

Audit and Compliance Issues for Local Schools
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INFORMATION

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DISCLAIMER

- ▶ This information is being presented to the Association of Alabama School Business Officials' (AASBO) Local School Financial Management Certificate Program's training session on March 7, 2016.
- ▶ This presentation represents the audit position of the Department of Examiners of Public Accounts as of that date.

Common Problems at Local Schools


Recent Audit Problems at Local Schools

- Receipting
- Depositing
- Athletic Events
- Purchase Orders
- Allowable Expenditures
- Audit Issues



Findings Related to Receipting

- ▶ Teachers did not turn funds in to office/bookkeeper in a timely manner.
- ▶ Teacher receipt books were not retained or made available for review.
- ▶ Funds not reconciling with corresponding documentation.
- ▶ Receipts were recorded in the Master Receipt Book after being deposited into the bank.
- ▶ Deposits were not being made timely.



Proper Procedures – Receipting

- ▶ Can apply to activity funds, athletic events, fundraisers, concessions, etc. from an internal control perspective.
- ▶ Teachers should be provided a pre-numbered duplicate receipt book or other approved form.
- ▶ All receipt books should be secured and a log should be maintained to track receipt books by receipt number to the responsible individual.
- ▶ Teacher receipts should be completed and issued in numerical order at the time funds are received.

Proper Procedures – Receipting

- ▶ Receipts should be issued for ALL money received.
- ▶ Receipts should indicate if amounts are "cash" or "check"
- ▶ Teacher receipts/forms should not be pre-signed.
- ▶ Teacher receipts must contain an original signature of the person receiving the funds – no signature stamps.


Proper Procedures – Receipting

- ▶ Voided receipts must be retained in the receipt book.
- ▶ Do not use correction fluid or erase mistakes.
- ▶ Secure funds received.
- ▶ Do not cash checks with funds received. This applies to athletic events as well!
- ▶ No money should be left in classroom overnight.




Proper Procedures – Receipting

- ▶ The teacher receipt book or form should be taken to the office with the funds collected.
- ▶ Teacher should receive a Master Receipt and verify its correctness before leaving the office.
- ▶ Teacher should retain the original Master Receipt.
- ▶ All teacher receipt books should be returned to the Principal at the end of the school year or sooner if all receipts have been used.



Proper Procedures – Master Receipting

- ▶ Master Receipts are issued by the school office by the individual assigned by the Principal.
- ▶ The Master Receipt books should be pre-numbered and in duplicate.
- ▶ Master Receipts books should be completed and issued in numerical order at the time funds are received.



Proper Procedures – Master Receipting

- ▶ Only one Master Receipt book should be in use at one time.
- ▶ All pre-numbered receipts in a book should be issued before another book is put into use.
- ▶ Master Receipts should not be pre-signed and must contain an original signature – no signature stamps.
- ▶ The original Master Receipt should be handed to the individual delivering the funds.

Proper Procedures – Master Receipting

- ▶ Voided receipts must be retained with the Master Receipt book.
- ▶ Do not use correction fluid or erase mistakes.
- ▶ All Master Receipt books should be retained for audit.



Proper Procedures – Master Receipting

- ▶ A Master Receipt should be issued for each check received by mail.
- ▶ Master receipts should reflect amount of "cash" and/or "checks" received.
- ▶ Do not cash checks with school funds. Deposit funds intact.
- ▶ Tip – establish designated times to receive funds for the issuance of Master Receipts. Could be staggered times throughout the day.

Findings Related to Depositing

- ▶ Deposits were not being made timely.



Proper Procedures - Depositing

- ▶ Funds should be secured until deposited.
- ▶ Funds should be deposited daily or according to Board policy – intact and in a timely manner.
- ▶ If deposit cannot be made before the bank closes, a locked night deposit bag should be used to secure funds in the bank's night depository.
- ▶ Pre-printed, duplicate deposit slips containing the school name and bank account number should be used.



Proper Procedures - Depositing

- ▶ Checks should be endorsed with "For Deposit Only", along with school name and bank account number.
- ▶ The deposit slip should contain the Master Receipt numbers of the funds deposited.
- ▶ The deposit date and deposit amount should be noted on the last Master Receipt included in the deposit.



Proper Procedures - Depositing

- ▶ Do not use cash receipts for change cash.
- ▶ Do not use cash received for expenses.
- ▶ Do not use correction fluid or erase mistakes on deposit slips.
- ▶ The bank should authenticate the duplicate deposit slip at the time of deposit and be retained for audit.

Findings Related to Athletic Events

- ▶ Check-up sheets were not retained for athletic events.
- ▶ Check-up sheets were not properly completed.



Proper Procedures – Athletic Events

- ▶ Pre-numbered tickets should be sold at all events where admission is charged.
- ▶ A report of ticket sales form (check-up form) must be issued for each individual selling tickets at the time the tickets are provided to them.



Proper Procedures – Athletic Events

- ▶ The form (check-up sheet) should record the following information:
 - ▶ Name of event
 - ▶ Date of event
 - ▶ Name or signature of person receiving tickets for sale
 - ▶ Beginning and ending ticket numbers issued
 - ▶ Beginning and ending ticket numbers not sold
 - ▶ Signature of person receiving unsold tickets and cash collected.
- ▶ Reconciliation of collections based on ticket sales to actual cash returned.



Proper Procedures – Athletic Events

- ▶ A Master Receipt should be issued to an individual for the cash collected from ticket sales.
- ▶ A separate Master Receipt should be issued for the change cash.
- ▶ All cash collected should be deposited intact.
- ▶ **Do not** use cash collected/change cash to cash any checks.



Findings Related to Purchase Orders

- ▶ Expenditures were made with incomplete or no purchase orders.



Proper Procedures – Purchase Orders

- ▶ Purpose of a purchase order – allow the Principal to approve expenditures prior to purchase.
- ▶ A completed, pre-numbered purchase order should be approved by the Principal before the purchase of materials, supplies, or equipment.
- ▶ A purchase order register should be maintained to account for purchase orders.



Findings Related to Expenditures

- ▶ Expenditures did not contain the proper supporting documentation or none at all.
- ▶ Payments made from statements instead of invoices.
- ▶ Advances to employees were noted.
- ▶ Late payments!
- ▶ Expenditures were not properly coded in the accounting system.



Proper Procedures - Expenditures

- ▶ Payments for school expenditures should be made from the school's checking account.
- ▶ The Principal should sign all checks – no signature stamps.
- ▶ The school bookkeeper should never be the sole signer or allowed to sign on behalf of the Principal.
- ▶ Do not write checks to "Cash".



Proper Procedures - Expenditures

- ▶ Do not sign blank checks – must contain payee name and amount.
- ▶ Do not pay for items in advance of receipt of materials, supplies, or equipment.
- ▶ Invoices and supporting documents should be provided with the check to be signed.
- ▶ Invoices should be cancelled (marked PAID) when the check is signed.



Proper Procedures - Expenditures

- ▶ Vendors should be paid in a timely manner to avoid late fees.
- ▶ Checks should be used in numerical order.
- ▶ Checks must be secured at all times.
- ▶ Voided checks must be retained for audit.
- ▶ Checks outstanding for more than 60 days should be investigated.



Other Issues / Topics

Legislative Monies

- ▶ Must be used for an educational purpose.
- ▶ Competitive Bid Law does apply.
- ▶ Is considered **PUBLIC** funds.
- ▶ Records of expenditures should be maintained at local schools.

Reconciling of Bank Accounts

- ▶ All bank accounts should be reconciled monthly and reviewed by the Principal. This will ensure that errors are discovered in a timely manner. Corrections may then be made so school will have accurate financial data.

Borrowing Money



- ▶ A school does not have authority to borrow money.
- ▶ Only the Board has the authority to borrow money.
- ▶ Schools can not loan money to clubs, PTA's, etc.
- ▶ Capital Leases - must be approved by the Board.
- ▶ Copier Leases - must be approved by the Board; no more than 3 years in length.

Deficit Balances - Non-Public Accounts

- ▶ Deficit Balances in non-public activities/accounts are not allowed.
- ▶ The School can not loan money or extend credit to individuals per the State Constitution -Section 94, Constitution of Alabama 1901!
- ▶ The Principal/Bookkeeper should ensure money is available for a non-public expenditure prior to authorizing a Purchase Order.



Donations

- ▶ All considered to be public funds unless a donor specifies funds are to be used for a specific purpose.



Vending

- ▶ All monies derived from soda and snack vending machines located on school property is considered to be "public" money.
- ▶ The Principal should periodically review the concession profits or losses to determine if profit margin is reasonable or if any problems may exist.



Vending

- ▶ If the school manages the vending machines themselves, two person should be involved in the process of collecting and receipting the monies.
- ▶ Vending machines may also be managed by the soda or snack vendors (Full Service). In these cases, the vendors send the school a check for a certain percentage of the machine profits.

Concessions

- ▶ Concessions include event concessions, school concessions, and school stores. Because all concessions involve cash, and neither cash receipts nor tickets are used to control the exchange of money, proper accounting for the sale products and income is essential.
- ▶ Ideally, a cash register would be used to account for the cash collected. The purchaser would receive a cash register receipt and the cash register would generate a record of sales. An inventory of items purchased, items sold by sales price, and items unsold should reconcile to the cash collected.

Gate Receipts/Parking

- ▶ Gate Receipts and Parking Fees for parking on school property during athletic events are considered to be "public" funds.
- ▶ The value of the gate receipts and parking must be paid to school for each season pass sold by Booster organizations.
- ▶ All funds collected are to deposited intact and recorded in the schools public accounts.
- ▶ Any amounts paid to the Booster organizations for the collection of gate receipts/parking should be handled as a separate transaction; Reasonable %.

Athletic Camps

- ▶ If various athletic camps are conducted on school property, all proceeds should be deposited in the athletic program (i.e., public funds).
- ▶ These camps use school property, utilities, school liability insurance and often, school personnel.
- ▶ Examples: Football, Basketball, Baseball/Softball Camps, etc.



Salary Supplements

- ▶ All salary supplements paid to school personnel should be included in employee's gross wages.....even if supplements are paid by a booster organization!
- ▶ IRS regulations do not permit an employer to send a Form 1099 to an employee – wages must be included on W-2.



Capital Assets

- ▶ Notify the Board Central Office for any asset purchase which exceeds the Board's capitalization threshold – typically \$5,000. Needs the Board's approval!
- ▶ Also, would include a donated asset!



Unallowable Expenditures - Public Funds

- ▶ Gift items for staff
- ▶ Flowers for staff and/or families
- ▶ T-Shirts for office staff
- ▶ Staff Holiday parties / Christmas gifts
- ▶ Christmas cards
- ▶ Donations to various organizations




Unallowable Expenditures - Public Funds

- ▶ Dues to private clubs (Rotary, Kiwanis)
- ▶ Alcoholic beverages
- ▶ Scholarships for Students
- ▶ Meals for spouses
- ▶ Food items for teachers
- ▶ Coffee and cups for employee's



Food Purchases

- ▶ Numerous questions arise surrounding the purchase of food items or refreshments from Public Funds.
 - ▶ All-day Professional Training Meetings - YES
 - ▶ Open Houses - YES
 - ▶ After-school Staff Meetings - NO
 - ▶ Staff meeting day before school starts/end of year - NO
 - ▶ Candy - NO



Allowable Expenditures - Public Funds

- ▶ Expenditures for pictures for school office.
- ▶ Expenditures for flower arrangement for school office.
- ▶ Athletic receipts can be expended for pregame meals for the athletic participants and coaches. (Principal and parents not included)

Allowable Expenditures - Public Funds

- ▶ Refreshments expended for an public open house at a school.
- ▶ Transportation to events related to a school sponsored activity.
- ▶ Meals for faculty and staff for a meeting that extended into lunch hour and food had to be provided for the meeting to continue - unplanned.

Constitutional Amendment No. 558

- ▶ May expend public funds for the recognition of significant academic achievement or contributions to education.
- ▶ May expend public funds to promote educational excellence by students, faculty, staff, and the public.
- ▶ Recognitions may be in the form of trophies, plaques, academic banquets, and other honors.



GIFT CARDS

- Examples:
 - Profit from school book fair is no longer paid to the local schools in cash/check.
 - Profit from fair is given to the school in the form of a Barnes & Noble gift card.
 - Vendors who give store credit or gift cards instead of monetary donation to a school.
- These should be treated as public funds and even recorded on school's books.

Competitive Bid Law -

- ▶ Code of Alabama 1975, Section 16-13B-1 through 16-13B-11 applies to both County and City Boards of Education.
- ▶ Does **NOT** apply to:
 - ▶ Classroom Instructional Support – The *Code of Alabama 1975*, Section 16-1-8.1(b)(6)
 - ▶ Local School Expenditures – The *Code of Alabama 1975*, Section 16-13B-2(b)(2)
 - ▶ Individual school purchases from monies other than those raised by taxation or rec'd from state or county appropriations (i.e., fundraisers, donations)

External Organizations/GASB 39

- ▶ Why do auditors need to have certain information about our booster organizations, PTO's and PTA's?
- ▶ Are the auditors going to audit these agencies?

External Organizations/GASB 39

- ▶ The GASB requires that certain organizations be included in the Board's financial statements (as component units), if the nature and significance of their relationship with the Board is significant to the Board's financial statements.
 - ▶ Booster clubs – Athletic and Band
 - ▶ PTA's/PTO's
 - ▶ Any other affiliated organizations

External Organizations/GASB 39

- ▶ To determine if an organization is significant, we must obtain certain financial information from these organizations (i.e., revenues).
- ▶ It is our professional opinion that the majority of the time, these organizations will not be significant to the Board's financial statements and will not have to be included.
- ▶ However, we are bound by auditing standards to document this in our working papers.

Please encourage full cooperation!

Additional Findings...

- ▶ The Code of Alabama 1975, Section 16-1-8.1 (b) (8), states that any funds appropriated for classroom instructional support but not expended according to this section by the end of each fiscal year shall revert to the Education Trust Fund.
- ▶ Form 1099 not being issued according to IRS regulations – 1099 is applicable to every person providing goods and/or services in an amount equal to \$600 or more.
- ▶ Inventory of noncapitalized equipment not being correctly maintained at the local schools. For example, more school systems are purchasing ipads for the students and not all of the ipads recorded on the supplemental inventory list can be accounted for at the schools.

Audit Settlement Procedures

- ▶ Cash Shortage/Unallowable Expenditures
- ▶ Ask for repayment from school employee/Principal
- ▶ Opportunity to meet with the Chief Examiner to explain why amount should not be repaid
- ▶ Decision by Chief Examiner
- ▶ Report released
 - ▶ If money still due, certified to Attorney General for collection.

Audit Reports – Public Documents

- Audit Reports are released to the public every Friday at 9:00am.
- Reports may be viewed/downloaded from our department's website – www.alabama.gov



Questions?

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