

ASD INTERNAL AUDIT REPORT

2019-02

Fee Waivers

Anchorage School District

October 3, 2019

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

October 3, 2019

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2019-02; Fee Waivers; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Fee Waivers. The objective of this audit was to determine the adequacy of controls over fee waivers and to verify if the family cap amount was applied correctly and consistently. To achieve our objective, we visited eighteen schools where we interviewed staff and reviewed waiver forms on file. We also interviewed Anchorage School District administration staff to identify controls and responsibilities, and reviewed policies and procedures. Finally, we judgmentally sampled 248 activity fee waivers and 90 class fee waivers from the Anchorage School District's financial management system, Business Plus, to review.

Based on our review, we found that controls over fee waivers need to be enforced and improved. Specifically, activity waiver eligibility was not always verified by school administrators and our review identified missing and incomplete waiver forms for activity and class fees. In addition, there were no written procedures for processing activity fee waiver applications and class fee waivers. Furthermore, fee waiver applications were not always submitted before the start date of the activity. Finally, the report used to determine the \$390 family cap amount was misleading and family cap amounts were not always reported in Business Plus.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

October 3, 2019

ASD Internal Audit Report 2019-02

Fee Waivers

Anchorage School District

Introduction. The Anchorage School District (District) has a wide variety of activities and elective classes available to students. The District collects fees to participate in these activities and electives. If a student's family is experiencing a financial hardship, they may request a fee waiver for activities and/or elective class fees. Parents complete a waiver application form and submit it to the school to be reviewed and approved by the principal or his/her designee. The income guidelines for the activity fee waivers are the same used to qualify for the District's free and reduced meal program. Once the waiver is approved, the information is entered into the District's financial management system, Business Plus. (See Attachment for fee waiver statistics.)

Activities - In the 2017-2018 school year, 7,832 high school and 5,462 middle school students participated in activities, such as football, soccer, cross-country skiing, drama, debate, and forensics. The District collected fees to participate, since each of these activities may have costs such as coaching and referee services, bus transportation, and facility rentals. Depending on the activity, the participation fee ranged from \$193 to \$215. The maximum amount for activity fees for each family was capped at \$390. For example, each school year, students in the same family can participate in any combination of middle and high school activities and only pay \$390. The amount of activity fees reported in Business Plus between January 1 and December 31, 2018, was \$1,096,117.

Elective Classes - Elective classes offered included jewelry-making, pottery, drafting, and family consumer science. The teachers of each of these classes set the class fee. The family cap does not apply to class fees. The amount of class fees reported in Business Plus between January 1 and December 31, 2018 was \$681,769.

Objective and Scope. The objective of this audit was to determine the adequacy of controls over fee waivers and to verify if the family cap amount was applied correctly and consistently. To achieve our objective, we visited eighteen schools where we interviewed staff and reviewed waiver forms on file. We also interviewed District administration staff to identify controls and responsibilities, and reviewed policies and procedures. Finally, we judgmentally sampled 248 activity fee waivers and 90 class fee waivers from Business Plus to review.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of February through May 2019. The audit was requested by the Anchorage School Board Finance Committee.

Overall Evaluation. Controls over fee waivers need to be enforced and improved. Specifically, activity waiver eligibility was not always verified by school administrators and our review identified missing and incomplete waiver forms for activity and class fees. In addition, there were no written procedures for processing activity fee waiver applications and class fee waivers. Furthermore, fee waiver applications were not always submitted before the start date of the activity. Finally, the report used to determine the \$390 family cap amount was misleading and family cap amounts were not always reported in Business Plus.

FINDINGS AND RECOMMENDATIONS

1. Activity Waiver Eligibility Not Verified.

- a. Finding.** Activity waiver eligibility was not always verified by school administrators. Our review of 248 activity fee waivers did not find a single fee waiver that had documentation of the family being on public assistance, but we did find one fee waiver

application that had a pay stub attached to it, verifying that the family qualified for the free/reduced federal lunch program. The Middle School Activities Handbook states that “To be eligible to participate in the middle school interscholastic activities program, a student **must** . . . Pay participation fee per sport or be eligible for a sports fee waiver.” In addition, the High School Activities Handbook states that when applying for an activity fee waiver, students and parents are required to “. . . submit documentation of being on public assistance or qualifying for the free/reduced federal lunch program.” According to District staff that we interviewed, the Secondary Education Department had distributed qualifying income guidelines, but instructed schools not to ask for proof of income demonstrating that they qualified for the free/reduced federal lunch program. In addition, the fee waiver application did not request that parents provide documentation of being on public assistance or proof of income to verify whether the applicant qualified for the free/reduced federal lunch program. As a result, some schools approved all applications, regardless of income listed. For example:

- *Waivers Automatically Approved* - At one middle school, 14 of 16 students on a basketball team had fee waivers. According to the school’s administrative assistant, the principal instructed that “. . . if someone puts in for a sports fee waiver, he’s approving it.”
- *Income Exceeded Limits* - One District employee had his child’s fee waivers approved, even though the family’s reported \$65,000 income on the fee waiver applications exceeded the \$48,063 income limit for the reduced federal lunch program for a family of three. In another case, a fee waiver was approved for a family of seven, noting an income of \$135,000 on the fee waiver application, exceeding the \$88,023 income limit for the reduced federal lunch program.
- *Income Unclear* - We found fee waiver applications were approved with income information such as “not enough”, “N/A”, and “0”. We found no indication that any follow-up was performed to verify these entries.

Since fee waiver eligibility was not verified, there could be families that received fee waivers that should not have received them. As a result, students and families who paid their activity fees may be subsidizing those students and families who should have paid activity fees but did not pay. Moreover, several District staff we interviewed stated that they were aware of fraudulent fee waiver applications but lacked management support to question or deny them.

- b. **Recommendation.** The Deputy Superintendent should ensure that school administrators verify waiver eligibility by ensuring that applicants provide the required documentation of being on public assistance or qualifying for the free/reduced federal lunch program. This may require that the fee waiver application be modified to be consistent with the requirements found in the Middle School and High School Activities Handbooks.
- c. **Management Comments.** Management stated, “Management agrees with the auditor’s recommendations.
 - “a. ASD is going to assess, research available options, update and implement a new system by which school administrators will be able to quickly validate whether a student qualifies for an activity waiver. School administrators do not currently have access to a central data repository in which they can look up students and validate their qualification for a waiver. This will be in place prior to implementing changes following a staff development and training period.
 - “b. The administration will update the Academic Regulations (AR) for activity fees, incorporating all required information in a single document, and will implement the new procedures district-wide. Spot checks will be performed to assure compliance.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Missing and Incomplete Waiver Forms.**

- a. **Finding.** Our review identified missing and incomplete waiver forms for activity and class fees. Specifically, of the 248 activity fee waivers reviewed, 34 (14%) were missing the waiver form and 32 (13%) waiver forms were missing signatures and/or income information. In addition, of the 90 class fee waivers reviewed, 18 (20%) were missing the waiver form and 3 (3%) waiver forms were incomplete. Some school administrators delegated the authority to waive class fees to classroom teachers, and some teachers approved the class waivers without written documentation or notification to the school principal or administrative staff. These class fee waivers were not entered into Business Plus. By not documenting the fee waivers, the risk for fraud and abuse is increased.
- b. **Recommendation.** The Deputy Superintendent should ensure that waivers are not granted without complete and accurate documentation. Approval procedures should include review of forms for family information, income, class or activity requested, and approval signatures.
- c. **Management Comments.** Management stated, "Management agrees with the auditor's recommendations.
- "a. The bulk of the findings regarded class fee waivers, as opposed to athletic fee waivers identified in Finding #1. The administration will build a system, integrating Child in Transition, Migrant Ed, income information and Direct Certification data in order to provide a single source for administrators to validate waiver status.
- "b. The administration will update the AR for class fees, for both secondary and elementary, and implement changes following a staff development and training period. Spot checks will be performed to assure compliance."

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

3. **Lack of Procedures for Processing Activity Fee Waiver Applications.**

- a. **Finding.** There were no written procedures for processing activity fee waiver applications. For example, there was no guidance on what was required for activity fee waiver approval or denial, entry into Business Plus, or record retention. Effective procedures help create an internal control environment to help prevent theft, abuse, and fraud. We identified several problems due to a lack of written procedures, such as:
- *Waiver Frequency Inconsistent* – Some schools required a waiver application for each activity, while others only required one per school year. Specifically, four middle schools and five high schools required waivers for each activity, while six middle schools and three high schools required one per school year.
 - *Waiver Approval Process Varied* – Schools had different staff approve the activity waiver application. Approval varied between principals, assistant principals, activity clerks, and counselors. Some school staff declined to sign the fee waiver forms since they did not actually verify the information.
 - *Waiver Information Not Always Entered in Business Plus* – Waiver information was not always entered into Business Plus. For example, at one middle school, records showed that 79 students participated in boys basketball; however, Business Plus showed that only 15 payments were made, and no fee waivers were recorded. In some cases, school staff claimed that they did not know that this information needed entry into Business Plus. There was also no supervisory review of the entries, so errors and omissions may go unnoticed. As a result, the total number and dollar amount of waived activity fees found in Business Plus was not reliable.

- *Record Retention Requirements* – Due to the lack of guidance, some staff shredded or otherwise destroyed the waiver applications at the end of each school year. They claimed that they were not aware that documentation should be kept on file. According to the Student Activity Funds Accounting Manual, all student activity fund records should be retained for a minimum of three years, in addition to the current year's records.
 - *Group Qualification Requirements* – There was no written guidance on which student groups automatically qualified for fee waivers. For example, some school administrators waived fees for students in Migrant Education programs and for Foreign Exchange students regardless of income. However, we found nothing stating that fees for these students could be waived.
- b. **Recommendation.** The Deputy Superintendent should ensure that written procedures are developed so that processes and duties are clear, there is consistency between schools, and to help prevent theft, abuse, and fraud.
- c. **Management Comments.** Management stated, “Management agrees with the auditor’s recommendations.
- “a. The administration will develop a system that allows schools to quickly validate whether students qualify for waivers. School administrators need this in order to vet student qualification in a timely manner.
- “b. The administration will update the AR for activity fees, incorporating all directorate information in a single document, and will implement the new procedures district-wide. Spot checks will be performed to assure compliance.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Lack of Procedures for Processing Class Fee Waivers.**

- a. **Finding.** There were no written procedures for processing class fee waivers. Effective procedures help create an internal control environment to help prevent theft, abuse, and fraud. For example, there was no standard waiver form, approval or denial criteria, entry into Business Plus, or record retention procedures. In some cases, schools used the activity fee waiver form for class fee waivers, while others used no form at all. In addition, most class fee waivers were not formally approved or recorded. Because of the lack of control and documentation, the total class fees waived per school year were unreliable and management may not have had adequate information for budgeting purposes.
- b. **Recommendation.** The Deputy Superintendent should ensure that a class fee waiver form and procedures are developed to provide guidance, consistency and accountability.
- c. **Management Comments.** Management stated, "Management agrees with the auditor's recommendations."
 - "a. The administration will update the AR for class fee waivers, incorporating all required information in a single document, and will implement the new procedures district-wide. Spot checks will be performed to assure compliance."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Fee Waivers Not Always Submitted Before Activity Start Date.**

- a. **Finding.** Fee waiver applications were not always submitted before the start date of the activity. Specifically, our review of waivers dated July 1, 2018, through December 31, 2018, identified 64 of 151 (42%) activity fee waivers that were signed 1 to 125 days after the activity start date. According to the High School Activities Handbook, "No

student is allowed to try out for the team without paying the fee or obtaining an approved activity fee waiver.” The Middle School Activities Handbook states that to be eligible to participate in interscholastic activities, students must “Pay participation fee per sport or be eligible for a sports fee waiver.”

- b. **Recommendation.** The Deputy Superintendent should remind students, parents, staff, and coaches that all requirements, including payment or an approved fee waiver form, should be completed before a student starts an activity.
- c. **Management Comments.** Management stated, “Management agrees with the auditor’s recommendations.
 - “a. The administration will update the AR for activity fees, and will implement the new procedures district-wide. Spot checks will be performed to assure compliance.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Family Cap Report is Misleading.**

- a. **Finding.** The report used to determine the \$390 family cap amount was misleading. Specifically, the report contained amounts paid by cash, check and online, as well as any entries for waivers and family cap amounts. The family cap amounts showed as if payment was received, indicating that the family was due a refund when a refund was not due. For example, the report below was generated for a student participating in three activities: swimming, cheerleading, and track. The \$390 family cap was reached when the swimming and cheerleading fees were paid. The student then participated in track which had a \$193 fee. The “Summary of Payments” shows the total paid was \$583 (which is over the \$390 family cap) and implies a refund of \$193 was due, but the \$193 was waived.

Students in Houshold

Acitivity Fee Details

SPORTS FEE - SWIMMING	\$215.00	7/24/2018
SPORTS FEE - CHEERLEADING	\$175.00	11/14/2018
SPORTS FEE - TRACK	\$193.00	2/19/2019

Household Address:

Anchorage, AK

Summary of Payments:

Total = \$583.00

Remaining to Reach Cap = (\$193.00)

The \$193 was never paid because the \$390 family cap had already been satisfied. After running an additional report to find the receipt numbers, and then individual reports to review each receipt, it was determined that the \$193 entry for track was actually posted to the family cap and no refund was due.

Pay Type	Payment Info	Amount
FC	FAMILY CAP	193.00
	Total Payments:	193.00

Activity	Item	Amount	Account
	SPORTS FEE - TRACK	193.00	-
	Total Activities:	193.00	

This reporting format is confusing and time-consuming for staff as well as difficult to explain to students and parents.

- b. **Recommendation.** The Chief Financial Officer should work with the IT department to modify the family cap report. Family cap entries should be identified and not included in the total paid, mirroring the reporting of waiver entries. This change would reduce the amount of time spent on determining amounts due and increase efficiency of school staff.

- c. **Management Comments.** Management stated, "Management agrees with the auditor's recommendations.

- "a. The administration will review the procedures for determining family caps, and will also assess changes in the district's policy and procedures. Alternate cap

methods will be assessed, and any changes will be noted in an updated AR.

“b. Once the new procedures are implemented, the Administration will conduct spot checks to validate compliance at school level.”

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

7. **Family Cap Amounts Are Unreportable.**

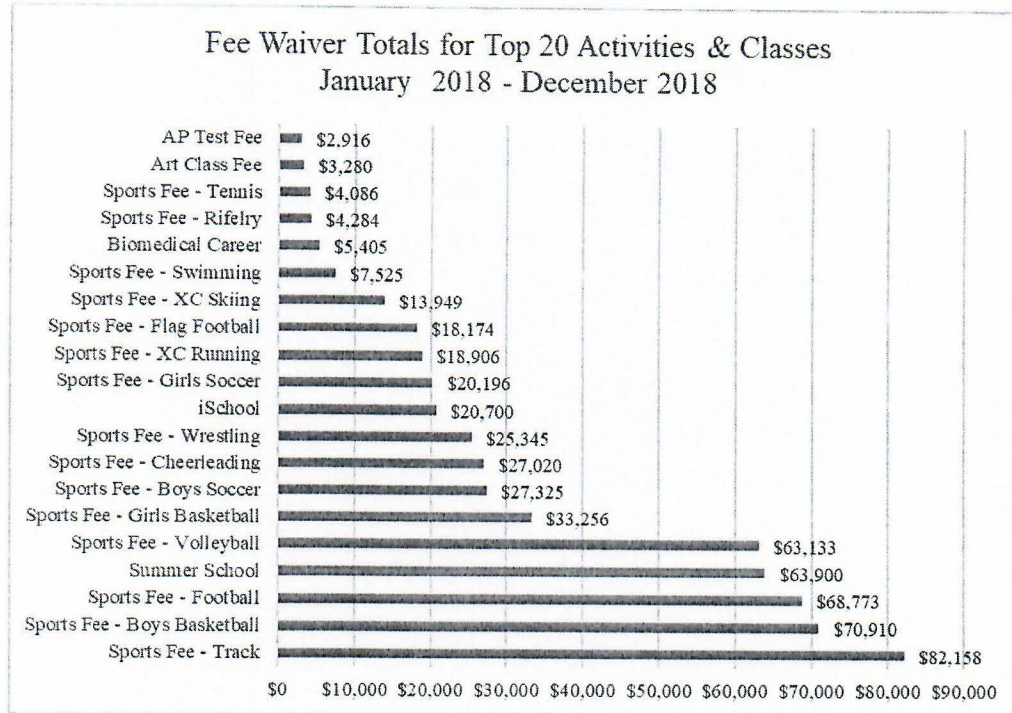
- a. **Finding.** Family cap amounts were not always reported in Business Plus. Specifically, when payment was made online, an entry was not created to record the amount applied above the family cap. For example, assume a family had already paid \$290 in activity fees and a student signs up for another activity costing \$200. The family will pay an additional \$100 to reach the \$390 family cap, but the remaining \$100 that was waived, due to the family cap, is not recorded in Business Plus. As a result, family cap reporting is inaccurate, and the District does not have accurate information for management purposes. The only way this \$100 is reported in Business Plus is if it is manually entered by District staff.
- b. **Recommendation.** The Chief Financial Officer should work with IT to determine if the online payment system can be modified to create an entry for the amount not collected due to the family cap. School staff should also make the entries when appropriate so that financial reporting is accurate.
- c. **Management Comments.** Management stated, “Management agrees with the auditor’s recommendations and has built a report to correct this deficiency. Note the administration’s response to Finding #6. If the Administration changes the Family Cap procedures/policy, then reports will be developed to meet changes rolled out in accordance with any new procedural changes.”

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

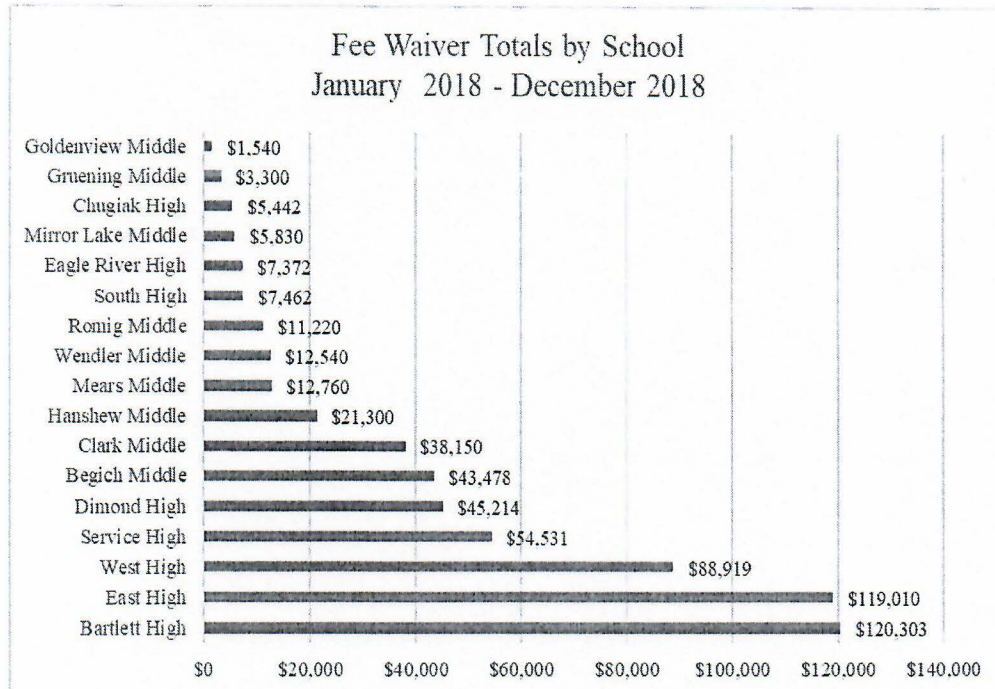
Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on June 4 and June 25, 2019.

Audit Staff:
Dawn Brown

Attachment



Source: Unaudited Business Plus data.



Source: Unaudited Business Plus data.