

INTERNAL CONTROLS AND FRAUD ISSUES

AASBO LOCAL SCHOOL FINANCIAL
~~MANAGEMENT CONFERENCE~~

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OBJECTIVES

- ▶ Overview of Controls
 - ▶ Importance of Internal Controls
 - ▶ What is a Control?
 - ▶ Effective Internal Controls for Local Schools
- ▶ Internal Control Best Practices
 - ▶ General Internal Controls for Local Schools
 - ▶ Cash Receipt Internal Controls
 - ▶ Extracurricular Activity Internal Controls
 - ▶ Other Internal Controls

OBJECTIVES

- Common Audit Issues
 - Public vs. Non-Public
 - Depositing
 - Disbursements
 - Other
- Common Audit Findings
- Fraud

IMPORTANCE OF INTERNAL CONTROLS

► Definition – Internal Controls

“Internal Control is a process-effected by those charged with governance, management and other personnel designed to provide REASONABLE ASSURANCE about the achievement of the entity’s objectives with regard to (A) reliability of financial reporting, (B) effectiveness and efficiency of operations and (C) compliance with applicable laws and regulations.”(AU314.41)

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IMPORTANCE OF INTERNAL CONTROLS

- ▶ Internal Controls allow entities to:
 - ▶ Achieve objectives of the entity
 - ▶ Operate in an efficient and effective manner
 - ▶ Prepare reliable financial information
 - ▶ Comply with laws and regulations
 - ▶ Safeguard assets of the entity

IMPORTANCE OF INTERNAL CONTROLS


- Cost-Benefit of Internal Controls
 - All entities are different and require different controls based on circumstances
 - A cost-benefit analysis should be performed to determine which internal controls to put in place
 - The cost of internal controls should not outweigh their benefits
 - Keep controls as simple as possible

IMPORTANCE OF INTERNAL CONTROLS

- Rewards of Effective Internal Controls
 - They are your best defense against fraud
 - They ensure transactions are properly authorized, initiated and recorded
 - They ensure assets are properly safeguarded.

WHAT ARE CONTROLS?

- ▶ What is a Procedure?

- ▶ The systems that are set in place to meet the established standards of the organization. These are specific internal processes. They ensure transactions are properly authorized, initiated and recorded
 - ▶ Ensure operational efficiency, minimize fraud potential and define the roles and responsibilities of the auditee's staff.
 - ▶ Should have a routine schedule to ensure efficiency.
 - ▶ In short, a procedure is the tasks you perform on a daily basis as a local school bookkeeper.
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CONTROL VS. PROCEDURE

- What is a Control?
 - A procedure becomes a control when it is well-documented and acted upon.
 - A good rule of thumb: All controls are procedures, but not all procedures are controls
 - How do we know if a procedure can be considered a control?
 - If we can answer WHO, WHAT, WHEN and HOW about the procedure then we probably have a control.


CONTROL VS. PROCEDURE

▶ WHO

- ▶ Who is responsible for the process?
- ▶ Example: All PO's must be approved by Principal before items can be ordered.
- ▶ Example: Bank reconciliations must be reviewed and approved by supervisory personnel on a monthly basis.
- ▶ Example: Deposits are made and verified at the end of business each day by a responsible employee other than the employee who performed the bank reconciliation.

CONTROL VS. PROCEDURE

▶ WHAT

- ▶ What is the main focus of the procedure?
 - ▶ Example: All PO's must be approved by Principal before items can be ordered.
 - ▶ Example: Bank reconciliations must be reviewed and approved by supervisory personnel on a monthly basis.
 - ▶ Example: Deposits are made and verified at the end of business each day by a responsible employee other than the employee who performed the bank reconciliation.
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CONTROL VS. PROCEDURE

► WHEN

- When does this procedure take place?
- Example: All PO's must be approved by Principal before items can be ordered.
- Example: Bank reconciliations must be reviewed and approved by supervisory personnel on a monthly basis.
- Example: Deposits are made and verified at the end of business each day by a responsible employee other than the employee who performed the bank reconciliation.

CONTROL VS. PROCEDURE

► How

- How can this procedure be tested for its effectiveness?
- Example: All PO's must be approved by Principal before items can be ordered.
- Example: Bank reconciliations must be reviewed and approved by supervisory personnel on a monthly basis.
- Example: Deposits are made and verified at the end of business each day by a responsible employee other than the employee who performed the bank reconciliation.

CONTROL VS. PROCEDURE

► Evidence

- The only way a superior or auditor can prove a control is in place and operating effectively is based on the evidence that can be obtained.
- Example: All PO's must be approved by Principal before items can be ordered. (All sampled PO's should have Principal approval before the date of invoice)
- Example: Bank reconciliations must be reviewed and approved by supervisory personnel on a monthly basis. (Each reconciliation should have evidentiary signatures of review and approval by supervisory personnel)

CONTROL VS. PROCEDURE

► Evidence

- Example: Deposits are made and verified at the end of business each day by a responsible employee other than the employee who performed the bank reconciliation. (All deposit documentation should have identifying signature/initial)
- NOTE: If there is a reconciliation process or supervisory review, it is not enough to simply say that is what happens. If documentation is not retained, then it did not happen and the control is not working properly.

EFFECTIVE INTERNAL CONTROLS FOR LOCAL SCHOOLS

➤ Tone at the top

- The guiding values/standards that produce the ethical climate within the entity.
- These standards are usually provided by Top Management.
 - Board of Education
 - Superintendent
 - CSFO

EFFECTIVE INTERNAL CONTROLS FOR LOCAL SCHOOLS

➤ Tone at the top

➤ These values are typically provided to all personnel in the form of policies and procedures.

➤ Code of Conduct Policy (Written standards of conduct)

➤ Financial Procedures manual

➤ NOTE: For these to have any value, it must be followed by management and effectively communicated to all employees.

EFFECTIVE INTERNAL CONTROLS FOR LOCAL SCHOOLS

▶ Local School Bookkeepers

- ▶ Financial leader of the local school
- ▶ Principal relies on you for implementation of good processes/ procedures
- ▶ Teacher's will act based on your "tone at the top"

▶ Principal

- ▶ Leader of the Local School
- ▶ Directly reports to Superintendent, CSFO and Board on all matters

GENERAL INTERNAL CONTROLS

▶ Non-Cash transfers

- ▶ Only done with approval from Principal or CSFO
- ▶ Correction of errors
- ▶ Entries should be adequately explained or supported by substantiating data

▶ Financial Reports

- ▶ Reports should be routinely provided to supervisory personnel for review (Principal, CSFO)

GENERAL INTERNAL CONTROLS

- ▶ Types of Financial Reports
 - ▶ Principal's Report
 - ▶ Reconciliation Report
 - ▶ Balance Sheet Report
 - ▶ Summary Verification Report
 - ▶ Monthly Financial Report
 - ▶ Detail General Ledger Reports

GENERAL INTERNAL CONTROLS

► Types of Financial Reports

- Journal Entry Detail Report
- Cash Receipts Journal Report
- Cash Disbursement Journal Audit Trail Report
- LSA Budget/Financial Export Report

GENERAL INTERNAL CONTROLS

▶ Bank Accounts

- ▶ All bank accounts should be authorized by Board of Education
- ▶ Allows Board the ability to oversee and approve the activities of local schools

▶ Signature Stamps

- ▶ Highly recommend that these are not used by the entity.

CASH RECEIPT INTERNAL CONTROLS

▶ Mail Receipts

▶ Cash/Checks received in mail

- ▶ Segregation of duties
- ▶ Mail should be opened by someone other than the bookkeeper
- ▶ Mail log

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ All teachers should be provided a Board issued receipt book
 - ▶ Pre-numbered
 - ▶ Duplicate
 - ▶ Receipt books should be clearly marked with a name, code or number for identification
 - ▶ Log should be maintained to keep track of the responsible individual

▶ Receipt Book Security

- ▶ Security of the receipt books should be a top priority of the local school.
- ▶ Principal (or designee) is responsible for the safeguarding of receipt books.

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ Receipts should be issued for all money received
 - ▶ Receipts should indicate make-up of funds (Cash or Check)
 - ▶ All pre-numbered receipts should be used before a new receipt book is issued to teacher.
 - ▶ Pre-signing of receipts should be prohibited
 - ▶ Original signature (No signature stamp)
 - ▶ Receipt should be issued after funds are received and verified

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ Each person who provides funds to teacher should be given the original receipt
- ▶ Information on receipt should be written in pen (No pencils)
- ▶ Teacher Receipt Errors
 - ▶ If an error is made, do not use correction fluid.
 - ▶ Document the error

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ Voided teacher receipt should be maintained in the teacher receipt book.
- ▶ Reasons a void can occur:
 - ▶ Receipt was written twice
 - ▶ Teacher error
- ▶ The original voided receipt is the first line of documentation that funds were not received.
- ▶ Voids need to be adequately documented with a reason for the void

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ Cashing of checks in collections should be prohibited
 - ▶ All funds should be turned into the office as collected
- ▶ All funds received should be turned in the day of receipt
 - ▶ No funds should be left in classroom overnight
- ▶ Teacher receipt documentation
 - ▶ Teacher should turn in funds received to the office
 - ▶ Teacher receipt book should be verified to the funds collected.
 - ▶ Notation of which receipts correspond to funds collected should be identified
 - ▶ Person who receives funds from teacher should initial/date receipt book (Master Receipt)
 - ▶ Person should be someone other than bookkeeper, if possible.

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ Teacher should retain the original Master Receipt in their board issued teacher receipt book.
 - ▶ Preferably, stapled to the last receipt corresponding to that collection
- ▶ If all receipts in teacher receipt book are used before the end of school year:
 - ▶ Return teacher receipt book to Principal
 - ▶ Initial and date the teacher receipt book log, indicating return
 - ▶ Receive a new board approved receipt book
 - ▶ Initial and date the teacher receipt book log, indicating receipt

CASH RECEIPT INTERNAL CONTROLS

▶ Teacher Receipts

- ▶ All teacher receipt books should be turned in to the Principal at the end of the school year
- ▶ Initial and date teacher receipt book log, indicating return
 - ▶ These should be retained for review by management of the board or external audit.

CASH RECEIPT INTERNAL CONTROLS

- Teacher Receipts
 - Lost Receipt Books
 - Lost receipt books are red flags to an auditor.
 - What is a best practice for lost receipt books?
 - Teacher Receipt book log allows entity to track usage and account for status.
 - Train teachers to immediately report the lost receipt book
 - Document in writing the incident
 - Once an incident occurs, the school should use the opportunity to train all staff again on the importance of the procedures over teacher receipt books.

CASH RECEIPT INTERNAL CONTROLS

▶ Master Receipts

- ▶ Master Receipt processes vary by system
 - ▶ Physical Master Receipt book
 - ▶ Digital Master Receipt system
- ▶ Either system should maintain the same standard set of controls
- ▶ Master Receipts should only be issued by the school office.
 - ▶ Master Receipt book should be pre-numbered
 - ▶ Duplicates
 - ▶ If physical book is used, receipts should be issued in numerical order
 - ▶ Original should be given to teacher to be retained in Teacher Receipt book.

CASH RECEIPT INTERNAL CONTROLS

► Master Receipts

► Physical Master Receipts

- There should only be one master receipt book in use at any given time.
- All pre-numbered receipts should be issued before another book is put into use.
- Pre-signing of Master receipts should be prohibited
- Master receipts should be originally signed. (No signature stamps)
- Information on receipt should be written in pen. (No pencils)
 - If an error is made, do not use correction fluid.
 - Document the error

CASH RECEIPT INTERNAL CONTROLS

► Master Receipts

► Physical Master Receipts

- Receipts should be issued for all funds received
- Receipts should indicate make-up of funds (Cash or Check)
- Pre-signing of receipts should be prohibited
- Original signature (No signature stamp)
- Receipt should be issued after funds received are received and verified

CASH RECEIPT INTERNAL CONTROLS

▶ Master Receipts

- ▶ Cashing of checks in collections should be prohibited
 - ▶ All funds should be turned into the office as collected
- ▶ The person who performed the Master Receipt process should:
 - ▶ Verify with the depositor the amount and make up of funds collected.
 - ▶ This allows more than one person being involved in a specific duty.

CASH RECEIPT INTERNAL CONTROLS

▶ Voided Receipts

- ▶ Voided receipts should be retained with the Master Receipt book.
 - ▶ Reasons for voids
 - ▶ Human error
 - ▶ All voids need to be documented for the reason for the void.

▶ Teacher role in Master Receipting

- ▶ Teachers should receive the Master Receipt immediately before leaving the office.
- ▶ Each side of the transaction is providing the segregation of duties needed.
- ▶ Teachers should be initial and dating on their master receipt

CASH RECEIPT INTERNAL CONTROLS

► Master Receipts

- All Master Receipt books should be retained for review by management or external auditor.
- When the office receives funds during the day and Master Receipts have been issued:
 - Checks should be marked “For Deposit Only” along with school name and bank account number
 - Funds should be properly secured by office personnel
 - Depositor of the funds should be someone other than:
 - The person who received funds from Teachers/other staff members
 - The person who performs the bank reconciliation

CASH RECEIPT INTERNAL CONTROLS

➤ Deposits

- Performed by someone other than person who receives funds from Teacher/staff and the one performs the bank reconciliation.
- Reduces likelihood of collusion
- How often should deposits be made?
 - DAILY
- Depositor should receive the funds from the person who performed the Master Receipt process:
 - Depositor should verify the funds match the Master Receipts

CASH RECEIPT INTERNAL CONTROLS

► Deposits

- Depositor should receive the funds from the person who performed the Master Receipt process:
 - Depositor should verify the funds match the Master Receipts
 - Depositor should initial and date master receipt book indicating receipt of funds for the applicable Master Receipts
- Deposit Slips
 - Pre-printed, duplicate deposit slips should be utilized
 - These deposit slips should contain the school name and bank account number

CASH RECEIPT INTERNAL CONTROLS

➤ Deposits

- Deposit bag should be used during transport to bank
- What if the bank closes before we are able to transport deposit?
 - Utilize Bank night depository
 - Locked deposit bag should be used to secure funds
- How often should deposits be made?
 - DAILY

CASH RECEIPT INTERNAL CONTROLS

► Deposits

► Deposit Slips

- Amount of cash and coins should be indicated on the deposit slip
- All checks with payer name and amount should be listed on the deposit slip
- Master receipt numbers should be written on the deposit slips
- Deposit Slip should be validated at the bank

► Deposit Slips should then be returned to the school office bookkeeper

- Bookkeeper enters deposit entry into the accounting system
- Print a Journal Entry report showing the entry
- Attach the validated deposit slip to report
- File by month and retain for review of management or external auditor

CASH RECEIPT INTERNAL CONTROLS

► Deposits

- Deposit date and amount should be noted on the last Master Receipt included in the deposit
- Don'ts of Depositing
 - Do not cash checks with funds received
 - Do not use cash receipts for change cash
 - Do not use cash received for expenses
 - Do not use correction fluid for mistakes on deposit slips

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

➤ These take several forms:

- Athletics
- Concessions
- Special Events

➤ Considerations

- Tickets
- Control Sheets
- Check up sheets

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Considerations

- Change Cash
- Cash receiving staff
- Cash receipt forms
- Receipt procedures
- Depositing procedures
- Accounting procedures

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

- ▶ Why Controls are important in this area:
 - ▶ Highest volume of cash collected at one time
 - ▶ Limited supervision
 - ▶ Manipulation of cash
 - ▶ Shrinkage of concessions
 - ▶ Multiple staff members

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Tickets

- ▶ Tickets should be issued at each extracurricular function
- ▶ Pre-numbered tickets should be sold at all events where admission is charged.
- ▶ Price of tickets should be determined for all events at the beginning of school year.
- ▶ Unused tickets should be safeguarded

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Control Sheets

- ▶ These are similar to receipt book logs.
- ▶ Provide documentation of beginning and ending ticket numbers for all activities
- ▶ All tickets issued for an event should be logged on this control sheet
- ▶ The one who accepts responsibility for the issued receipts should initial and date the control sheet
- ▶ Unused tickets should be returned to office and Principal should initial/date the return of the tickets
- ▶ Log should be maintained in the Principal's office

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Check-up Sheets

- ▶ These sheets are used to document the amount of tickets sold.
 - ▶ Each person who collects gate money should have their own check-up sheet
- ▶ These forms should include:
 - ▶ Date – should correspond to date of event
 - ▶ Beginning ticket number sold
 - ▶ Ending ticket number sold
 - ▶ Total number of tickets sold
 - ▶ Admission price
 - ▶ Total Amount that should have been collected
 - ▶ Actual amount collected – broken down by cash and coins
 - ▶ Any variances should be documented

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Check-up Sheets

▶ These forms should include: (Continued)

- ▶ Change Cash amount
- ▶ A place for each gatekeeper to sign that amounts documented are correct.
- ▶ All sheets and funds for event should be given to supervisor of event (Principal/Asst Principal)

▶ Control Check-up Sheet

- ▶ Once a responsible staff member receives check-up sheets and funds collected a control check-up sheet should be documented
- ▶ This sheet should include all gatekeepers and funds collected broken down by cash and coin
- ▶ Date – Should correspond with date of event

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Control Check-up Sheet

- ▶ Once responsible staff member receives check-up sheets and funds collected a control check-up sheet should be documented
- ▶ This sheet should include all gatekeepers and funds collected broken down by cash and coin as reflected on check-up sheets
- ▶ Responsible staff member should count and document on control check-up sheet total amounts provided to them broken down by cash and coin
- ▶ This control check up sheet should also document total change cash turned in to them by gatekeepers
- ▶ Any variances from this sheet to the check-up sheets should be investigated
- ▶ Responsible staff member should sign that amounts documented are correct
- ▶ Responsible staff member should then have funds Master Receipted

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Master Receipt

- Master Receipt should be issued by office staff member or another responsible staff member other than a gatekeeper/control check-up sheet person
- Two Master Receipts should be issued for funds in possession of control check-up sheet person
 - Master Receipt for funds collected from ticket sales
 - Master Receipt for change cash
- Original Master Receipt(s) should be attached to check-up/control check-up sheet

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Depositing

- All cash collected from ticket sales should be deposited as collected
- All change cash should be deposited as well after each event
- Deposits should be done immediately after the event (Do not leave at school overnight)
- For events that occur after banking hours:
 - Utilize the bank night depository
 - Utilize a locked bank deposit bag
- Validated deposit slip received from the bank should be returned to the office
 - Attach deposit slip to documentation of check-up/ control check-up sheets/ Master Receipt
 - Retain documentation broken out by activity
 - Folder should contain documentation of events for the year (Calendar)
 - Retain for review by management or external auditor

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Bookkeeper's responsibility

- ▶ After deposit is made and all documentation has been returned to the office the bookkeeper should:
 - ▶ Review all documentation to ensure its accuracy
 - ▶ Initial and date on documentation when review occurred
 - ▶ Enter deposit into the accounting system using the proper code
 - ▶ Print Journal entry detail report and attach to documentation
 - ▶ Retain for review by management or external auditor

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

➤ The don'ts

- Do not cash checks out of funds collected
- Do not retain change cash to be used for next event
- Do not use cash received for expenses
- Do not use correction fluid for mistakes on:
 - Check-up sheets
 - Control Check-up Sheets
 - Master Receipts
 - Deposit slips

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Planning

- There are so many internal control considerations with an extracurricular event.
- Planning is key.
- Leadership of the Board and School should carefully plan who will perform these functions.
- An event should not be held before all parts of this internal control process are finalized.

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Planning

- Before an event occurs, the following tasks should be assigned to responsible persons regarding ticket sales.
 - Gatekeeper(s)
 - Control check-up sheet responsible person
 - Master Receipt responsible person
 - Depositing responsible person
- These tasks are all assigned to reduce the risk that funds collected are misused or mishandled

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

- ▶ Concessions (and School Store)
 - ▶ Three overall considerations
 - ▶ Staff
 - ▶ Collection of Funds
 - ▶ Goods to be sold
 - ▶ Concessions have the highest risk of fraud due to the nature of the transaction. Fraud can result via:
 - ▶ Cash being taken during the event
 - ▶ Shrinkage resulting from goods being given without payment

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Concessions

▶ Staff

- ▶ The staff for concessions comes in all forms:
 - ▶ Employees of the school
 - ▶ Parents
 - ▶ Responsible students
- ▶ Concessions should not be offered unless it can be staffed appropriately and responsibly.

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concessions

► Staff

- Size of staff will vary based on size of concession stand.
- It could be that a small staff would be sufficient to appropriately and responsibly perform the functions of the concession stand.

► Planning

- Leader of the school should adequately plan who will serve as staff members before the event begins.

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concessions

► Planning

► Plans of the concession stand include:

- Goods to be sold are adequate for expectations of event
- At a minimum, three members should be staffed to the stand
- Responsible person should be tasked to the Master Receipt process
- Principal (designee) should be tasked with making deposit
- Bookkeeper to perform Profit/Loss Analysis of concessions

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Concessions

▶ Purchase of Goods to be sold

- ▶ Goods to be sold should always go through the same purchasing process like other purchases.
 - ▶ Purchase Order should Initiate the process for concessions with approval from Principal
 - ▶ Once invoice is received, concessions should be verified to the invoice
 - ▶ Goods should be properly safeguarded so to be used for their intended purpose

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concessions

► Sale of goods

- Concessions should only be sold when stand is adequately staffed
- Pricing of concessions should be determined before the event and allow for the ability to make a profit
- Principal should ensure that attempts to sell all perishable items near end of event to ensure as much of goods purchased were sold.
- All non-perishable goods should be properly safeguarded so to be used for their intended purpose in the future

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concessions

► Funds Collected

- At beginning of event, cash drawer should only include appropriate amount of change cash as directed by school leadership.
- Funds should be collected in the amount of the prices listed for the sale of concessions.
- How many cash drawers:
 - Depends on size of concession stand
 - Should be determined by school leadership prior to event

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concessions

► Check-up sheet

- At the end of the event, a check-up sheet should document the amount of funds collected. This form should include:
 - Date – Should correspond with the date of the event
 - Name of person(s) who used the cash drawer
 - If more than one cash drawer, use separate check-up sheets for each cash drawer
 - If only one cash drawer is used, all staff members should sign the check-up sheet
 - Document the funds collected, broken out by cash and coins
 - Change cash should be documented

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Concessions

▶ Control Check-up sheets

- ▶ A Control Check-up sheet should be used when there is more than one cash drawer for concessions.
 - ▶ Date – Should correspond with the date of the event
 - ▶ Name of person(s) who used the cash drawer
 - ▶ List each cash drawer separately by the name of person.
 - ▶ Include amount listed as being collected on check-up sheet
 - ▶ Control check-up sheet person should then count the cash and document amount of funds that have been received.
 - ▶ Document the funds collected, broken out by cash and coins
 - ▶ Any variances, should be investigated.
 - ▶ Change cash should be documented

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concessions

► Master Receipts

- Someone other than the staff of concessions and the control check-up person as designated by Principal should then issue a Master Receipt to the control check-up person.
 - Control Check-up person will deliver funds to Master Receipt responsible person
 - Two Master Receipts will be issued to control check-up person (To be attached to control sheets)
 - One for the funds collected through sale of concessions
 - One for the change cash
 - Original Master receipt to be attached to control sheet documentation.
 - Person responsible for Master Receipt Process is to then deliver the funds and documentation to the person responsible for making the deposit.

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Depositing of Concessions

- All cash collected from sale of concessions should be deposited as collected
- All change cash should be deposited as well after each event
- Deposits should be done immediately after the event (Do not leave at school overnight)
- For events that occur after banking hours:
 - Utilize the bank night depository
 - Utilize a locked bank deposit bag
- Validated deposit slip received from the bank should be returned to the office
 - Attach deposit slip to documentation of check-up/ control check-up sheets/ Master Receipt
 - Retain documentation broken out by activity
 - Folder should contain documentation of events for the year (Calendar)
 - Retain for review by management or external auditor

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ The don'ts of Concessions

- ▶ Do not cash checks out of funds collected
- ▶ Do not retain change cash to be used for next event
- ▶ Do not use cash received for expenses
- ▶ Do not use correction fluid for mistakes on:
 - ▶ Check-up sheets
 - ▶ Control Check-up Sheets
 - ▶ Master Receipts
 - ▶ Deposit slips

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

▶ Bookkeeper's responsibility

- ▶ After deposit is made and all documentation has been returned to the office the bookkeeper should:
 - ▶ Review all documentation to ensure its accuracy
 - ▶ Initial and date on documentation when review occurred
 - ▶ Enter deposit into the accounting system using the proper code
 - ▶ Print Journal entry detail report and attach to documentation
 - ▶ Retain for review by management or external auditor

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concession Profit/Loss Analysis

- A Profit/Loss analysis should be performed periodically.
- The frequency of this analysis should be determined by management.
- Why is a Profit/Loss Analysis important?
 - Indicates if the school is losing money on this activity
 - Indicator of shrinkage of concessions
 - A Profit/Loss analysis is recommended in each activity
 - Allows school to drill down to specific problem areas

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concession Profit/Loss Analysis

► What information do I need to conduct a Profit/Loss Analysis?

► Inventory of what was available for sale

- An Inventory should be conducted before each event and documented on Profit/Loss Analysis form

► Cost of Goods available for sale

- Knowing what is available for sale is the most important step in the analysis

► Cost of Goods Sold

- This is determined by doing an inventory at the end of the event to determine how many items were sold.
(Beginning Inventory amount (less) Ending inventory amount (equals) total items sold.

► Total amount collected from sale of concessions (Total funds (less) change cash

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Concession Profit/Loss Analysis (Continued)

► What information do I need to conduct a Profit/Loss Analysis?

► Profit/Loss

- Total amount collected from sale of concessions (less) Cost of Goods Sold

- If a loss is determined, school should immediately reexamine the sale of concessions at events

► Considerations when a loss occurs:

- Consider price changing

- Consider turning concessions over to external organization (Booster Clubs)

EXTRACURRICULAR ACTIVITY INTERNAL CONTROLS

► Change Cash

- Change Cash must have proper controls to reduce the risk of fraud/misuse
 - Change Cash should always be issued to the responsible leader of the school (Principal)
 - It is ultimate responsibility of Principal to ensure that change cash is used during and deposited after an event occurs.
 - Change cash should be tracked by the school to ensure proper use.
 - When a check is written for change cash the payee should be:
 - Responsible leader of the school
 - A log should be kept of all the change cash broken down by activity that has been issued

OTHER INTERNAL CONTROLS

- ▶ There are many other considerations related to funds collected.
 - ▶ Each day's receipts should be deposited into the bank intact and without delay.
 - ▶ Someone other than the bookkeeper should take deposits to the bank.
 - ▶ Non-Sufficient Funds (NSF) Checks
 - ▶ Bank debit memo's should be delivered directly to a responsible employee for investigation
 - ▶ Collection of funds from payer should be made
 - ▶ Checks should not be collected from person(s) who have a history of NSF checks
 - ▶ Proper physical safeguards and facilities should be employed to protect cash on hand.

OTHER INTERNAL CONTROLS

- ▶ There are many other considerations related to funds collected.
 - ▶ An employee with custody of school funds should not also have custody of non-school funds (i.e., Boosters, PTA, etc.)
 - ▶ There should only be one bank account in existence for school activity funds.
 - ▶ School should have a record of all change/petty cash in use

EXPENDITURE INTERNAL CONTROLS

- ▶ What is the proper way to disburse funds?
 - ▶ All disbursements should be made by check and only from the school's checking account.
 - ▶ Checks should be prenumbered with the school name included on the check.
 - ▶ Disbursements should only be made when proper documentation has been obtained.
 - ▶ Prenumbered Purchase Requisition, If Required (Before the date of invoice)
 - ▶ Prenumbered Purchase Order (Before the date of Invoice, signed by Principal)
 - ▶ Invoice is verified to goods received and purchase order.
 - ▶ All documentation is presented to Principal and approved for payment.
 - ▶ Check is then issued to payee.

EXPENDITURE INTERNAL CONTROLS

► Purchase Order

- Purpose is to allow the principal the ability to approve all 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.

EXPENDITURE INTERNAL CONTROLS

- ▶ The don'ts of disbursements:
 - ▶ Do not sign checks in advance
 - ▶ Do not issue to checks with the payee “cash” or “bearer”
 - ▶ Do not pay for items in advance of receipt of materials, supplies or equipment.

EXPENDITURE INTERNAL CONTROLS

► Other Important Items:

- Vendors should be paid in a timely manner to avoid late fees.
- Alabama Sales tax should not be paid on items purchased by school.
- Checks Outstanding for more than 60 days should be investigated.
- Void checks should be properly defaced and retained for review.
- Authorized signatures should be limited to the Principal and possibly one other responsible person.

BANK RECONCILIATIONS INTERNAL CONTROLS

▶ Bank Reconciliations

- ▶ All bank accounts should be reconciled as soon as the bank statement is received from the bank.
- ▶ Should be performed by someone other than the one who writes checks.
- ▶ Sequence of check numbers should be accounted for on the reconciliation.
- ▶ We should examine cancelled checks for date, name, and endorsement.
- ▶ “Other reconciling items” should be identified properly.

COMMON AUDIT ISSUES

▶ Public/Non-Public Coding

- ▶ Funds received from public (tax) sources or used for public purposes are public funds subject to the control of the school principal.
- ▶ Examples of largest receipts of public funds in local schools.
 - ▶ General Fund
 - ▶ Vending Machine Commissions
 - ▶ School Fundraiser Proceeds (School Pictures, Coupon Books, etc.)
 - ▶ Student Parking Fees
 - ▶ Appropriations from BOE
 - ▶ Interest Income
 - ▶ Other Miscellaneous Revenue

COMMON AUDIT ISSUES

- ▶ Examples of largest receipts of public funds in local schools.
 - ▶ Athletic Funds
 - ▶ Gate Receipt Income
 - ▶ Parking Fees from Athletic Events
 - ▶ Advertising Commissions
 - ▶ Game Program Sale Proceeds
 - ▶ Donations from Athletic Booster Clubs
 - ▶ Separate funds in accounting system may be established for individual sports.
 - ▶ Concession and Student Vending
 - ▶ Proceeds from Concessions operated by the School at Athletic Events and Vending Machines for students operated at school

COMMON AUDIT ISSUES

- ▶ Examples of largest receipts of public funds in local schools.
 - ▶ Fees
 - ▶ School imposed course fees for certain non-required academic courses
 - ▶ Field Trip Fees
 - ▶ Workbook Fees
 - ▶ Fees for Supplemental Instructional Materials
 - ▶ Faculty Vending
 - ▶ Funds from items sold in faculty lounge.

COMMON AUDIT ISSUES

- ▶ Allowable Expenditures from Public Funds include:
 - ▶ Professional Development training
 - ▶ Refreshments expended for open house at a school where the public would attend
 - ▶ Pregame meals for student athletes and coaches
 - ▶ Academic incentives for students
 - ▶ Athletic and band uniforms for students to participate in school activities.
 - ▶ Memberships in professional organizations
 - ▶ School landscaping, maintenance, furnishings and decorations.

COMMON AUDIT ISSUES

- ▶ Unallowable Expenditures from Public Funds include:
 - ▶ Food items for teachers' lounge
 - ▶ Meals for spouses of employees
 - ▶ Faculty/staff Christmas Party, Christmas cards, or gifts to employees
 - ▶ Coffee and cups for employees
 - ▶ Lunches for teachers for school closing activity
 - ▶ Planned lunches for faculty and staff
 - ▶ Flowers for sickness, death, secretary's work, etc.
 - ▶ After game meals for athletes
 - ▶ Alcoholic beverages

COMMON AUDIT ISSUES

- ▶ Unallowable Expenditures from Public Funds include:
 - ▶ Dues to Private clubs
 - ▶ Donations to YMCA, Red Cross, etc

COMMON AUDIT ISSUES

▶ Non-Public Funds

- ▶ Funds restricted for expenditures subject to the intent and authorization of the organization's sponsors and officers and not used for general operations of school.
- ▶ Examples of largest receipts of Non-public funds in local schools
 - ▶ Clubs and Classes
 - ▶ Student self imposed fees for student organizations
 - ▶ Fund raising events for these student organizations
- ▶ Note: If Non-public funds are coded to public activity they will be subject to the same expenditure restrictions as other PUBLIC funds.

COMMON AUDIT ISSUES

▶ Non-Public Fund Deficit Fund Balances

- ▶ If a Non-Public Activity has a deficit fund balance, it indicates that public funds are covering transactions from these activities.
- ▶ This is a violation of Section 94, ***Constitution of Alabama 1901*** which states the Board cannot lend its credit, or to grant public money or a thing of value to any individual, association or corporation.

COMMON AUDIT ISSUES

▶ Non-Public Funds

- ▶ Possible allowable expenditures of non-public funds (Coding must be proper)
 - ▶ Food for social gatherings
 - ▶ Class prom entertainment
 - ▶ T-shirts
 - ▶ Donations
 - ▶ Travel expenses
 - ▶ Transfers to other non-public activities
 - ▶ Championship rings
 - ▶ Faculty appreciation gifts, Scholarships, Flowers for Funerals

COMMON AUDIT ISSUES

▶ Common Audit Findings

- ▶ Failure of funds to be remitted to office for deposit in a timely manner.
- ▶ Deficit cash balances in non-public activities
- ▶ Failure to properly perform bank reconciliations
- ▶ Failure to follow established policies and procedures related to receipts, deposits, concessions, ticket sales and expenditures at local schools
- ▶ Failure to keep accurate inventory of concessions.
- ▶ Failure to retain adequate documentation of disbursements at local schools
- ▶ Failure to ensure all applicable individuals receive an IRS form 1099

FRAUD PREVENTION

► Perform Surprise Internal Reviews

- Observe cash collections at a sporting event or school fundraiser.
- Perform an inventory of school store.
- Review teacher receipts books for monies not turned into office.
- Review teacher receipt books for proper make-up of collections.
- Verify new vendor names with a legitimate website or address.
- Maintain receipt book log and verify all receipt books have been turned in at year end.

FRAUD PREVENTION

► Purchase Cards

- Confirm that the school/Board has a card policy and that all users have received a copy of the policy.
- Ensure purchases are approved beforehand with a proper purchase order.
- Implement deadlines for receipt submission.
- Review and approve all purchases before making payments to the credit card company.
- Revoke purchase cards/credit card access for non-compliant cardholders.

FRAUD PREVENTION

- ▶ Utilize data analytics

- ▶ Review trends of sporting events. Games that are sold out should have large ticket collections.
- ▶ Events that are cancelled or delayed should be documented.
- ▶ Fundraisers and concessions should have profits.
 - ▶ Review all expenditures that are associated with fundraisers.
 - ▶ Investigate all losses and ask the sponsor why.

FRAUD PREVENTION

► Identifying Fraud

- If fraud is suspected, notify the principal and CSFO/Central Office.
 - Use hotlines or website links to make officials aware.
 - Contact the Examiners of Public Accounts.
- Document the problem and gather all the evidence.
- Train employees on the proper procedures.

CONTACT INFORMATION

Department of Examiners of Public Accounts

401 Adams Avenue– Suite 280

Montgomery, Alabama 36104

P. O. Box 302251

Montgomery, Alabama 36104-4338

Phone: 334.242.9200

FAX: 334.242.1775

Report Fraud, Waste or Abuse

Phone: 1-844-56-FRAUD

Website: www.examiners.alabama.gov

QUESTIONS

