that 13 of 72 adjustments were not documented as required by the Activity Manual. Adjustments were processed to transfer funds to different accounts and to correct accounting errors, such as entering duplicate receipts or posting transactions to the wrong date. According to the Activity Manual, “All fund transfers require the completion of a Transfer Authorization form.” Also, adjustments and corrections to increase or decrease account balances must be supported by an approved adjustment journal from AA Pro and should be filed in the permanent expense adjustment journal file. Documenting and obtaining approval of adjustments for fund transfers and account corrections promotes dual controls and transparency.
- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should ensure that school administrators and staff retain supporting documentation to validate fund transfers and account corrections.
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation and will incorporate more detailed adjustment documentation training with staff and administrators to help support existing district procedures.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Disbursements Not Always Properly Documented and Executed.**

- a. **Finding.** Disbursements were not always consistently documented and initiated as required by the Activity Manual. Our review of 283 disbursements totaling \$926,053

revealed instances where disbursements were not pre-approved or were not supported by invoices, original receipts or personal service contracts. For example:

- *No Invoices or Original Receipts* – Invoices or original receipts were not documented for 31 disbursements totaling \$72,533. At 9 of 12 schools we visited, disbursements were supported by copies of receipts or billing statements, instead of original receipts or invoices, or were not documented at all. For example, we found reimbursements to staff based on receipt copies and credit card and vendor billing statements for supplies. We also found undocumented disbursements made payable to staff so funds could be used for tips for student trips. Other undocumented disbursements included a staff luncheon, a facility rental, prom catering, and field trips. Descriptions for undocumented disbursements were based on descriptions entered by staff into AA Pro. By relying on billing statements only, the District cannot determine if the school was double-charged for purchases. Accepting only original receipts for reimbursement ensures that the reimbursement has not already been processed and prevents the item from being returned after the reimbursement is issued.
- *No Personal Service Contracts* – Four disbursements at three schools totaling \$4,422 were processed for services performed by individuals without a personal service contract. Per the Activity Manual, “All services to be performed by an independent contractor or an individual who is not an employee of the District should be documented on an ASD Student Activity Fund Personal Service Contract.” Individuals were paid by a check issued directly by the school. Types of duties performed by individuals included motivational speaking, disc jockeying at dances, and hiring a vendor to provide entertainment rental equipment for a senior fun day.

- *No Pre-Approval* – Ninety-nine disbursements at 12 schools were not pre-approved by school administrators for reimbursements and purchases. Per the Activity Manual, “All purchases requiring student activity funds should be authorized by the Principal or Assistant Principal over Student Activities, via Purchase Order before the expenditure is made.” In cases where a Purchase Order is not accepted by the vendor and an advance check is not possible “. . . the Purchase Request/Pre-Authorization form may be used as the pre-authorization document for a purchase and reimbursement.” Documenting pre-approval for purchases promotes transparency and allows school administrators to evaluate the need of a purchased item.
  - *Unapproved Reimbursement* – A reimbursement to an employee for \$143 did not match the \$43 that was originally approved by the principal and activity sponsor for café supplies.
  - *Cash Change Funds* – Cash change funds were not always established and managed appropriately.
- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should promote accountability by ensuring disbursements are pre-approved and supported by original receipts and invoices, as required by the Activity Manual.
- c. **Management Comments.** Management stated, “The administration agrees with the recommendation and will incorporate more detailed pre-approval process for disbursements trainings with staff and administrators to help support existing district procedures.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.



**10. Donations Made to Unapproved Organizations.**

- a. **Finding.** Some schools made donations to organizations that were not on the approved ASD Charitable Giving Campaign list, nor were they approved by the appropriate Instructional Division Executive Director as required by ASD Policy 497, *Fund Raising Programs*. We found five schools made donations totaling \$3,307 to various organizations that were not approved, such as Providence Alaska Foundation, Helping Hand for Nepal, and the Alaska Zoo.

The agencies that are on the approved list met the criteria for charitable organizations to receive donations through the District's charitable contribution campaign. These charitable organizations were approved by the Alaska Combined Federal Campaign. The risk of fund misappropriation increases if funds are donated to unapproved agencies and causes.

- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should ensure that school administrators obtain and document approval from the appropriate Instructional Division Executive Director for donations made to organizations that are not on the approved list.
- c. **Management Comments.** Management stated, "The administration agrees with the recommendation and will include the need for proper approval from the appropriate executive director and documentation of approval in trainings with staff and administrators."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**11. Some Principals' Account Balances Carried Forward into New Year.**

- a. **Finding.** End of year balances in some principals' accounts were not always transferred back to the general student activity accounts. Specifically, we found six schools carried the balances in their principal's account into the new school year, instead of transferring the funds back to the general student activity account. End of year balances, at the six schools, totaled \$2,067. According to the Activity Manual, "Unused balances from the account may not be carried over to the following fiscal year. Unexpended balances should be returned to the general student activities account."
- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should remind staff and principals not to carry forward any principals' account balances into the new school year.
- c. **Management Comments.** Management stated, "The administration agrees with the recommendation, and will be looking at revising the language of this requirement, to be an annual spending limit in the newest Student Activities Accounting Manual revision."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**12. Bank Reconciliations Not Always Submitted Timely.**

- a. **Finding.** Completed bank reconciliations were not always timely submitted to Accounting. According to the Activity Manual, "Completed bank reconciliations along with other required monthly reports should be submitted to the Accounting Department no later than the last day of the subsequent month." We noted that six

schools submitted late bank reconciliations ranging from two days late to one month late. Two schools submitted late bank reconciliations because they required additional assistance from Accounting due to bookkeeping errors. Submitting timely bank reconciliations allows Accounting to perform additional reviews to resolve any discrepancies noted in the reconciliation.

- b. **Recommendation**. The Chief Financial Officer and Chief Academic Officer should remind staff to submit timely bank reconciliations.
- c. **Management Comments**. Management stated, “The administration agrees with the recommendation and will continue to reinforce district procedures and the importance of timely bank reconciliations in trainings with staff and administrators.”
- 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.

Audit Staff:  
Brenda Peña, CFE