

ASD INTERNAL AUDIT REPORT

2017-02

Cash Collections at Elementary Schools

Anchorage School District

June 1, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

June 1, 2017

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2017-02; Cash Collections at Elementary Schools; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Cash Collections at Elementary Schools. The objective of this audit was to determine the adequacy of controls over funds collected at elementary schools and elementary charter schools for student activities and classroom fees, and whether receipts were properly recorded in the Integrated Financial and Administrative Solution system. To achieve our objective, we conducted surprise cash counts at elementary schools and elementary charter schools and surveyed school staff on current practices. We also evaluated compliance with Anchorage School District policies and procedures and evaluated the effectiveness of internal controls. In addition, we judgmentally selected receipt transactions and 186 deposit packages totaling \$239,080 from 11 judgmentally selected elementary schools and elementary charter schools and a department to determine whether fund sources were documented and accounted for properly. The scope of our review consisted of receipt transactions processed during the period of July 1, 2015, through September 30, 2016, and did not include student nutrition receipts or online payments.

Overall, cash controls at the elementary schools and elementary charter schools need improvement. Our review revealed that cash handling practices at the elementary schools and elementary charter schools did not always comply with the Integrated Financial and Administrative Solution Cash Handling User Guide requirements. In addition, funds were not always deposited on a weekly basis and, at one school, manual receipts were not always documented in deposit packages. Moreover, funds from non-Anchorage School District accounts were stored in some elementary schools' and elementary charter schools' safes, and checks were not always endorsed upon receipt. Finally, we identified instances where cash receipts were withheld to reimburse staff.

There were six 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

June 1, 2017

ASD Internal Audit Report 2017-02 Cash Collections at Elementary Schools Anchorage School District

Introduction. Elementary schools and elementary charter schools (schools) collect funds for a variety of items, such as field trips, instrument rental fees, book fines, and afterschool programs. Anchorage School District (District) staff, including Administrative Assistants and Secretaries (Cash Handlers), are designated to collect and deposit funds at over 60 schools. Funds are also collected by teachers or other personnel (Collectors). These funds should be delivered to the Cash Handlers for deposit. Credit card payments for some activities are accepted online through Zangle ParentConnect (Zangle).

Cash receipts are entered and accounted for in the Integrated Financial and Administrative Solution (IFAS) system. Cash Handlers account for incoming funds by issuing manual receipts using a pre-numbered four-part receipt book. Some schools issue receipts directly from IFAS. The manual receipts are later used by the Accounting Department (Accounting) to enter fund totals into IFAS. The District created the IFAS Cash Handling User Guide (User Guide) to address the proper way to collect, document, and monitor cash receipts in IFAS. For the period of July 1, 2015, through September 30, 2016, school receipts totaled about \$1.3 million.

Objective and Scope. The objective of this audit was to determine the adequacy of controls over funds collected at schools for student activities and classroom fees, and whether receipts were properly recorded in IFAS. To achieve our objective, we conducted surprise cash counts at schools and surveyed school staff on current practices. We also evaluated compliance with District policies and procedures and evaluated the effectiveness of internal controls. In addition, we judgmentally selected receipt transactions and 186 deposit packages totaling \$239,080 from 11 judgmentally selected schools and a department to determine whether fund sources were documented and accounted for properly. The scope

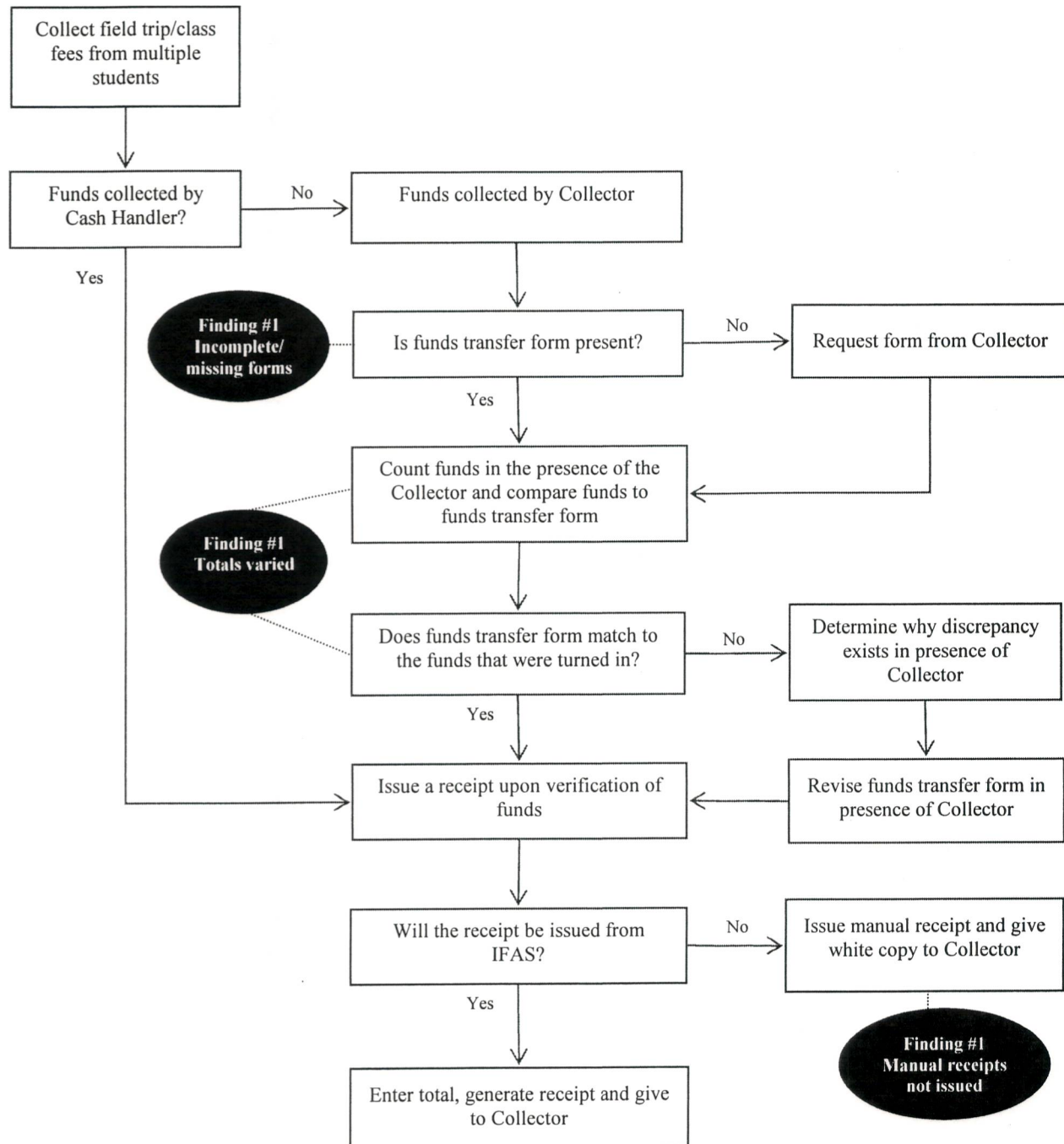
of our review consisted of receipt transactions processed during the period of July 1, 2015, through September 30, 2016, and did not include student nutrition receipts or online payments.

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. This audit was performed during the period of November 2016 through February 2017. The audit was requested by the Anchorage School Board Finance Committee.

Overall Evaluation. Cash controls at the schools need improvement. Our review revealed that cash handling practices at the schools did not always comply with the User Guide requirements. In addition, funds were not always deposited on a weekly basis and, at one school, manual receipts were not always documented in deposit packages. Moreover, funds from non-District accounts were stored in some schools' safes, and checks were not always endorsed upon receipt. Finally, we identified instances where cash receipts were withheld to reimburse staff.

Management Comments. Management stated, "In summary, Business Management is proactively working towards an improved cash receipting software for the district that will provide better tools for schools and parents to manage activities and cash handling by and large. The software is geared towards electronic payment methods, which will motivate users to take advantage of the functionality, and thereby, decreasing the amount of cash handling in the schools. This direction will also deliver enhanced transparency for internal controls for management of district funds. The IFAS Cash Handling Guide will be reviewed for updating to comply with auditors' comments and Business Managements' responses."

Flowchart of Collection Process from Multiple Students



FINDINGS AND RECOMMENDATIONS

1. Cash Handling Practices Need Improvement.

- a. **Finding.** Cash handling practices at the schools did not always comply with the User Guide requirements. As a result, an environment existed where undetected losses or potential misappropriations could have occurred. Although some payments were accepted online through Zangle, other payments were made with cash or check. Using Zangle helped reduce the funds processed by the Cash Handlers. According to the User Guide, “Effective stewardship of public resources is achieved by maintaining an appropriate level of internal controls.” Internal controls become ineffective if staff circumvents District policies and procedures. Specifically, we found the following:
- *Incomplete or Missing Funds Transfer Forms* – We found 31 of 186 (17%) deposit packages had missing or incomplete funds transfer forms from five schools. For example, funds transfer forms were not always submitted for field trip and other student collections or they did not include collection dates or total amounts. Deposit packages should include manual receipts, funds transfer forms, cash reports summarizing how much the school is depositing and which IFAS accounts are used, and bank deposit slips. A teacher may collect funds for a field trip and submit the funds to a Cash Handler for deposit. When submitting funds, a funds transfer form is used which itemizes the amounts collected from each person and the payment type, such as cash or check. The User Guide states, “In the event that funds are collected by persons other than the Cash Handler, the person collecting the funds (Collector) will complete the Funds Transfer Form The Cash Handler will review the form, count the funds and compare the totals in the presence of the Collector.”

- *Totals Varied Between Manual Receipts and Supporting Documentation* – The totals written on the manual receipts did not always match the totals reported on the funds transfer forms. We found that 11 of 186 (6%) deposit packages from five schools contained documents with variances between the manual receipts and funds transfer forms. According to the User Guide, discrepancies in funds and the totals on the funds transfer form should be identified and addressed. The Cash Handler should then sign off on the funds transfer form and give a manual receipt to the Collector for his or her records. Examples of variances included:
 - A manual receipt indicated that \$128 in cash was received, but the funds transfer form, which was prepared by the teacher, indicated that \$160 in cash was collected from students, a variance of \$32.
 - Manual receipts from a school indicated that \$935 in cash was collected, but only \$720 was deposited, a variance of \$215. The manual receipt also indicated that \$1,196 in checks was collected from students, but \$1,411 was deposited, also a variance of \$215. We expanded our review of additional receipt documentation, but noted no further variances.

The review process by principals was ineffective to ensure that deposited funds were accurate. According to the User Guide, principals should verify that all funds included in the deposit agree to the cash report. Although deposit packages at these five schools contained errors or missing information, principals still signed off on the accuracy of the cash report and supporting documentation.

- *Manual Receipts Not Issued* – During our surprise cash counts, we found \$1,463 collected at four schools were not documented on the manual receipts. Staff stated that they did not issue manual receipts until they prepared the deposit. Although the User Guide does not specify when the manual receipts should be issued, it is a good business practice to issue the manual receipt when funds are remitted. Issuing the manual receipts as soon as funds are turned in may reduce the risk of accounting errors and improve accountability. Further, the manual receipt is another control to identify that funds have been received and must be deposited.
- *Funds Not Always Safeguarded* – Funds were not always safeguarded during our school visits. One school left funds in an unlocked safe during business hours. However, the safe was hidden from public view. At another school, funds were left in a lockable drawer, where only one staff member had the key. The key was left inserted in the lock when the staff member left the building. Failing to safeguard funds could lead to theft and loss of funds.

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

- Provide training to school administrators and staff about the risks associated with poor internal controls over cash handling.
- Remind Cash Handlers to count funds in the presence of Collectors to improve the accuracy of receipt documentation.
- Remind school administrators to verify that funds agree with the cash report before signing off on the cash reports.

- Explore the feasibility of using Zangle, or other electronic means, to accept more online payments.

c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations.

- a. “Business Management will follow up with school administrators to facilitate additional training and education of cash handling processes.
- b. “Business Management is evaluating methods and means to decrease cash handling in schools with the emphasis on electronic funds management; a new software for cash receipting is under review, which will provide better transparency for the district, and improved capabilities for the schools.
- c. “The district will ensure that schools utilize a secure means of safeguarding district funds within the schools.”

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

2. **Deposits Not Always Made Timely.**

- a. **Finding.** Funds were not always deposited on a weekly basis. According to the User Guide, “Funds should be deposited on a regular basis (at least weekly)” We visited 11 schools and a department and conducted surprise cash counts. Three schools had funds that they had collected from about one to two months ago. Fund totals ranged from \$489 to \$922. Additionally, two other schools had funds that were left over from the previous school year. One of the schools had \$5 in cash in the safe that had not been deposited because it had unknown origins. The second school found two donation

checks totaling \$147 that were received in the previous school year. The checks, which were found by new school personnel in the new school year, were stale dated and could no longer be deposited. Finally, 89 of 186 (48%) deposit packages totaling \$94,874 contained funds that were more than a week old. According to supporting documentation, these funds were not deposited until 8 to 99 days later.

The causes of untimely deposits varied by school. Some Cash Handlers stated that they did not have time to prepare weekly deposits. In other cases, it can take up to three weeks for parents and students to turn in payments for field trips. As a result, it may be easier for a teacher to hold onto funds until they are all collected before remitting funds to the Cash Handler. This enables the teacher to track all receipts on one funds transfer form and submit funds all at once, instead of filling out funds transfer forms every week. However, funds may continue to sit in a teacher's desk. Even if the desk is locked, the longer funds are not deposited, the greater the risk that they will be stolen or misplaced.

- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should remind Cash Handlers and school administrators to adhere to the User Guide by depositing funds at least weekly.
- c. **Management Comments.** Management stated, "Management agrees with auditors' recommendations."
 - a. "Business Management will follow up with school administrators by means of additional training and education on associated risks and the value of timely deposits to ensure that district internal controls are being sustained.
 - b. "Business Management is evaluating methods and means to decrease cash handling in schools with the emphasis on electronic funds management; a new

software for cash receipting is under review, which will provide additional tools for cash handlers in reporting and tracking funds, from the initial receiving of funds through the deposit of the funds.”

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

3. **Manual Receipts Did Not Agree to Deposits.**

- a. **Finding.** Manual receipts were not always documented in deposit packages prepared by one school. We found 21 manual receipts totaling \$1,189 which did not appear in the deposit documentation. As a result, the audit trail was incomplete to ensure that funds were properly accounted for. We identified these 21 manual receipts based on copies that were retained in the four-part receipt booklets. Further, 18 of these 21 manual receipts showed that \$696 was in cash. According to the User Guide, “All funds coming into the District must be recorded on a receipt, either by using the District’s electronic receipting system in IFAS or official ASD receipt books.” The intent of the manual receipt is to provide documentation of the monies received and to help facilitate any refund requests. Manual receipts that do not appear in the deposit packages may indicate inappropriate and questionable activity at the school level.
- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should remind staff to issue and deposit manual receipts in sequential order. Gaps in manual receipts should be verified and reasons for gaps should be documented by school administrators.
- c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations.

- a. “Business Management will follow up with school administrators by means of additional training and education on associated risks with poor internal controls over cash handling, and specifically review the requirement that manual receipts be issued and deposited in a timely and sequential order.
- b. “Business Management is evaluating methods and means to decrease cash handling in schools with the emphasis on electronic funds management; a new software for cash receipting is under review, which will provide additional tools for cash handlers in recording funds received from individual students and an electronic receipt created directly, as well as, remaining in the account history if a copy of the receipt is required by the parent or school administrator. The software also provides for tracking of processes completed by district employee, and allows for the collection of funds to be tracked and recorded in segments if necessary.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Non-District Funds Stored in School Safes.**

- a. **Finding.** Funds from non-District accounts were stored in some schools’ safes. Specifically, we found that three schools stored funds from fundraisers managed by parent and teacher organizations. These funds were not considered District funds and were not accounted for in IFAS. School staff accepted the funds to protect them in their safes. One school safe contained over \$1,000 in cash for a fundraiser. It had sat in the safe for a month. As a good business practice, District and non-District funds should be segregated. The District assumes liability and risk by accepting and storing funds that do not belong to it.

b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should discontinue the practice of safeguarding funds that do not belong to the District.

c. **Management Comments.** Management stated, "Management agrees with auditors' recommendations.

a. "Management agrees that the district should not carry the liability and risk of accepting and storing non-district funds. The recommendation is to allow for separate safes on each school site, as necessary, for non-district fund collections, with no interface from district staff in acceptance or handling of such funds. The district will continue to refrain from having direct access to the safes.

b. "A description of the type of recommended safe will be provided to each school, with requirements for maintaining on site."

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

5. **Checks Not Always Endorsed Upon Receipt.**

a. **Finding.** Checks were not always endorsed upon receipt. Instead, some schools endorsed checks when staff prepared the deposit. When we counted funds, we identified two schools that had checks that were not endorsed. Cash Handlers at seven schools reported that they endorsed checks upon deposit. Endorsing a check upon receipt is a good business practice because it prevents diversion and wrongful cashing for personal purposes. According to the Association of Certified Fraud Examiners, organizations should require employees to restrictively endorse all checks "for deposit

only” immediately upon receipt. However, the User Guide instructs staff to endorse checks upon deposit, and not upon receipt.

b. **Recommendation.** The Chief Financial Officer should consider revising the cash handling procedures to instruct school staff to endorse checks upon receipt.

c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations.

a. “The district Cash Handling Guide will be revised for clarification to require schools to restrictively endorse all checks “for deposit only” immediately upon receipt.”

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

6. **Cash Receipts Withheld for Reimbursements.**

a. **Finding.** We identified instances where cash receipts were withheld to reimburse staff. Specifically, we identified three transactions where \$218 was withheld from field trip fees to the Alaska Junior Theatre. Therefore, the deposit was \$218 short, compared to what was collected from the students. According to documentation, staff used their own funds to make deposits for the Alaska Junior Theatre. Funds were withheld from the students’ field trip fees to reimburse themselves. We requested to see purchase receipts showing that staff made the deposit payments, but we only verified receipts for \$96. The User Guide states, “Deposits must remain intact; funds are not to be held back for petty cash purposes, cashing personal checks, providing refunds (all refund requests must be approved by the principal and processed through the Accounting Department), etc.”

The risk of fund misappropriation exists if staff reimburses themselves from field trip receipts, especially when staff does not submit proof of payment using their own funds. With the existence of Procurement Cards, there was no business need to pay for these field trips using personal funds.

- b. **Recommendation.** The Chief Financial Officer and Chief Academic Officer should remind staff that all funds must be deposited intact and that reimbursements must be processed by Accounting.
- c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations.”
 - a. “Procurement Cards should be utilized in lieu of reimbursements to staff for student activities, eliminating the process of reimbursements to staff.
 - b. “Business Management will follow up with school administrators by means of additional training and education on associated risks with poor internal controls over cash handling, specifically with review of the district’s initiative for electronic payments and use of the Procurement Cards.”
- 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 on March 9 and 14, 2017.

Audit Staff:
Brenda Peña, CFE