

# **Campus Based Controls - Activity Funds Process Review**

# Campus Based Controls - Activity Funds Process Review

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**Date:** May 17, 2023

**To:** Board of Trustees  
Stephanie S. Elizalde, Ed.D., Superintendent

**From:** Robert Rubel, MBA, CPA, CIA, CISA  
Chief Internal Audit Officer

**Subject:** Campus Based Controls – Activity Funds Process Review

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## Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Campus Based Controls - Activity Funds Process Review.

The audit focused on reviewing the District's processes and procedures surrounding activity funds to determine if controls are in place to manage student and campus activity funds effectively and efficiently.

Overall, the Finance and Accounting Support to Campuses (FASC) Department along with School Leadership have implemented processes and procedures for activity funds management.

Opportunities for process improvements were identified in the following areas:

1. Monthly activity fund bank reconciliations should be completed by FASC and the General Ledger Division (GL) of the Accounting Services Department.
2. Online payments for campus and student activities could be enhanced.

Implementation of the recommendations in this report could assist the District to gain efficiencies while maintaining controls in the processing and management of campus based activity funds, and would better allow campus personnel to focus on advancing student learning.

## Background

Activity funds are monies acquired from various school-approved activities such as dues, fundraisers, fees, donations, etc. These funds are used to promote the general welfare of the school district and the educational development and morale of the students.

Activity funds are primarily managed by the campuses and are overseen by the FASC department within Accounting Services. To help ensure compliance with District policies and Texas Education Agency (TEA) requirements, FASC created the Dallas ISD Activity Funds Manual. The manual outlines the responsibilities of campus staff involved with activity funds and includes direct references to key policies and procedures.

There are two types of activity funds, campus activity funds (recorded in and often referred to as fund 461) and student activity funds (fund 865). *Campus* activity funds are used to support campus cocurricular and extracurricular student activities. Cocurricular activities are school district sponsored activities that directly add value to classroom instruction and curriculum. Extracurricular

activities include a variety of other school district directed activities, such as athletic and other non-academic competitions. *Student* activity funds are used to support activities that are based in student organizations. Students that participate in the activities are involved in the managing and directing of the funds. The use of the funds requires approval of the student organization members, with sponsor oversight, as well as approval by the principal. All funds raised by student organizations must be expended for the benefit of the students. Activity funds are collected via cash payments made at campuses, or online via RevTrak. RevTrak is a web store that provides a convenient way to make payments for various school functions.

During the period of July 1, 2021, through December 31, 2022, the District recorded activity funds receipts totaling \$8,138,142<sup>1</sup> from 227 campuses. Activity funds management involves, but is not limited to, the following processes:

#### Activity Funds Training

The principal or designee, bookkeeper, and sponsors (typically teachers) are required to attend annual activity fund training and pass a test with a score of at least 70 percent.

#### Board of Control

The Board of Control (BOC) is an internal committee formed at each campus and is typically comprised of the principal or designee, the bookkeeper, teachers/sponsors, and one parent or community member if available. The BOC is responsible for reviewing activity fund transactions including receipts and deposits, requests for purchase/payment, fundraisers, transfers, etc. All campuses that collect activity funds must establish a BOC. Review of these items is to take place during a formal meeting where agendas and activity fund documents must be prepared, presented, and approved. Each campus determines the frequency of meetings based on need and availability; however, they are required to meet at least once a month.

#### Cash Handling

Cash receipts require the use of triple-copy carbon paper receipts (S-1 receipts). Sponsors are responsible for collecting cash payments. When cash is received, the sponsor must complete an S-1 receipt and provide one copy to the payer. The sponsor keeps another copy for their records and provides the final copy to the bookkeeper along with the cash collected. When the bookkeeper receives funds from a sponsor, they must generate an Oracle receipt, which must be signed by the bookkeeper and sponsor who collected the cash. At the end of the day, the bookkeeper must place all the cash received in a deposit bag, create a deposit in Oracle, and place the deposit bag in the safe until picked up by Garda, the District's third-party courier. Garda's schedules vary by campus, and due to staffing shortages, deposits are not always picked up as scheduled. Furthermore, FCNS leadership informed auditors that the cost of deposit pickups by Garda at campuses has significantly increased during recent years.<sup>2</sup> On some occasions the cost of the pickup is more than the amount being picked up and deposited.

#### Expenditures

Campus activity funds are derived from fees, fines, fundraisers, donations, and other sources of local revenue. While campus activity funds are used for the general welfare of all students on the campus, student activity funds are derived from income received by a specific group and must be expended for the benefit of the specific students/group. It is the responsibility of the principal to ensure that expenditures from a student activity fund account comply with the intended purpose of the group.

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<sup>1</sup> \$4,852,271 campus activity funds + \$3,285,871 student activity funds

<sup>2</sup> The District's courier services are managed by FCNS.

Purchase orders are the preferred method of procurement for both campus and student activity funds. When using *campus* activity funds, purchases of goods and services must be made only from a District awarded vendor. When using *student* activity funds, District awarded vendors should be considered but are not required. In addition, campus staff must follow the purchase order process established in the District's Purchasing Manual.

#### Fundraisers

Prior to engaging in a fundraising activity, the details of the fundraiser must be reviewed and approved by the campus Board of Control. Once approved, the campus is required to submit a Fundraiser Request Form via Laserfiche. Fundraiser Request Forms are used to notify the principal, executive directors, and FASC that monies are to be collected. The form provides the details of the fundraiser such as type of fundraiser, time frame the fundraiser will occur, and expected funds to be collected. At the conclusion of a fundraiser, the campus must submit a Fundraiser Recap Form that provides details of actual funds collected and is reviewed and approved by the principal and FASC.

#### Monthly Reconciliations

Monthly reconciliations must be prepared by the bookkeeper or office manager and submitted to FASC by the 10th calendar day of each month for the prior month. The following reports must be submitted with the monthly reconciliation forms for both campus and student activity funds:

- DISD Remittance Batch Management Report
- DISD Cash Receipt Register
- DISD Receipts Awaiting Remittance Report
- DISD Receipts Awaiting Bank Clearance Report
- Wells Fargo Excel Transaction Report/Wells Fargo Bank Statement
- Activity Fund Balance Summary Report

### Scope

This audit focused on current operations and included activity from fiscal year (FY) 2021-2022 and FY 2022-2023. Certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

### Objective

The objective of the audit was to review the District's processes and procedures surrounding activity funds to determine if controls are in place to manage student and campus activity funds effectively and efficiently.

### Methodology

OIA reviewed activity funds processes, controls, policies, and procedures at the central and campus levels. Auditors interviewed financial clerks and office managers from various campuses to discuss activity fund processes and identify issues or concerns related to these processes. Auditors also met with management from FASC, Treasury, Enterprise Applications, Special Revenue Funds Management, and Food and Child Nutrition Services (FCNS). In addition, auditors conducted walkthroughs, and performed the following:

1. Reviewed documents and reports associated with activity funds processes, including monthly reconciliations, Board of Control meeting minutes, deposits, purchases, and fundraisers. See Recommendation 1 in this report.
2. Conducted an analysis of activity funds receipts for the period of July 1, 2021, to December 31, 2022, to review activity fund transactions and compare the amount of cash receipts versus online payments. See Recommendation 2 in this report.

Primary criteria used for this audit were:

- 1) Dallas ISD Activity Funds Manual, dated February 2022
- 2) CFD (Local), Accounting, Activity Funds Management, issued June 2022

## Audit Observations and Recommendations

**Observation 1** – Monthly activity fund bank reconciliations should be completed by FASC and the General Ledger Division (GL) of the Accounting Services Department.

### Condition

Auditors conducted walkthroughs of the activity fund monthly bank reconciliation process performed by campuses. Auditors noted it is not necessary for campuses to complete this process based upon compensating controls at the central office within FASC's activity fund monitoring processes and the monthly general ledger closing process completed by GL.

To verify that activity fund transactions recorded in the accounting records (Oracle) match transactions recorded at the bank, campuses are currently required to submit monthly activity fund reconciliation reports by completing the following process:

- a. Review the bank reconciliations and related reports and statements, including the Activity Fund Balance Report (Detail), DISD Unreconciled Report, DISD Receipts Awaiting Bank Clearance Report, etc.
- b. Verify the bank statement deposits agree with the amount recorded on the Oracle Remittance Batch Management Report.
- c. Verify outstanding deposits are traceable to valid Oracle activity fund receipts.
- d. Save and print all required reports.
- e. Sign the monthly reconciliation report certifying its accuracy.
- f. Submit the monthly reconciliation report including all supporting documentation (reports) into Laserfiche.

Once submitted, FASC reviews the reports and approves or rejects them which can include time consuming follow-up by FASC with the campuses to resolve.

The information and reports campuses submit can be independently accessed and viewed by FASC and therefore is unnecessary for the campuses to submit. In addition, FASC reconciles deposits daily when they review the DISD Unreconciled Report, DISD Receipts Awaiting Remittance Report, and the DISD Receipts Awaiting Bank Clearance Report. Also, at monthly closing, the GL department reconciles campus and student activity fund accounts.

## **Criteria**

*Dallas ISD Activity Funds Manual, Module C: Bank Accounts, dated February 2022*

Reconciliations - Monthly reconciliations must be prepared by the bookkeeper and submitted to FASC by the 10th calendar day of each month for the month just ended. If the 10th falls on a holiday/weekend, the due date is the next working day. The due date (10th or next working day) is the date the report must be submitted into Laserfiche to be considered submitted on time. Since checks are processed by Accounts Payable, issued by Treasury and clear the district's master activity fund bank account, the reconciliation prepared reconciles deposits, other credits, bank charges and fees on the bank statement to Oracle.

The principal or designee on a monthly basis must thoroughly:

1. Review the bank reconciliations and related reports and statements, e.g., Activity Fund Balance Report (Detail)
2. Verify the bank statement deposits agree with the amount recorded on the Oracle Remittance Batch Management Report
3. Verify outstanding deposits are traceable to valid Oracle activity fund receipts
4. Sign the monthly report, certifying its accuracy
5. Ensure the monthly report is submitted to FASC by the 10th calendar day of each month

If a monthly report is not received by the 10th of the month, for the month prior, a notice will be sent to the principal and respective School Leadership Executive Director (ED) or School Leadership Designee. Approval reminders will be sent to the Principal if the report has been submitted in Laserfiche but not approved by the 15th of the month.

## **Cause**

The introduction of technology and electronic processes has been established in recent years and an overall review of activity fund processes had not been conducted since implementation of these processes to identify redundancies or gain efficiencies.

## **Effect**

Completion of the monthly reconciliation process at the campus level averages an estimated 4-8 hours per month for campus administrators and 25-30 hours per month for FASC to review. Elimination of this process at the campus level would allow for more effective use of campus and central resources without reducing the strength of internal controls.

## **Recommendation 1**

FASC should consider eliminating the requirement for campuses to complete and submit the monthly bank reconciliation reports. The changes to processes should be clearly communicated to appropriate parties, and any applicable policies and procedures documentation should be updated to reflect current practices.

## **Risk Level for Observation 1: Low<sup>3</sup>**

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<sup>3</sup> See Attachment 1 for Definition of Risk Level.

**Observation 2** – Online payments for campus and student activities could be enhanced.

### **Condition**

Auditors reviewed processes for collecting and processing activity fund payments and noted the following:

- Underutilization of online payments - Auditors conducted an analysis of activity fund receipts from July 1, 2021, through December 31, 2022, noting a total of \$8,138,142 funds reported. \$7,152,672 (88%) of these funds were received in cash and \$985,470 (12%) via RevTrak. Of the 227 campuses that collected activity funds during the period reviewed, only 75 (33%) collected any portion using RevTrak.
- Multiple online payment processing platforms - In addition to RevTrak, the District currently uses two other online payment platforms. GoFan is used for purchasing athletic event tickets, and My School Bucks allows students and District employees to create accounts and add money for meals and snacks at campus cafeterias.
- Transaction fees - RevTrak and GoFan have high transaction fees, approximately four percent and five percent, respectively. These fees are currently paid by the parent/student when utilizing online payment options. Auditors note that RevTrak's fees are based on transaction volume and therefore an increase in transaction amount would reduce the associated fees. If annual collections surpass \$2,000,000, RevTrak's transaction fees drop to 3.49 percent.
- Manual cash receipting process - Auditors noted RevTrak does not have the capability to generate receipts for cash payments, which results in the use of triple-copy carbon paper receipts. Deficiencies associated with the use of carbon paper receipts include incomplete, inaccurate, or illegible documentation.

Auditors researched other online payment options and noted platforms are available that will support payments for campus and student activities, ticket sales, cafeteria meals, and can issue receipts for cash payments, all under a unified platform.

### **Criteria**

*CFD (Local), Accounting, Activity Funds Management, Fiduciary Responsibility, issued June 2022*

The Superintendent of Schools, principals, and sponsors, as applicable, shall be responsible for the proper administration of District and campus activity funds and student activity funds in accordance with state law and local policy, District accounting practices and procedures, and the Texas Education Agency (TEA) *Financial Accountability System Resource Guide*.

### **Cause**

Per discussions with bookkeepers at various campuses, along with discussions with FASC, lack of utilization of RevTrak appears to be primarily due to the following:

1. Transaction fees - RevTrak's transaction fee is approximately four percent of the amount of the transaction. Based on discussions, auditors found unwillingness by the parents and

students to pay fees associated with online payment processing.

2. Lack of knowledge on how to set up and utilize the system – Although FASC provides continuous training, online resources, and one-on-one support, several bookkeepers mentioned they do not know how to set up online payments with RevTrak.
3. Lack of promotion or advertisement – based on discussions, it appears parents may be unaware that online payments are available as campuses often do not advertise or market the option.
4. Socioeconomic Demographics – some District families may not have access to electronic payments methods such as bank accounts and credit/debit cards.

Additionally, the District's use of multiple online payment platforms appears to be due to departments operating independently and procuring separate platforms to meet similar needs.

## **Effect**

Cash transactions create a labor-intensive process that is extremely inefficient and costly. Studies from IHL Group Research in 2018 estimate the cost of handling cash to be 4.7 percent to 15 percent, or an estimated \$4,700 to \$15,000 in costs for every \$100,000 in cash received. Utilization of online payment processing reduces time by eliminating bank deposits and automating reconciliations. Eliminating or reducing timely cash processes would allow campus personnel to focus on advancing student learning.

Additionally, cash transactions are less transparent and more susceptible to fraud. The Association of Fraud Examiners estimates education organizations lose five percent of their revenue to fraud each year. Therefore, auditors estimate the District could potentially lose \$25,000 for every \$500,000 in cash collected. This poses not only a financial risk but also a reputational risk as cash transactions consists of student/parent funds.

Combining campus and student activities, ticket sales, and cafeteria meals under one online payment platform will result in greater transaction volume for the platform and in turn reduce transaction fees. Use of a single payment platform will also reduce labor efforts needed to process, monitor, and reconcile transactions.

Also, increased adoption of online payments will result in less cash receipts. Therefore, reducing the frequency of courier pickups at campuses along with associated fees.

## **Recommendation 2**

School Leadership and FASC, in collaboration with FCNS, should consider reducing or eliminating cash processing for activity fund payments. The following may provide some potential solutions:

- Require campuses to offer an online payment option as well as encourage them to advertise/market the option to pay online.
- Provide incentives to campuses that utilize online payment options.
- Review options for reducing or eliminating the burden on parents for online payment fees.

- Streamline processes for setting up web stores. Consider setting up all known stores at the beginning of the year to minimize the time spent on the approval and setup processes.

In addition, School Leadership and FASC should consider exploring online payment options that support payments for campus and student activities, ticket sales, cafeteria meals, and can issue receipts for cash payments, all under one platform.

## **Risk Level for Observation 2: Medium<sup>4</sup>**

### **Conclusion**

Activity funds are student monies that are for the benefit of the campus and its students. As such, it is important that processes be implemented to properly manage these funds. Additionally, these funds are primarily managed by the campus staff who often have multiple other job duties. Therefore, it is crucial that streamlined processes are in place to reduce the burden of managing these transactions and ensure the overall effectiveness of activity fund processes.

Overall, FASC and School Leadership have implemented processes and procedures for managing activity funds. Implementation of the recommendations in this report could assist in improving operations.

We would like to thank FASC, Treasury, and School Leadership for their cooperation and assistance with this audit.

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Those standards require OIA to plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Respectfully submitted,

*Robert Rubel*

Robert Rubel, MBA, CPA, CIA, CISA  
Chief Internal Audit Officer

Cc: Pamela Lear, Ed.D., Deputy Superintendent, Chief of Staff and Racial Equity  
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<sup>4</sup> See Attachment 1 for Definition of Risk Level.

Acknowledgments:

Eva Narten, CPA, CIA, CISA, Deputy Chief, Internal Audit

Shelly Kelley, CPA, Audit Manager

Enrique Fuentes, CFE, Auditor II

## Definition of Risk Level

| Risk Level    | Definition                                                                                                                                                                                                                                                                                                                                                           |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>High</b>   | <p>High probability of occurrence that would significantly impact District operations and have a significant financial or compliance risk.</p> <p>These observations are defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of the District.</p> |
| <b>Medium</b> | <p>Risks are considered to be substantially undesirable and pose a moderate level of risk exposure to District operations. Without appropriate controls, the risk will happen on a consistent basis.</p>                                                                                                                                                             |
| <b>Low</b>    | <p>The risks are considered to be undesirable and could moderately expose the District. Without appropriate controls, the risk will occur some of the time.</p>                                                                                                                                                                                                      |

## Management Response

**Observation 1** - Monthly activity fund bank reconciliations should be completed by FASC and the General Ledger Division (GL) of the Accounting Services Department.

Acknowledgement of observation:

- ☒ Agree  
☐ Disagree

Management's Response:

As noted above, activity fund bank reconciliations are currently being completed by FASC daily and General Ledger is completing them monthly. FASC has eliminated the requirement for campuses to complete and submit a monthly bank reconciliation report starting with the February 2023 monthly reconciliation. The process change was communicated to all campus principals, office managers, and financial clerks. The process has also been eliminated from the Activity Funds Manual and the FASC website.

Estimated Implementation Date: Completed as of April 25, 2023

Individuals responsible for implementation:

Kim Merkson, Director II, Finance and Accounting Support to Campuses, Financial Services

**Observation 2** - Online payments for campus and student activities could be enhanced.

Acknowledgement of observation:

- ☒ Agree  
☐ Disagree

Management's Response:

FASC and School Leadership will streamline the process by which campuses set up items in RevTrak for online payment, and ensure campuses comply with the requirement to offer an online payment option, by consolidating the fundraiser approval form and the form to request setup of an item in RevTrak. FASC will ensure information collected from the consolidated form is submitted to RevTrak and the item is set up for online sale. FASC and School Leadership will deliver a general communication to parents notifying them that activity fund items are available for online purchase at the <https://dallasisd.revtrak.net/> website.

Estimated Implementation Date: May 31, 2024

Individuals responsible for implementation:

Kim Merkson, Director II, Finance and Accounting Support to Campuses, Financial Services