

Campus Based Controls Audit – Victor Hexter Elementary School

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Date: February 14, 2024

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 Audit – Victor Hexter Elementary School

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Campus Based Controls Audit – Victor Hexter Elementary School (Hexter ES).

The audit was conducted in response to a request made by the Hexter ES principal. The audit focused primarily on reviewing the campus's processes and procedures surrounding campus and student activity funds to determine if activities in the 2022-2023 school year were in compliance with District policies.

Auditors identified instances of non-compliance in the following areas:

- Board of Control
- Cash Receipts, Safeguarding, and Bank Deposits
- Disbursements/Purchases
- Fundraisers
- Donations
- Fees/Dues

Background

During the 2022-2023 school year, Hexter ES had 441 enrolled students and 46 full-time employees. The campus' adopted budget for fiscal year (FY) 2022-2023 was \$3,181,429. At the end of FY 2022-2023 the campus activity funds balance and student activity funds balance totaled \$72,322 and \$779, respectively.

Scope

The audit focused on activity from FY 2022-2023.

Objective

The audit objective was to determine if Hexter ES was in compliance with District policies and procedures related to activity funds, payroll, and cafeteria operations.

Methodology

The OIA reviewed processes, controls, and supporting documents related to campus operations

for activity funds, payroll, and cafeteria operations. Auditors interviewed campus staff, conducted walkthroughs, and performed the following:

Activity Funds

1. Board of Control (BOC) – To determine if the campus was in compliance with the District's requirement to establish a BOC and hold BOC meetings to review activity fund activities such as fundraisers, cash receipts, deposits, purchases, and transfers, auditors requested BOC meeting minutes and activity fund supporting documents.

See Observation 1.1 in this report.

2. Training – To determine if campus staff responsible for activity funds (i.e., principal, principal designee, bookkeeper, and sponsors) completed the required activity funds training and passed the training quiz, auditors identified campus staff responsible for activity funds and reviewed training certificates.

No observations were noted.

3. Bank Reconciliations – To determine if cash receipts and bank deposits were properly accounted for, auditors obtained and reviewed the June 2023 bank reconciliation prepared by the General Ledger Division of the Accounting Services Department along with the reports below and verified there were no unusual or lengthy outstanding items as of September 2023:

- DISD Receipts Awaiting Remittance Report – Campus
- DISD Receipts Awaiting Bank Clearance Report – Campus
- DISD Activity Fund Unreconciled Transactions Detail Report

No observations were noted.

4. Cash Receipts – To determine if cash receipts for activity funds were properly supported, auditors obtained the *DISD Cash Receipts Register – Activity Funds* report from Oracle for FY 2022-2023 and compared to activity funds records maintained at the campus. The report showed the campus entered 110 receipts into campus activity fund accounts totaling \$68,022. Auditors selected a random sample of five cash receipts and verified the following:

- Oracle receipts were supported by an S-1 receipt or the *FASC – Activity Funds Tabulation of Monies Collected from Students* form (CAF 2062), as applicable.
- Oracle receipts were supported by the *FASC – Activity Funds Sponsor/Staff Deposit Slip* form (CAF 2063), if applicable.
- Sponsors submitted funds to the bookkeeper on the date collected.
- Both the bookkeeper and sponsor signed the Oracle receipt.

See Observation 1.2 in this report.

5. Cash Safeguarding and Bank Deposits – To determine if cash collected was properly safeguarded and deposited in the bank, auditors verified the following:

- The campus had a working safe.
- Access to the safe was properly restricted.

- The safe was kept locked.
- There were no deposit bags in the safe with dates older than the last courier pick-up.

See Observation 1.3 in this report.

6. Disbursements – To determine if the campus was in compliance with policies and procedures for activity fund disbursements, auditors reviewed activity funds disbursements documentation maintained at the campus. In addition, auditors obtained the *DISD Requisitions PO by Line report from Oracle* for FY 2022-2023 and noted the campus made 20 disbursements with campus activity funds totaling \$34,625 and no disbursements with student activity funds. Auditors selected a random sample of five campus activity fund disbursements totaling \$1,269 and verified the following:

- The *FASC Activity Funds Request for Purchase and Payment* form (CAF 2071) was signed by the principal and reviewed by the BOC.
- The requisition was approved by the principal.
- A quote was attached to the requisition.
- The correct line code was used in the requisition.
- A purchase order was created after the requisition was approved.
- Items were received or services were rendered, and vendor provided an invoice before payment was made.
- Sales tax was not included in the payment, unless required.
- Purchases with campus activity funds were made from a District approved vendor.
- Purchases were allowable per District policy.

See Observation 1.4 in this report.

7. Fundraisers – To determine if fundraising activities were approved and if funds collected were properly accounted for, auditors obtained a report from Laserfiche showing the fundraiser permission forms submitted for approval during FY 2022-2023 noting 17 fundraisers. Auditors then obtained a report showing the financial recap forms that were submitted in Laserfiche and verified a recap was submitted timely for each approved fundraiser. Auditors then selected a random sample of five fundraisers and verified the following:

- There were no significant discrepancies between projected and net income.
- Funds raised were receipted in Oracle using the correct account code.

See Observation 1.5 in this report.

8. Donations – To determine if donations were properly supported, accounted for, and reported, auditors identified nine donations totaling \$12,702 in the *DISD Cash Receipts Register – Activity Funds* report and verified the following:

- The principal, executive director, and Board of Trustees, where applicable, approved the donations.
- The campus reported the donation to the Volunteer and Partnership Services department.
- The campus documented donor intent.
- The campus recorded donations in a specific campus activity funds account and disbursed funds according to donor intent.

See Observation 1.6 in this report.

9. Pre-K Tuition – To determine if Pre-K tuition was collected and properly accounted for, auditors obtained a listing of students that qualified for tuition-based Pre-K along with their payment plans and used the *DISD Cash Receipts Register – Activity Funds* report to reconcile payments deposited in the activity fund account.

See Observation 1.7 in this report.

Payroll

1. Overtime – To determine if the campus was in compliance with policies and procedures for overtime, auditors obtained the *DISD GL Payroll Distribution Report* from Oracle noting only custodial and cafeteria staff recorded overtime; and as such, no testing was conducted.

No observations noted.

Cafeteria Operations

1. Operations – To determine if the campus cafeteria was clean and up to date on required inspections, auditors performed the following:
 - Completed a walkthrough of the kitchen and other areas to verify cleanliness, current state of equipment, and if staff are following procedures for proper food handling.
 - Obtained the last two City of Dallas, Department of Code Compliance – Consumer Health Division, Retail Food Establishment Inspection Reports and verified the campus met the City of Dallas food protection and education sanitation standards.

No observations were noted.

2. Cash Handling – To determine if cash collected by the campus cafeteria was handled in accordance with District policy, auditors conducted a walkthrough with the campus kitchen supervisor and verified the following:
 - Cash deposit bags were locked in the safe and recorded in the *Cafeteria Deposit Pick-up Log*.
 - Change fund was secured in a black box or safe.
 - Change fund matched the amount recorded in the cafeteria change fund form.

No observations were noted.

Primary criteria used for each area reviewed in this audit were:

Activity Funds

1. CFD (LOCAL), Activity Funds Management, last updated June 3, 2022
2. FJ (REGULATION), Student Fundraising, last updated May 17, 2017
3. CFD (REGULATION), Gifts and Solicitations, last updated August 31, 2023
4. Dallas ISD Activity Funds Manual, last updated February 2022
5. Dallas ISD Activity Funds Board of Control Handbook

6. Dallas ISD Activity Funds Sponsor/Staff Handbook
7. Dallas ISD Guidance for Activity Funds Management in Oracle, last updated March 2021
8. Dallas ISD Purchasing Manual, last updated December 2022

Payroll

1. DEA (REGULATION), Compensation Plan, last updated March 28, 2022
2. Dallas ISD Oracle Payroll Manual, last updated July 10, 2023

Cafeteria Operations

1. Dallas ISD Food and Child Nutrition Services Standard Operating Procedure, Cleaning and Sanitizing Food Contact Surfaces, last updated August 25, 2022
2. Dallas ISD Food and Child Nutrition Services Standard Operating Procedure, Date Marking Ready-to-Eat Time/Temperature Control for Safety Foods, last updated August 2022
3. Dallas City Code, Volume I, Chapter 17, Article X., Section 17-10, Compliance and Enforcement (as of this report date)

Audit Observations and Recommendations

Observation 1 – Multiple instances of non-compliance with activity fund policies and procedures were identified.

Condition

Auditors conducted the testing described in the methodology section above and noted the following exceptions.

1. Board of Control (BOC)

The campus did not establish a BOC for the 2022-23 school year. As a result, a BOC did not review activity fund transactions and activities such as fundraiser permission requests, fundraiser recaps, purchase and payment requests, and receipts and deposits, as required by District policies.

2. Cash Receipts

During the 2022-2023 school year, the campus did not use S-1 receipts or tabulation of monies forms for cash collected. The forms are used to provide details on the source of cash collected, dates cash collected, as well as provide a proof of receipt.

Based on information obtained during interviews, auditors noted activity funds were collected via unallowable methods. The funds, collected via Venmo, were never provided to the bookkeeper to be receipted in Oracle and deposited into the activity fund account.

Funds raised from yearbook sales totaling \$1,323 were incorrectly deposited in the cheer activity fund account rather than the general fund or library account.

In addition, auditors review of a sample of five cash receipts revealed the following:

- Two Oracle receipts were not supported by a *Sponsor/Staff Deposit Slip* (CAF 2063).
- Funds from one Uniform Free Day fundraiser were not submitted to the bookkeeper on the date collected. In addition, Auditors were unable to determine if funds

associated with two receipts reviewed were submitted to the bookkeeper on the day collected because the receipts were not supported by S-1 receipts.

3. Cash Safeguarding and Bank Deposits

During a campus walkthrough in September 2023, auditors located a bank deposit bag in a locked closet within the office. The deposit bag contained \$168 collected from a fundraiser held in May 2023. The funds were not receipted in Oracle or deposited in the bank until October 2023.

4. Disbursements

During the review of activity funds disbursements documents maintained at the campus, auditors located 14 *Activity Funds Request for Payment and Purchase* forms and noted 12 did not have the principal's approval signature. In addition, auditors could not locate the *Activity Funds Request for Payment and Purchase* form for six purchases made with activity funds.

Since the campus did not establish a BOC for the 2022-2023 school year, no activity fund disbursements were reviewed by a BOC.

Three disbursements for cheer equipment totaling \$2,312 were paid with funds from the library campus activity funds account rather than the cheer account.

In addition, upon review of the sample selection of disbursements, auditors determined the principal did not approve any activity fund requisitions in Oracle. All requisitions reviewed were approved by the office manager.

- Auditors research found the vacation rule within the principal's Oracle account was set up to delegate requisition approvals to the office manager. The vacation rule allows a requisition approver to delegate approval responsibilities to another staff member for a specific period of time, even if it is the same staff member who submitted the requisition. The principal's vacation rule was set up to delegate requisition approvals to the office manager for the period of September 27, 2022, to May 26, 2023. During this period the office manager was able to submit and approve requisition requests resulting in a lack of segregation of duties and circumvention of the authority approval process.
- Auditors obtained a report which showed that during school years 2021-22 and 2022-23 the office manager submitted and approved 109 requisitions, of which 20 were activity fund related¹.

5. Fundraisers

The Fundraiser Permission Forms and Fundraiser Recap Forms were not reviewed by a BOC.

A Fundraiser Permission Form was not submitted for yearbook sales.

¹ 12 during school year 2021-22 (1 activity fund related) and 97 during school year 2022-23 (19 activity fund related).

None of the Fundraiser Recap Forms were submitted within 10 days of the fundraiser end date. In addition, the Fundraiser Recap Worksheet was not completed and attached to the Fundraiser Recap Form when submitted in Laserfiche.

- A Fundraiser Recap Form for the funds raised during the May 2023 uniform free day was not completed.
- Based on discussions with the principal, three fundraisers that were approved did not occur; however, a Cancellation Request Form was not submitted in Laserfiche.

6. Donations

Two donations totaling \$202 were not approved by the principal and did not have donor intent documented.

7. Pre-K Tuition

Pre-K tuition dues totaling \$7,325 was not collected.

Cause

The campus did not follow the policies and procedures established by the District for activity funds management, nor did they effectively review or monitor activity fund transactions to ensure compliance with policies and procedures.

Additionally, cash is difficult to monitor even with the strongest of controls in place. The District has implemented several layers of controls to manage, track, and monitor activity funds; however, it appears most of the controls were simply not followed or overridden in the instances noted above.

Effect

Disregard of District policies and procedures at the campus-level resulted in unauthorized transactions, uncollected fees, and improper management of activity funds.

In addition, deficiencies in controls surrounding activity funds could allow for additional inappropriate transactions and lack of transparency and accountability resulting in an increased financial, reputational, and fraud risk.

Recommendation 1

At the campus-level:

Applicable campus staff should continue to gain an understanding of activity funds policies and procedures established in the *DISD Activity Funds Manual*, *DISD Board of Control Handbook*, and *DISD Staff/Sponsor Handbook* to ensure compliance. The principal should also ensure campus personnel responsible for activity funds are proficient in these policies and procedures and that they are followed.

At the central level:

As noted above, the District has controls in place to manage activity funds. Below are some additional controls FASC in collaboration with School Leadership should consider to further reduce risks as well as more effectively and efficiently track and monitor activity funds:

1. FASC in collaboration with School Leadership should continue to make efforts to reduce cash on campuses by considering the following:
 - Ensure the District's online payment platform is simple to set up and use by applicable staff, parents, and students.
 - Heavily market the online payment method at campuses.
 - Consider requiring online payments for activities that are expected to generate higher dollar amounts or volume.
 - Analyze whether the cost of processing cash is more expensive than covering processing fees.
2. FASC and other applicable departments should establish a method for monitoring the use of the vacation rule in Oracle for appropriateness. Below is an example that could be considered:
 - Periodically obtain a report of those who have the vacation rule set up to ensure the person delegated has a higher approval authority. Reports could also be generated to show persons who approved their own requisition requests for review of appropriateness.

Additionally, training should be provided to all personnel that have the ability to delegate their approvals in Oracle to ensure approval authorities are not overridden and proper segregation of duties are in place.

3. As a part of the month end close process, the Fundraiser Permission/Recap Report could be run for all campuses in a single report and compared to the Cash Receipts Register Report from Oracle for all campuses. The fundraisers unique identifier should be documented on both reports. Using the unique identifier, FASC can quickly review the following information for all campuses at once:
 - Fundraiser recaps were submitted (meaning the fundraiser occurred and funds should have been deposited).
 - Funds were deposited and are aligned with the expected funds noted on the fundraiser approval (if not, FASC should inquire of any significant variances).
 - Funds were deposited into the account approved on the Fundraiser Permission Form.

Auditors note FASC does currently have a process in place to review Fundraiser Recap Forms, deposits, and account coding; however, it is done on a selection basis that is fairly manual. This method would allow for a less time-consuming overall review that could be conducted with less resources.

4. To better manage Pre-K tuition, Early Learning in collaboration with Finance and any other applicable departments should explore possibilities for providing the option of automatic payment withdrawals for Pre-K tuition payments. Rather than relying on the payees to

initiate monthly tuition payments, Pre-K tuition could be drafted monthly according to the payees' payment plan selection. Payments would still need to be reconciled monthly to ensure tuition was received.

Risk Level for Observation 1: High²

Conclusion

Overall, the District has controls in place to manage and monitor activity funds; however, there was a breakdown in these controls as campus personnel did not follow established policies and procedures for activity funds. Implementation of the recommendations in this report could assist the District to better ensure compliance with activity funds management.

We would like to thank Hexter ES and FASC personnel 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. The 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 Officer
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² See Attachment 1 for Definition of Risk Level.

Acknowledgments:

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

Shelly Kelley, CPA, Director II, Internal Audit

Enrique Fuentes, CFE, Auditor II

Ashton Loyd, Auditor I

Definition of Risk Level

Risk Level	Definition
High	High probability of occurrence that would significantly impact District operations and have a significant financial or compliance risk. 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.
Medium	Risks are considered to be undesirable and pose a moderate level of risk exposure to District operations. Without appropriate controls, the risk will happen on a consistent basis.
Low	The risks are considered to be undesirable and could moderately expose the District. Without appropriate controls, the risk will occur some of the time.

Management Response

Observation 1 – Multiple instances of non-compliance with activity fund policies and procedures were identified.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Hexter ES Management's Response:

We have and will continue to consult with FASC to clarify district policy regarding activity funds.

Seeking transparency and uniform guidelines, specifically with respect to Cheer and Chess, I met with club sponsors on May 25, 2023, and implemented guidelines for after school clubs.

A new office manager was placed on August 15, 2023, and is working to correct any non-compliant infractions. We have established a Board of Control committee that includes the principal, assistant principal, office manager, and two teachers. We first established monthly BOC meetings and then increased the frequency to biweekly.

A S-1 or tabulation of monies form will be used for any cash collections. We are now using the safe for all deposits awaiting pick up. Additionally, we began using RevTrak and any other electronic payment methods will be prohibited. Fundraiser financial recaps will be completed before the 10-day deadline.

We will continue to work with internal audit and the office of FASC. Both have been instrumental in supporting our campus in following district policy with fidelity.

Estimated Implementation Date: May 31, 2024

Individuals responsible for implementation: Melinda Smith, Principal Hexter Elementary

Observation 1 – Multiple instances of non-compliance with activity fund policies and procedures were identified.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

FASC Management's Response:

Recommendation 1.1 – FASC currently assists campuses to set up their items for sale in the District's online payment system, however campus participation is inconsistent. For this corrective action, FASC accountants will conduct working sessions with campus office managers and financial clerks to assist them with the process of setting up outstanding items for sale in the District's online payment platform. FASC will collaborate with campuses and Communications

Services to build parental awareness of the online payment system by posting links to the system on campus websites and through direct communication to parents notifying them of its availability.

Recommendation 1.2 – FASC will create and monitor an Oracle report for identifying any purchase requisitioner approving their own request using activity funds. FASC will also identify and monitor who requisition approvals are delegated from.

Recommendation 1.3 – FASC will ensure that the Fundraiser Permission/Recap Report and the Cash Receipts Register are compared and reconciled on a biweekly basis. FASC will add the fundraiser unique identifier to the Cash Receipts Register to facilitate this process improvement.

Recommendation 1.4 – Finance will collaborate with Early Learning to investigate options for an automated payment withdrawal system for Pre-K tuition payments, detail out the end-to-end process including internal processes and online guidance for parents, and implement a solution.

Estimated Implementation Date: January 31, 2025

Individuals responsible for implementation: Kim Merkson, Director FASC

Observation 1 – Multiple instances of non-compliance with activity fund policies and procedures were identified.

Acknowledgement of observation:

- ☒ Agree
- ☐ Disagree

Early Learning's Management's Response:

Early Learning in collaboration with Finance will explore possibilities for providing the option of automatic payment withdrawals for Pre-K tuition payments.

Early Learning will continue training for CRC's and Office Managers to support payment plans, Pre-K eligibility types, and collecting funds.

Early Learning will support campus CRC's by verifying students who are identified as tuition.

Early Learning will provide FASC with a Pre-K Tuition Payment Log so that records from FASC can be reconciled. The document will provide student names and ID numbers so an updated roster is tracked as students enroll.

Estimated Implementation Date: January 1, 2025, or until platform is secured

Individuals responsible for implementation: Yesenia Ramirez, Director Early Learning