


The Appropriate Management and Use of Public Funds



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Public Funds

- *Utah Code 51-7-3(25)* defines public funds as “Money, funds, and accounts, regardless of the source from which [these] are derived, that are owned, held, or administered by the state or any of its...school districts,... or other public body.”
- All funds received into a public entity, regardless of source, are subject to the rules and accounting procedures that apply to public funds.

Finding:	High Schools				
	Timpview	Fremont	Alta	Davis	Cottonwood
Construction & improvements outside of district control	x				x
Inadequate internal controls over expenditures, fundraising, cash receipts	x	x		x	x
Inadequate segregation of duties	x	x		x	x
Inadequate supporting documentation	x		x		x
Lack of policies & procedures	x	x	x		
Noncompliance with procurement policy	x				
Noncompliance with rules related to a private event					x
Public funds commingled with third parties	x				x

WHAT WENT WRONG?

1. No monitoring of existing policies and procedures or internal controls
2. No Internal Controls.
2. Misunderstanding of audit scope.
3. Disregard for policy and procedures.
4. Signing transactions rather than performing a review and approval.

No monitoring of established internal controls

Timpview

They had written policies and procedures over cash receipts and cash disbursements. Not everyone followed them....

- Purchases that did not follow procurement policy \$134,863.
- Potentially splitting invoices to avoid getting bids, bids/quotes were often not obtained until AFTER purchases.

Davis

All money (including fees) was being collected and tracked by a parent, prior to being deposited by the front office at the school.

- The parent had a signature stamp with the teachers signature that was used to approve expenditures, which were then processed by the District.
- In QB, there was \$6,753 in outstanding balances owed by the students of which the school was unaware.

NO INTERNAL CONTROLS

Fremont:

- Sold 50 lb. bags of potatoes. They purchased 410 bags, sold for \$20, there were none left, only deposited \$6,775. Estimated revenues should be \$8,200. Checks and cash totaling \$1,110 were found in the teachers desk, where they had been sitting for over 8 months.



Cottonwood:

- School issued 8 blank checks and 12 advance checks for prior to purchase being made.
- Potentially splitting invoices to avoid getting bids.
- \$27,677 payment to single vendor without proper competitive bids.

ALL of the schools audited- Numerous examples of BBQ's, concerts, sale of candy and clothing, concessions, etc., where there are NO records to determine how much \$ was collected, nor how much should have been deposited.

Comingling of Public Funds

Accounts outside of LEA control

- Camps, clinics, and other events are being hosted in school facilities, some expenditures are being paid for by the school; however, revenues are deposited with 3rd party organizations, outside of school control.
- Adverting: Banners are being sold and hung on school property, ads in programs appear at school events, but not all of the proceeds are being deposited with the school.

Much Ado About Nothing?

600,985 students October 1, 2012
260,542 in 7-12 grades

<u>Amount per student</u>	<u>Total</u>
\$100	\$26,054,200
\$200	\$52,108,400
\$250	\$65,135,500
\$300	\$78,162,600
\$350	\$91,189,700

R277-113 LEA Fiscal Policies and Accountability

Establishes a framework for "School Sponsored Activities"

Requires all LEAS to adopt the following by **September 15, 2013**:

- 1) Defining school sponsored activities
- 2) Establish policies for non-sponsored activities /booster clubs
- 3) Cash receipting policies and procedures
- 4) Expenditures policies and procedures
- 5) Fundraising policy
- 6) Gifts and donation policy

*** REQUIRED TO TRAIN EMPLOYEES YEARLY!

BUDGETS- Expenses

What are you spending money on?



- Uniforms/Equipment
- Transportation/travel costs
- Tournament or special trip costs
- Cost of fundraisers, banquets, meetings
- WHO IS PAYING YOUR EMPLOYEES?????

AD REVIEW Procedures- Expenses:

1. Go through previous expenditure report
2. Where/what are you spending your money on? TRENDS?
3. Who are your vendors? WHY?
4. Are there expenditures for all the things you expect?
5. IF NOT ASK QUESTIONS.. Most likely there is an outside account or funding source you don't know about.
6. DO YOUR EMPLOYEES KNOW THE RULES SURROUNDING PURCHASING? DO YOU KNOW THE RULES?

BUDGETS-Revenues

Know your revenue sources

- Fees
- Fundraisers or events?
- Donations
- Ticket Sales



AD REVIEW Procedures- Revenues:

1. Go through previous revenue report.
2. Review fee schedule. Is everything on there?
3. HOW does your LEA handle fee waivers?
4. How much are you collecting at fundraisers?
5. Are deposits made in student name or by donors?
6. WHO IS COLLECTING MONEY?
7. Are there revenues for all the things you expect?

8. IF NOT ASK QUESTIONS.. Most likely there is an outside account you don't know about.

9. DO YOUR EMPLOYEES KNOW THE RULES SURROUNDING COLLECTING MONEY? DO YOU?

Summer Camps/Clinics- best practices

<u>School Sponsored Activity</u>	<u>Not School Sponsored Activity</u>
<ul style="list-style-type: none"> • School facilities used with no charge. LEA risk management coverage applies • School name and equipment is used • Advertising done by LEA or coach • Revenues should be collected and deposited, all expenditures made according to LEA policy. • Transportation to and from activity responsibly of LEA • Payroll or stipends should be approved prior to camps and paid through the LEA • Fee waivers apply 	<ul style="list-style-type: none"> • School facilities are rented and insured and a facilities use agreement exists. • No expenditures paid by the school • No school transportation • Advertising not done by activity director on school time with school resources. • NO CO MINGLING OF PUBLIC FUNDS. • Proper reporting of payroll and stipends are the burden of the organizers • LEA does not have to allow 3rd parties to use school name or equipment. • Organizer assumes liability for damage to property or injury to participants • Fee waivers don't apply

Utah Procurement Code

Utah Code 63G-6a effective May 1, 2013

Amended by SB 190 – STILL effective May 1, 2013

Most critical changes surround ethical guidelines and consequences found in 63G-6a-2301 through 2307

Other Guidance:

Utah Public Officers' and Employees Ethics Act (Utah Code 67-16)

R277-515-3d Utah Educator Standards

Procurement Participant

Is a person involved in:

- Administering, conducting, or making decisions regarding a standard procurement process;
- Making a recommendation regarding award of a contract or regarding a decision to obtain a procurement item for a particular person;
- Evaluating a quote, a bid, or a response; or
- Awarding a contract or otherwise making a decision to obtain a procurement item from a particular person.



Contract Administrator

Is a person who:

- Administers a current contract on behalf of a public entity
- Makes contract payments
- Ensures compliance with contract
- Audits the contractor
- Enforces the contract

Interested Person

- Vendors
- Bidders
- Anyone interested in doing business with the school or LEA

Definition of Contribution

Voluntary gift/donation to a LEA for the LEA's use, and not for a particular person employed by a LEA, including:

- Philanthropic donation
- Services
- Money
- Other items of value
 - Admission to seminar, vendor fair, charitable event, fundraising event, or similar event that relates to the function of the LEA.
 - Purchase of a booth at event sponsored by the LEA or group of which the LEA is a member.
 - Sponsorship of event that is organized by the LEA.

❖ Utah Code 63G-6a-2304.5(b)

Acceptable Contributions

- Contributions are allowable **unless**:
 - directed at an individual, not LEA
 - given, offered, promised or pledged as an inducement to do business with the contributor, or as a result of a previous business transaction
 - received in exchange for making a procurement decision or as the result of a previous business transaction
 - given to an organization in which a procurement participant or contract administrator belong as an inducement for the procurement participant/contract administrator to do business with the contributor or are the result of previous business.

Definition of Gratuities

Anything of value, including:

- Money
- Loan at an interest rate below market value or terms more advantageous than offered generally on the market
- Award
- Employment
- Admission to event
- Meal
- Lodging
- Travel
- Entertainment for which a charge is normally made

❖ Utah Code 63G-6a-2304.5(c)

Definition of Hospitality Gift

- A promotional or hospitality item, including, a pen, pencil, stationery, toy, pin, trinket, snack, nonalcoholic beverage, or appetizer.
- This does not include money, a meal, a ticket, admittance to an event, entertainment for which a charge is normally made, travel, or lodging.

(THESE are Gratuities)

❖ *Utah Code 63G-6a-2304.5(e)*

Definition of Kickbacks

- A gratuity given in exchange for favorable treatment in a pending procurement or the administration of a contract.

❖ *Utah Code 63G-6a-2304.5(g)*

IT IS ILLEGAL TO...

GRATUITY

- for an interested person **to give** a gratuity to a procurement participant/contract administrator or to his family members
- for a procurement participant **to ask or receive** a gratuity from a interested person

Anything of value, including:

- Money
- Loan at an interest rate below market value or terms more advantageous than offered generally on the market
- Award
- Employment
- Admission to event
- Meal
- Lodging
- Travel
- Entertainment for which a charge is normally made

IT IS ILLEGAL TO...

KICKBACKS

- o For **ANYONE to give** a kickback to a procurement participant or to someone else for the benefit of the procurement participant
- o for a procurement participant **to use his position to obtain a personal benefit** for himself or for his family member from a vendor
- o for a procurement participant **to ask or receive** a kickback

If violated-

2nd degree felony if the total value of the gratuity or kickback is \$1,000

3rd degree felony if total value of gratuity or kickback is \$250 - \$999

Class A misdemeanor if total value of gratuity or kickback is \$100 - \$249

Class B misdemeanor if total value of gratuity or kickback is less than \$100

63G-6a-2302

If a LEA has reason to believe that a person has engaged in violating 63G-6a-2304.5, collusion, or other anticompetitive practices, the LEA shall notify the attorney general.

Acceptable Gifts

- The total value of all hospitality gifts given, offered, or promised to, or received or accepted by, the procurement participant in relation to a particular procurement is less than \$10 in value.
- and
- The total value of all hospitality gifts given, offered or promised to, or received or accepted by, the procurement participant from any one person, vendor, bidder, responder, or contractor in a calendar year is less than \$50.

If violated-

- Depending on amount of the gift varies the penalty from a class B misdemeanor to a felony and possible termination.

Artificially Dividing a Purchase

Law-

- It is unlawful to intentionally or knowingly divide a procurement into one or more smaller procurements with the intent to make a purchase.
- This includes:
 - Making 2 or more separate purchases;
 - Dividing an invoice/P.O. into 2 or more invoices/P.O.;
 - OR**
 - Making smaller purchases over a period of time

If violated-

- Depending on amount of procurement varies the penalty from a class B misdemeanor to a felony and possible termination.

❖ Utah Code 63G-6a-408

Utah Public Employee and Ethics UCA 67-16 Utah Educator Standards (R277-515)

ACCEPTING GIFTS

- cannot accept any bonus or incentive from vendors, potential vendors, or gifts from parents and/or students **where there may be the appearance of a conflict of interest or impropriety** (R277-515-3D(3)(a))
- Any donations or gifts from students, parents, and business must be specifically and strictly to benefit students (R277-515-3D(3)(d))
- cannot use his position to further his own economic interest or to secure certain privileges for himself or others (U.C.A. 67-16-4)
- As a public employee, an educator cannot accept a gift of substantial value (safe rule of thumb is anything over \$50) that: (1) Improperly influences him; (2) Is a reward for some official action the educator took; or (3) Or is from any entity the school is doing business with (U.C.A. 67-16-5)
 - **This does NOT include an award publicly presented in recognition of public services**

Management developing internal controls



Risk Assessment Process

- Money coming in/money going out
- How risky is this area?
- What regulations or restrictions are on the funds?
- How experienced are the personnel handling this area?
- How effective are the internal controls?

Internal controls ARE NOT:

- A completed form
- Signatures on a form
- Receipts
- Pictures of you handing \$ to the financial secretary

Internal Controls are the **review, approval, or reconciliation actions over transactions that ensure each transaction is complete, accurate, and recorded properly.



Segregation of Duties

Segregation of duties implements an appropriate level of checks and balances upon the actions and duties of individuals. An adequate system of internal controls is built around segregation of duties.

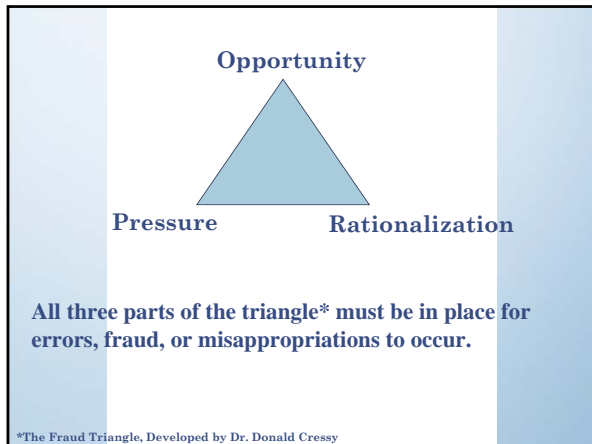


Duties to Segregate

- **Authorization** – who has the ability to initiate, approve, or review transactions.
- **Custody** – who has access to physical assets such as cash, checks, equipment, supplies, or materials.
- **Recordkeeping** – who has access to your accounting system and records.

Benefits of Proper Segregation of Duties

- 1) Segregation of duties provide protection for employees!
- 2) It is more likely that innocent errors will be found. No one person should have sole control over all phases of a transaction.
- 3) A deliberate fraud is more difficult to conceal because it requires collusion of two or more people.



Opportunity

Opportunity is generally provided through weaknesses in internal controls. Some examples include inadequate or no:

- Reconciliations
- Segregation of duties
- Management review and approval
- Documentation
- Complacency

Opportunity is the only factor we can control!!!!!!

What is considered a cash receipt?

- Cash, MONEY
- Checks
- Money Orders
- Credit Card Transactions
- Transfers
- Donations

What are your cash disbursement streams?



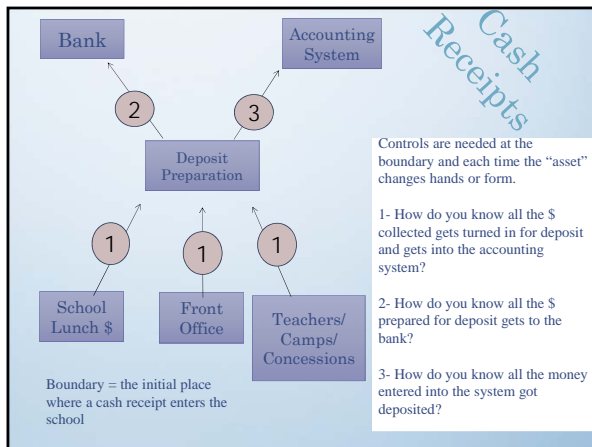
- Checks
- Debit/credit cards
- Petty cash
- Change funds
- Payroll services
- Electronic transfers/accounts



Are expenditures paid out of cash receipts?

Evaluate and Implement Internal Controls





Example of Internal Controls for Cash Receipts

<p><u>Point of receipt (boundary)</u></p> <ul style="list-style-type: none"> • Enter all cash receipts into the student system, by individual, immediately • Create a detailed listing by individual, that agrees to \$ collected • Have two people count and verify cash receipts at events • Issue pre-numbered receipts 	<p><u>At and after deposit</u></p> <ul style="list-style-type: none"> • Someone independent reconcile deposit to the daily entries into the accounting system • Someone independent review the bank reconciliation • Review of monthly income and expenses by teacher over activity
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Cash Disbursements

1- How do you know that an expenditure is approved? Is it allowable for the funding source?

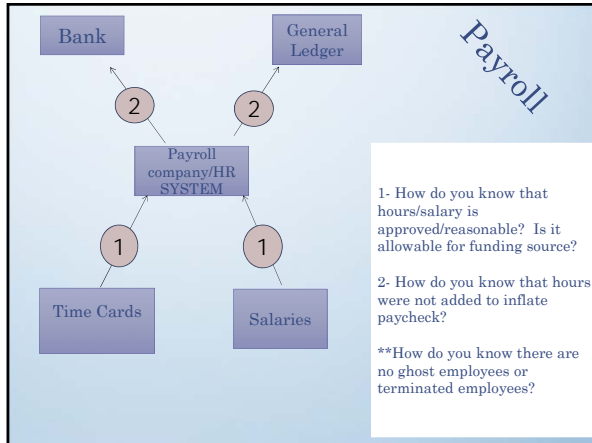
2- How do you know that all checks written were presented for approval? How do you know journal entries and transfers are correct?

Example of Internal Controls for Disbursements

<p><u>Disbursement Request</u></p> <ul style="list-style-type: none"> • Approved invoice with supporting documentation (REVIEWED AND APPROVED PRIOR TO PURCHASE) • Someone should compare shipping documents and invoice with approved P.O. • Credit card statement with receipts, and supervisor approval 	<p><u>Accounting System</u></p> <ul style="list-style-type: none"> • SEGREGATE DUTIES: Don't allow the creator of checks to have access/mail them after they are signed • Timely bank reconciliations • Review original bank statement for transfers, debit cards, etc. • Reconcile check registers to original documentation • Review of monthly income and expenses by teacher over activity
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General Controls for School

- 1) Review of individual activity revenues and expenditures by custodian monthly or quarterly, occasionally with administrator over the program.
- 2) Timely bank reconciliations with supporting document checks.
- 3) Scanning of transfers and journal entries.
- 4) Analytics!
- 5) Split responsibilities between Principal and V.P.
- 6) Utilize employees in the office to help with segregation of duties.

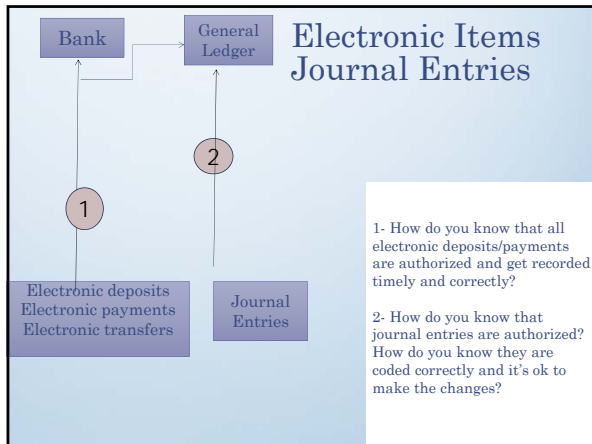


Example of Internal Controls for Payroll

Time card/entry into system

Accounting System

- | | |
|--|---|
| <ul style="list-style-type: none"> • Time card is REVIEWED, recalculated, and signed by supervisor. • Salaries/hourly rates are documented. • Edit review of time entered into HR system. | <ul style="list-style-type: none"> • Final review of payroll before running checks/sending EFT information to bank. • Bank reconciliations. • Budget reviews by program. |
|--|---|





Principal - High Level Analytics

- High level analytics can be done at any time, in any frequency.
- You don't have to review 100% of all transactions.
- Can be conducted monthly, quarterly, yearly or as needed.
- A simple comparison of actual expenditures to revenues and both to established budgets can yield interesting results.

****You can pull invoices to review ANY TIME. DON'T rely on how much you trust your employees.**

**** Don't forget to review the allowability of funding sources and compliance with procurement policies.**

Principal - High Level Analytics

- Compare # of lunches sold to cash receipts
 - Compare the cost of concessions to revenues
 - Compare gate admissions to cash receipts (numbered receipts or a count)
 - Compare the # of participants in a camp to amount collected
 - Compare the # of fundraiser items sold to amount collected
 - Compare the # of students to fees paid, or # of students that have paid
 - Compare inventory and purchases at a student store or vending machines to revenues
- Develop an expectation or average and if the actual cash receipts are really off then investigate.
 - Compare to prior years or other schools of the same size.
 - Identify revenue sources, are those all in your accounting system?
 - Review the bank statements and bank reconciliations.

USOE Internal Audit

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www.schools.utah.gov/internalaudit

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