Student Activities – How ESE New Audit Guidelines Effect You

Massachusetts Association of School Business Officials

Annual Institute – May 14, 2014

Tony Roselli, CPA, CGMA – Roselli, Clark and Associates

Chad Clark, CPA, MS – Roselli, Clark and Associates

Agenda

- Pre-1996
- Chapter 66 of the Special Acts of 1996
- MASBO Student Activities Handbook
- Annual Audit
- ESE Audit Guidelines
- Common Problems
- Frequently Asked Questions
- Reporting

Pre-1996

- Little to no guidance on administration of student activities.
- Bank accounts being opened in city/town/district federal tax identification number in many instances without Treasurer's knowledge.
- Since Treasurer by statute is custodian of all funds in the city/town/district's name, this was illegal.

Pre-1996

- Internal controls over these accounts were generally weak or non-existent.
- Led to numerous instances of fraud and improper processes.
- Movement to create legislation to give city/town/district more control began in 1994/1995.

Chapter 66 of the Special Acts of 1996

- Codified as MGL Chapter 71 Section 47.
- Major impact on Student Activities.
- School Committee option to adopt.
- Once adopted must be followed.

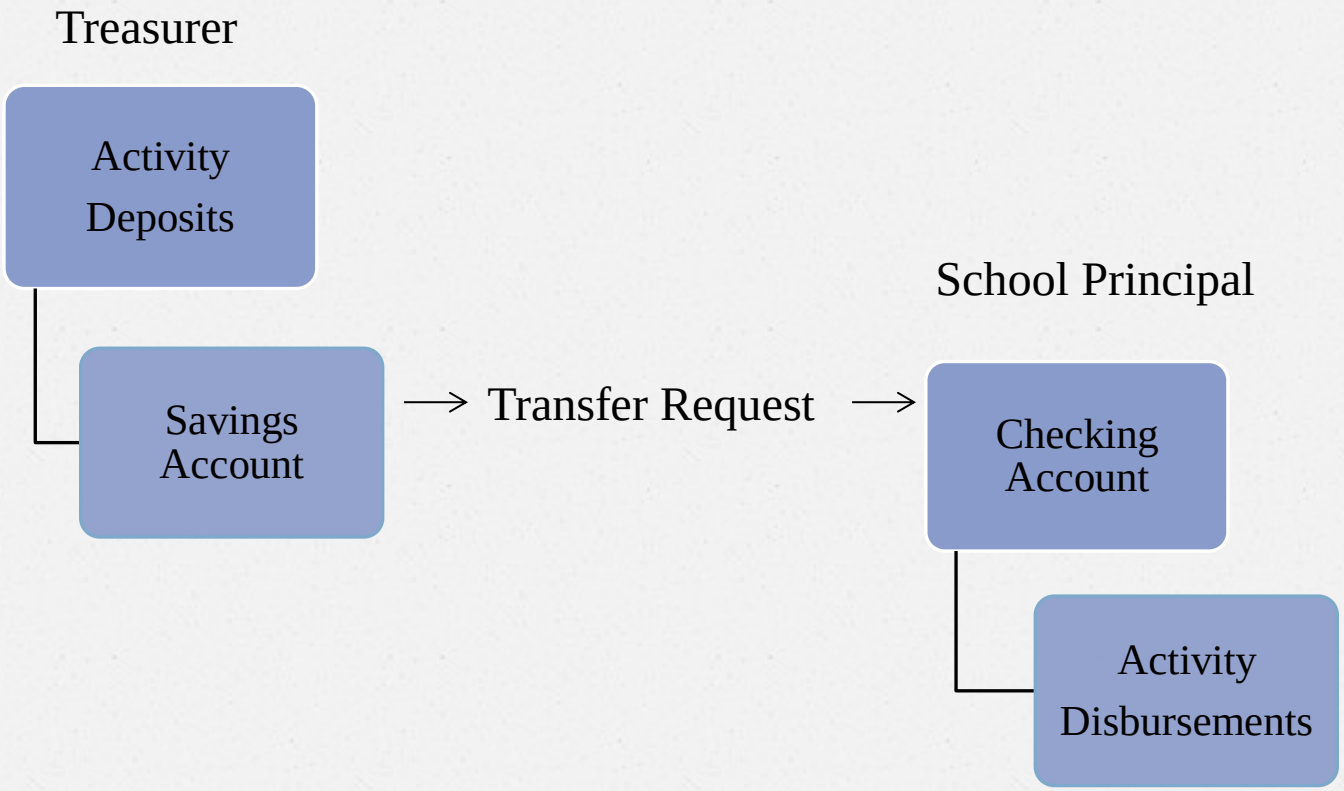
Chapter 66 of the Special Acts of 1996

- City/town/district Treasurer establishes an interest bearing savings account as an Agency Fund.
- All student activity deposits are made to this Agency Fund.
- Principal establishes an imprest checking account through authorization from School Committee and Treasurer.

Chapter 66 of the Special Acts of 1996

- Student activity disbursements to vendors will typically be made from the checking account.
- Once the checking account is depleted, a request for funds is made to the Treasurer along with supporting backup showing transactions that depleted the account (similar to petty cash system).
- Once approved a transfer is made from the savings account to the checking account using the warrant process.

Chapter 66 of the Special Acts of 1996



MASBO Student Activities Handbook

- In response to Chapter 66 of the Acts of 1996, MASBO created a “good business practices” manual for city/town/districts to follow.
- The manual contains minimum suggested policies and procedures to administer student activity funds.
- Many districts used the manual to compile their policies and procedures.

MASBO Student Activities Handbook

- The MASBO handbook was effective for those districts that chose to follow its guidelines.
- The handbook will be updated to correlate with new ESE guidelines.

Annual Audit

- One of the components of Chapter 71 Section 47 states ***"There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education."***

Annual Audit

- Definition of annual audit:
  - *May be performed internally.*
  - *Likely candidates are Town Accountant, Treasurer, School Business Office.*
  - *For larger student activity funds greater than $25,000, recommend once every three years performed by an independent auditor.*
  - ***Must** be conducted **every year** by someone **qualified** to conduct such a procedure.*

Annual Audit

- Problems with annual audit:
  - *Guidelines did not exist to assist districts in how to conduct these internal annual audits.*
  - *As a result they have generally not been performed.*
  - *Some have used the independent auditor once every three years.*
  - *Many have done nothing.*

Annual Audit

- Problems due to lack of compliance with annual audit requirements:
  - *When audit is finally conducted by independent auditor, many issues are being uncovered:*
    - *Lack of proper accounting practices,*
    - *Improper spending,*
    - *Lack of reconciliations, and*
    - *Theft/misappropriation/fraud.*

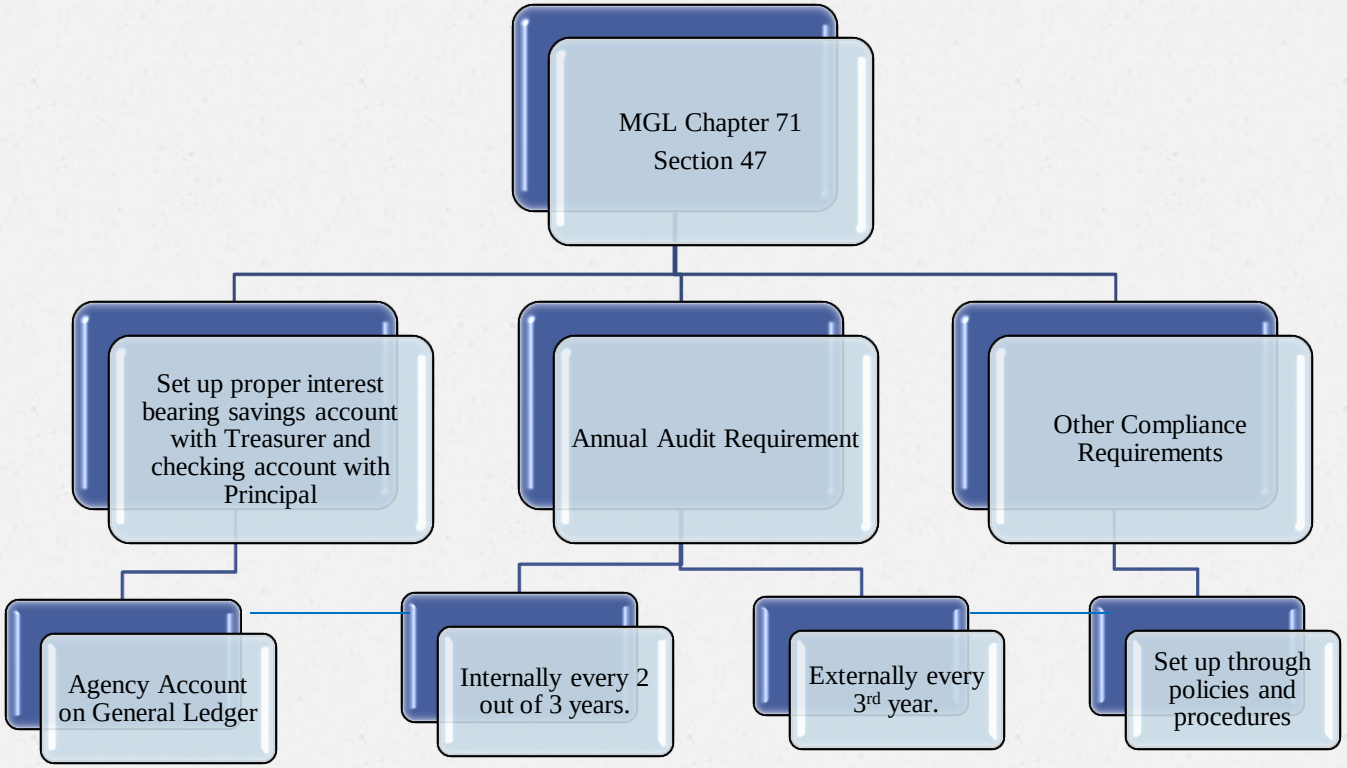
ESE Audit Guidelines

- Continued issues caused great concern with ESE and DOR.
- Efforts made to create audit guidelines that must be followed annually by districts.
- This was done to increase control over transaction processing and reduce major problems.
- Guidelines launched May 1, 2014, available at ESE website under “Finance/Grants – Accounting & Auditing”.

ESE Audit Guidelines

- ESE will enforce Chapter 71 Section 47.
- Independent Auditors will verify that annual audit guidelines are being conducted through review of existence of completed checklist and report.
- Independent Auditors will conduct audits once every three years.

ESE Audit Guidelines



ESE Audit Guidelines

- Summary Audit Guidelines:
  - *Administration*
  - *Stewardship and custodial responsibility*
  - *General operating procedures*
  - *Revenues, receipts and deposits*
  - *Purchasing and disbursements*
  - *Class accounts, inactive accounts and deficits*
  - *Student travel*

ESE Audit Guidelines

- Administration
  - *Have formal policies and procedures been adopted by the School Committee?*
  - *Have individual student activities been approved by the School Committee?*
  - *Are student activities proper student activities?*
  - *Is there an adequate accounting system?*
  - *Are individuals qualified and trained?*

ESE Audit Guidelines

- Stewardship and Custodial Responsibility
  - *Has the School Committee accepted Chapter 71 Section 47?*
  - *Are all deposits made to the Agency savings account?*
  - *Are requests for replenishment to checking account complete and adequate?*
  - *Do checking account balances exceed School Committee limits?*
  - *Are all cash handlers bonded?*
  - *Have annual audits been performed?*

ESE Audit Guidelines

- General Operating
  - *Are bank reconciliations performed at least quarterly?*
  - *Are standard forms for deposits and disbursements used?*
  - *Are periodic reports prepared for review?*
  - *Are subsidiary student activity accounts maintained and reconciled in aggregate to the control account?*

ESE Audit Guidelines

- Revenue, Receipts and Deposits
  - *Are pre-numbered receipts or logs used?*
  - *Inquire secure storage of cash and checks prior to turnover.*
  - *Timeliness of turnover of funds to Treasurer.*
  - *Are deposits only for student activity funds?*
  - *Do revenue policies exist and are they followed?*
  - *Are all deposits accompanied by a deposit slip or equivalent?*
  - *Does the deposit amount agree to the bank statement?*
  - *Does the deposit amount agree to the accounting records?*

ESE Audit Guidelines

- Purchasing and Disbursements
  - *Are disbursements authorized?*
  - *Are disbursements supported by an invoice or equivalent?*
  - *Does the disbursement agree to the accounting records?*
  - *Does the disbursement agree to the bank statement?*
  - *Is the disbursement a proper expenditure for students?*
  - *Is the proper student activity account charged?*

ESE Audit Guidelines

- Class Accounts, Inactive Accounts and Deficits
  - *For classes that have graduated, are monies credited to those classes disposed of in accordance with School Committee policy?*
  - *Are inactive accounts disposed of in accordance with School Committee policy?*
  - *Do program deficits exist?*

ESE Audit Guidelines

- Student Travel
  - *Is travel properly authorized?*
  - *Is there a final accountability of all travel expenses?*
  - *Are all travel expenses supported?*
  - *Is the travel in accordance with student activity policies?*

Common Problems

1. Non-student activities maintained in a student activity account.
2. Lack of segregation of duties.
3. Lack of reconciliation of bank statements and activity balances.
4. Inadequate or incomplete documentation.
5. Lack of subsidiary ledgers.
6. Deficit balances.
7. Use of funds to pay unauthorized stipends or payroll.
8. Insufficient bank balances.
9. Bank balance in excess of fund balances.
10. Lack of audits.
11. Lack of Agency savings account.
12. Use of funds to pay non-student activity expenses such as curriculum items.

Frequently Asked Questions

- Are student activity disbursements subject to Chapter 30B procurement laws?
- May a student activity organization accept gifts and donations?
- May grants and gifts be accepted by a student activity organization for educational purposes?
- May the student activity organizations conduct fund raising activities?
- Does the city/town/district annual audit of its finances by an outside auditor satisfy the requirement that there shall be an annual audit conducted of the student activities?

Frequently Asked Questions

- Please provide examples of individuals that ESE believes are suitable to perform the audit in the intervening years.
- May a school district rotate schools subject to the annual audit requirements each year to reduce costs?
- Can a City or Town Treasurer force an audit as described in Chapter 71 Section 47 of the student activity funds?
- What happens when an account becomes overdrawn and shows a deficit balance?
- Are PSAT fees considered revolving funds or student activities?

Frequently Asked Questions

- Can lost book fees be deposited into a student activity account?
- Are the fees generated from a PTO account subject to Chapter 71 Section 47?
- Is each student activity required to be approved each year by the School Committee or only once at creation?
- May the proceeds from the sale of merchandise in a school store be deposited into a student activity account?
- Are vending machine proceeds from machines situated in the school buildings included as part of student activities?

Frequently Asked Questions

- May student accounts be used to pay stipends or other payroll?
- Is the student activity required to adhere to IRS reporting with respect to backup withholding taxes and Form 1099-MISC?
- In my school, the Principal puts all deposits into one general ledger account and spends from this same general ledger account for any purpose. Is this proper?
- Is it proper to purchase supplies with student activity funds?

Frequently Asked Questions

- Should the student activities avoid making large reimbursements to sole individuals?
- My school often gives individuals blank checks when going to the supermarket for refreshments for club functions because the amount is not known. Is this proper?
- My district has over 25 schools. Do all these schools need to be audited under Chapter 71 Section 47?
- May a student activity disburse funds to a charitable organization?

REPORTING

SAMPLE REPORT FOR USE FOR AUDITS CONDUCTED INTERNALLY

September 1, 20xx

Anytown Public Schools
1 Any Street
Anytown, Massachusetts 12345

To the Superintendent of Anytown Public Schools and Members of the School Committee

I have inspected the financial records, reviewed policies and procedures and conducted tests of the internal control processes in place to administer the Student Activities of Anytown Public Schools for the year ended June 30, 20xx. The purpose of this inspection was to determine if the financial records, policies and procedures, and internal control processes in place are sufficient to support the objectives of the School Committee of Anytown Public Schools as it relates to the Student Activities.

My procedures were designed using the *Massachusetts Department of Elementary and Secondary Education Audit Guidelines*. These guidelines were used in reaching my conclusion.

As a result of my procedures, certain matters came to my attention that I have reported in the accompanying Schedule of Findings.

Except for those matters reported in the accompanying Schedule of Findings, I conclude that the financial records, policies and procedures, and internal control processes in place are sufficient to support the objectives of the management of the Student Activities of Anytown Public Schools.

Or;

The matters reported in the accompanying Schedule of Findings rise to a level of such significance that they preclude the conclusion that the financial records, policies and procedures, and internal control process in place are sufficient to support the objectives of the School Committee of Anytown Public Schools as it relates to the Student Activities

My inspection is not meant to be construed as an audit or opinion rendered by a Certified Public Accountant.

Sincerely,

Name :

Title:

Date:

REPORTING

Schedule of Findings:

Finding 1: The Principal's account at the Anytown Elementary School is used for a wide variety of items, many of which are not related to co-curricular activities established by the School Committee. We observed payments for bottled water used in the Principal's office and staff lunches as well as the payment of repairs to the School's public announcement system from student activities. We were also informed that this is an account that the Principal may use for discretionary purchases. Student activities monies should be used solely for student co-curricular activities and any other uses should be abolished immediately.

Corrective Action: The appropriate use of student activity funds was discussed at a school-wide training held subsequent to the audit. In addition, a policy was developed to coincide with ESE guidelines and MGL. As a result, we are confident that individuals in charge of these accounts are aware of the appropriate use of these accounts, and these issues will not re-occur in the future.

Finding 2: I determined that bank reconciliations for the Anytown Elementary School Student Activities are prepared only once per year at year-end. I also determined that the bank reconciliation did not agree to the student activities' accounting ledger. Bank reconciliations are a critical component of internal control. In order for this control to be effective, it should be completed more frequently than once per year. Resultant of this deficiency, there exist variances that can't be reconciled. ESE guidelines suggest that bank reconciliations are prepared not less than quarterly and preferably monthly. I suggest that such a process is implemented.

Corrective Action: We agree with the audit finding and as a result, beginning with fiscal year 20xx, we will begin to prepare bank reconciliations on a monthly basis and make any resulting adjustments to the accounting records in a timelier manner.

Questions