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# Houston Independent School District Internal Audit Report: Activity Funds Process

January 29, 2025



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## TRANSMITTAL LETTER



January 29, 2025

The Audit Committee of  
Houston Independent School District  
4400 W 18<sup>th</sup> St.  
Houston, Texas 77092

Pursuant to the approved internal audit plan for fiscal year ("FY") 2024-2025 for Houston Independent School District ("HISD" or "the District"), we hereby submit our internal audit report of Activity Funds Process. This internal audit focuses on the design of the policies and procedures governing the activity funds process, including the collection, disbursement, and monitoring of activity funds. We plan to present this report during the Audit Committee meeting scheduled for February 27, 2025. Our report is organized into the following sections:

<b>Executive Summary</b>	This provides a high-level overview and summary of the observations noted in our internal audit of the activity funds process.
<b>Background</b>	This provides an overview of the activity funds process, as well as relevant background information.
<b>Objectives and Approach</b>	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Observations Matrix</b>	This section includes a description of the observations noted during our internal audit and recommended actions, as well as Management's response, including the responsible party, and estimated completion date.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

*RSM US LLP*

**Internal Audit**



## EXECUTIVE SUMMARY

### Houston Independent School District – Activity Funds Process Audit

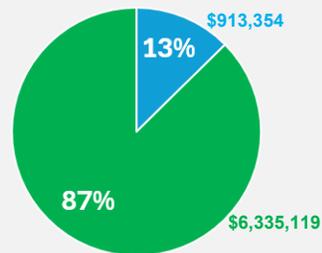
#### Background

The District's Finance Procedures Manual is designed to manage and promote accountability for all fund activities. Section 300 defines activity fund accounts as resources collected from students and other sources, held in trust by the school, and used according to specified conditions. Activity funds come from various approved school initiatives such as fundraisers, student dues, commissions, and donations, and are designated to support co-curricular and extracurricular student activities.

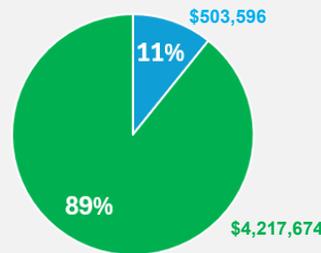
HISD classifies activity funds into Campus Activity Funds and Student Activity Funds. Campus Activity Funds support activities overseen by the campus principal, while Student Activity Funds are designated for student organizations that meet specific criteria. Fund 461 accounts for Campus Activity Funds, while Fund 865 accounts for Student Activity Funds.

#### 2024 Highlights

Activity Funds Collected:



Activity Funds Disbursed:



■ NES ■ NON-NES

\*Data range: 1/1/2024 – 12/31/2024  
 Source: HISD Activity Funds Department

#### Summary of Observation Ratings

	Low	Moderate	High
Observations	-	1	2
Improvement Opportunities		1	

#### Internal Audit Objectives

The primary objective of this internal audit was to assess the District's policies and procedures managing activity funds, evaluating their alignment with best practices and compliance with established regulations. The audit period covered January 2024 through October 2024.

Our approach consisted of the following steps:

- Assessed the governance framework and applicable District-level guidelines related to the management of Campus Activity Funds (Fund 461) and Student Activity Funds (Fund 865) across both NES (New Education System) and non-NES schools.
- Reviewed the organizational structure to determine whether duties are properly segregated between individuals involved in collecting, recording, approving, and disbursing activity funds.
- Evaluated the approval process for school approved activities generating activity funds.
- Assessed the controls over cash collection, deposits, and disbursement of activity funds.
- Evaluated policies and procedures surrounding bank reconciliations for Campus Activity Funds (Fund 461) and Student Activity Funds (Fund 865).
- Assessed the adequacy and accuracy of records maintained to support an audit trail of activity fund activities.
- Evaluated monitoring processes and the reporting of activity fund balances and transactions.
- Performed detailed testing of a sample of schools to evaluate compliance with the guidelines specific to Campus Activity Funds and Student Activity Funds.

At the conclusion of our audit, we summarized our findings into this written report and conducted exit conferences with District management.

Our fieldwork was performed between October and December 2024.

*We would like to thank all District team members who assisted us throughout this internal audit.*



## EXECUTIVE SUMMARY (CONTINUED)

### Observation Summary

Provided below are the observation risk rating definitions for the detailed observations.

Observation Risk Rating Definitions	
Rating	Definition
<b>Low</b>	Observation presents a low risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within 12 months (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
<b>Moderate</b>	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within nine months (if related to external financial reporting, must mitigate financial risk within two months).
<b>High</b>	Observation presents a high risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed six months (if related to external financial reporting, must mitigate financial risk within two months).



## EXECUTIVE SUMMARY (CONTINUED)

### Observation Summary

Below is a summary of the observations identified during this internal audit. The first table summarizes our Bellaire High School observations, and the second table summarizes our Houston MSTC High School observations. Detailed observations are included in the observation matrix section of the report. In addition, improvement opportunities have been provided following the detailed observations, when applicable.

Bellaire High School Summary of Observations	
Observations	Rating
<p>1. Direct Pay Disbursements – Existence of Forms AF-115 and AF-116 at Bellaire High School</p> <p><b>Condition:</b> Our review of 20 Bellaire High School activity fund Direct Pay disbursements revealed that none included the required AF-115 or AF-116 forms. Instead, Direct Pay Cover Sheets were used, which, while capturing key details such as amount, date, and activity fund number, lack the Principal's pre-approval signature and are not recognized as acceptable documentation under the HISD Finance Procedures Manual, updated August 2024.</p> <p><b>Recommendation:</b> Targeted training should be provided to school leadership and staff to reinforce compliance expectations and promote consistency in pre-approval processes and document retention practices.</p>	<b>High</b>
<p>2. Cash Deposits – Segregation of Duties at Bellaire High School</p> <p><b>Condition:</b> Our review of 20 Bellaire High School activity fund cash deposits, we found that the same individual collected, receipted, and deposited the cash for 7 of the sampled transactions. Although an Activity Fund Cash Receipt properly supported these deposits, this represents a concern for the segregation of duties, as a single individual handled all three critical aspects of cash processing.</p> <p><b>Recommendation:</b> The District should enhance cash handling training to reinforce policy compliance, emphasizing segregation of duties in cash collection, receipting, and deposits to strengthen internal controls.</p>	<b>High</b>
<p>3. Direct Pay Disbursements – Variance between SAP and Direct Pay Cover Sheet at Bellaire High School</p> <p><b>Condition:</b> Our review of 20 Bellaire High School activity fund Direct Pay disbursements identified two instances where Direct Pay Cover Sheet amounts did not match SAP entries, resulting in a total variance of \$10.50 disbursed over the requested amount. These discrepancies, caused by clerical errors in SAP entries, occurred despite proper support and reconciliation with vendor receipts.</p> <p><b>Recommendation:</b> Conduct training sessions for individuals tasked with completing and approving the Direct Pay Cover Sheets to enhance their comprehension of relevant policies and procedures.</p>	<b>Moderate</b>
Opportunities for Improvement	
<p>1. Utilization of Form AF-114 – Recap of Activity Fund Deposit Form</p> <p><b>Condition:</b> While the AD-114 form includes fields for the preparer's and approver's printed and signed names, it lacks fields for signature dates. Additionally, the SAP approval workflow for deposits at Non-NES schools may be redundant considering deposit approvals are already documented on Form AF-114.</p>	



## EXECUTIVE SUMMARY (CONTINUED)

### Observation Summary

Below is a summary of the observations identified during this internal audit. Detailed observations are included in the observation matrix section of the report. In addition, improvement opportunities have been provided following the detailed observations section.

Houston MSTC High School Summary of Observations	
Observations	Rating
<i>No observations noted.</i>	



## BACKGROUND

### Overview

Activity funds within the District are resources collected from students (and other sources on occasion) and held by the school, acting as a trustee, to be utilized or invested in accordance with specified conditions. These funds are sourced from various approved school activities such as fundraisers, student dues, commissions, and donations, and are earmarked to support co-curricular and extracurricular student endeavors. The primary aim of activity funds is to promote the general welfare of the school and contribute to the educational development and morale of all students.

**Categorization of Activity Funds:** The District classifies activity funds into two distinct categories: Campus Activity Funds and Student Activity Funds. Campus Activity Funds are designated to support co-curricular and extracurricular activities under the purview of the campus Principal, while Student Activity Funds aid student organizations or clubs meeting specific criteria, such as holding meetings and conducting business. The District accounts for Campus Activity Funds in Fund 461 and Student Activity Funds in Fund 865.

### Roles and Responsibilities for Activity Funds

In adherence to board policy CFD(LOCAL), designated individuals, including the Superintendent, Principals, and sponsors, bear responsibility for properly administrating activity funds.

The following illustration outlines the key roles and responsibilities at the school level within the Activity Funds process according to board policy.

Sponsors	School Principal	General / Financial Clerk
Full-time HISD employees, oversee the fundraising activities of their respective clubs and safeguard activity funds until deposited by the General/Financial Clerk.	Assumes personal responsibility for the collection, administration, disbursement, and control of all activity fund monies, promoting compliance with state law, local policy, and District-approved accounting practices.	Responsible for administering fund transactions, maintaining an adequate supply of activity fund forms, and ensuring their safekeeping at the school. General Clerks handle the administration of activity fund transactions at NES schools, while Financial Clerks oversee these transactions at non-NES schools.



## BACKGROUND (CONTINUED)

### Roles and Responsibilities for Activity Funds (Continued)

The following illustration outlines the key roles and responsibilities at the District level within the Activity Funds process according to board policy.

Activity Funds Department	Finance Division	Procurement Department
<p>Responsible for managing all activity funds at the District level. This includes verifying that all required supporting documentation is accurately submitted in SAP by the school campus to support deposit or disbursement transactions. Additionally, the Activity Funds Department is responsible for overseeing all aspects of the SchoolPay application, which is used to collect activity funds electronically. Once funds are collected electronically, the Activity Funds Department is responsible for depositing these funds. Maintaining regular communication and providing ongoing support to school campuses on all Activity Fund matters is also essential to ensure compliance and efficiency in fund management.</p>	<p>Responsible for supporting NES schools in various Activity Fund matters. Key responsibilities in managing Activity Funds include verifying that the General Clerk has accurately submitted the required supporting documentation into SAP to substantiate deposits and disbursements. Additionally, it is essential to maintain ongoing communication and provide comprehensive support to NES school campuses, ensuring they have the necessary guidance and resources to effectively manage Activity Fund processes in compliance with established policies and procedures.</p>	<p>Responsible for the final level approval of all activity fund purchases processed through the regular AP payment cycle. However, it is important to note that Procurement does not approve the payment itself.</p>



## BACKGROUND (CONTINUED)

### Cash Receipts

HISD requires all activity funds collected to be promptly receipted, accurately recorded and deposited into the Centralized Activity Fund bank account. Effective cash handling procedures require the involvement of at least two individuals in the collection, receipting, and depositing processes to minimize the risk of misappropriation and validate proper oversight. Additionally, to maintain standardized record-keeping, only the official Activity Fund cash receipt books provided by the Activity Funds Department are authorized for use, with limited exceptions requiring prior approval. Immediate receipt of funds collected is mandatory, with specific guidelines for documenting essential transaction details to uphold accuracy and accountability. The following highlights key processes and documentation requirements within the activity funds cash receipts functions.



#### Centralized Activity Fund Bank Account

As outlined in Section 303.1 of the Finance Procedures Manual: All funds collected from school activities must be receipted, recorded, and deposited into the Centralized Activity Fund bank account to promote transparency and accountability.



#### Segregation of Duties

As outlined in Section 303.1 of the Finance Procedures Manual: At least two individuals must be involved in the processes of collecting, receipting, and depositing cash to maintain effective cash control and minimize the risk of errors or misappropriation. Individuals collecting funds are prohibited from issuing their own cash receipts to prevent any potential conflicts of interest or fraudulent activities.



#### Official Cash Receipt Book

As outlined in Section 303.2 of the Finance Procedures Manual: Activity Fund cash receipt books, provided by the Activity Funds Department, must be utilized for all cash and check transactions to maintain standardized record-keeping procedures. HISD employees other than General Clerks, such as teachers or sponsors, require prior approval from the Principal/Supervisor onsite to use alternative cash receipt books. Further, only official HISD cash receipts are acceptable for documenting transactions.



#### Cash Receipt Acknowledgement

As outlined in Section 303.3 of the Finance Procedures Manual: Upon receiving funds, immediate acknowledgment is required through the preparation of a receipt, except for concession sales, cash register sales, and pre-numbered ticket sales. Receipts must be completed in ink and include essential details such as date, amount, payer/remitter, purpose, account name/numeric code, signatures, school name, and school fund. Yellow copies are then issued to the payer, while white copies remain in the receipt book for documentation purposes. Any corrections to receipts must follow specific guidelines to promote accuracy and accountability.



#### HISD Form 104 – Acceptable Forms of Cash Receipt

As outlined in Section 303.3 of the Finance Procedures Manual: There are three acceptable forms for the receipting of cash or checks: Activity Fund Cash Receipt, Form AF-104 – Tabulation Of Monies Collected By A Person Other Than The Financial Clerk, or Official Alternative Receipt.



## BACKGROUND (CONTINUED)

### Cash Deposits

The District has implemented detailed guidelines for secure activity fund deposit procedures, emphasizing critical aspects such as preparation, verification, and inspection of deposits. Specific protocols outline interactions with armored car services during deposit pickups to further protect funds. In addition, policies dictate the frequency and thresholds for deposits, requiring the General/Financial Clerk to deposit funds exceeding \$500 and establish a minimum biweekly deposit schedule for lesser amounts. Secure storage of funds is also a priority, with strict requirements for safekeeping in a locked safe until pickup, prohibiting storage in unsecured locations such as vehicles or employee homes. Furthermore, to maintain accuracy and transparency, deposits must be made in the same form as collected, and all checks must bear the appropriate endorsement. The District also enforces the use of Form AF-114 to document deposit transactions and requires cash receipts to be submitted in numerical sequence for streamlined tracking. Any discrepancies identified during reconciliation, such as shortages or overages exceeding \$25, are addressed through proper notification and accounting procedures. The following highlights key processes and documentation requirements within the activity funds cash deposit function.



#### Storage of Activity Funds Collected

As outlined in Section 304.1 of the Finance Procedures Manual: The General/Financial Clerk must keep all money in the school safe until deposit. Funds will be picked up by an armored courier and transported to the bank. The bank bag should be stored in a locked safe until pickup for security concerns. Funds should never be taken to an employee's home, left in a vehicle, desk drawer, or at the school on weekends or holidays to prevent loss or theft. All checks should be stamped with the endorsement "For Deposit Only" along with the name of the school's Activity Fund.



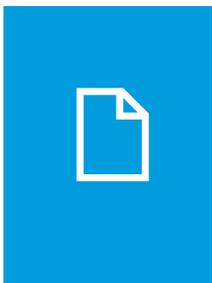
#### Deposit Threshold and Frequency

As outlined in Section 304.1 of the Finance Procedures Manual, the General/Financial Clerk is responsible for timely deposits of all cash, checks, and money orders, along with completing the necessary documentation. Deposits must be made when cash on hand exceeds \$500, though the General/Financial Clerk has the discretion to deposit smaller amounts. Policy also requires deposits under \$500 to be made at least biweekly.



#### Numerical Sequence of Cash Receipts Supporting Cash Deposits

As outlined in Section 304.1 of the Finance Procedures Manual: Cash receipts supporting cash deposits must be in numerical sequence when turned over to the armored courier to facilitate tracking and reconciliation.



#### HISD Form AF-114 – Recap of Activity Fund Deposit

As outlined in Section 304.2 of the Finance Procedures Manual: All funds must be deposited in the same form as collected to maintain accuracy and consistency. Cash collected may not be used for purchases or payments of any kind. Form AF-114 – Recap of Activity Fund Deposit Forms is to be completed and attached to the SAP deposit request. Any shortage or overage found through the bank reconciliation process will be booked to General Revenue, and the General/Financial Clerk will be notified if the shortage or overage exceeds \$25. If the appropriate account can be identified, the General/Financial Clerk may request an internal transfer with Form AF-107 – Internal Transfer of Funds. Otherwise, funds will be left under General Revenue.



## BACKGROUND (CONTINUED)

### Cash Disbursements

The school Principal holds responsibility for all purchases utilizing activity funds, and staff must obtain prior written authorization using Form AF-115 before making commitments on behalf of the school. Travel-related expenditures require campus Principal approval, with trips exceeding three (3) regular school days requiring additional approval from the Superintendent of Schools. Additionally, activity funds cannot be used for cash awards or prizes; instead, non-cash items of reasonable value may be purchased with proper approval. To support disbursement requests, vendor invoices or detailed receipts must be submitted to SAP along with the required authorization forms, while incomplete documentation is strictly prohibited. Reimbursement policies require that school-related expenses are properly documented and controlled to prevent unauthorized purchases. Refunds are issued via District check, requiring verification and proper documentation to confirm that amounts do not exceed the original contribution. Advance payments for school activities are managed through the use of Form AF-116, which specifies the amount and purpose of the advance. The following highlights key processes and documentation requirements within the activity funds cash disbursement function.



#### **HISD Form AF-115 – Authority to Purchase Goods/Services**

As outlined in Section 307.1.2 of the Finance Procedures Manual: The school Principal is responsible for all purchases and commitments requiring activity fund disbursement. Teachers must obtain written authority from the Principal before making any purchases in the school's name for any activities via from AF-115 – Authority to Purchase Goods/Services. Form AF-115 and vendor invoices or detailed receipts must be attached to payment requests in SAP. Statements of balance due from vendors and incomplete data processing cards are not acceptable forms of supporting documentation as outlined within Fund Activity Policies.



#### **HISD Form AF-116 – Advanced Payment Requests**

As outlined in Section 309 of the Finance Procedures Manual: Advance payments for expenses related to school activities must be requested using Form AF-116, indicating the amount and purpose of the advance.



#### **Activity Fund Reimbursements**

As outlined in Section 308.1 of the Finance Procedures Manual: Employees, students, or parents may be reimbursed for school-related expenses with proper documentation. Reimbursements should be minimized to prevent unauthorized purchases and must adhere to specified guidelines.



#### **Activity Fund Refunds**

As outlined in Section 308.2 of the Finance Procedures Manual: Refunds for cancellations or overcharges are issued via District check and require proper verification from recipients. Refunds cannot exceed funds contributed directly by the student and must be documented appropriately.



## BACKGROUND (CONTINUED)

### Fundraising Activities

School-wide and student club-sponsored fundraising activities within the District are subject to specific approval procedures to ensure proper oversight and compliance with District policies. School-wide fundraising activities must receive approval from the School Support Officer or their designee at least one week prior to the scheduled event. To formalize the approval, Form AF-108 must be completed and signed by the designated official before the activity can take place. In contrast, fundraising activities sponsored by student clubs require authorization from the School Principal. Prior to scheduling such activities, the club sponsor is responsible for completing the front side of Form AF-108 to document the necessary details. Unlike school-wide fundraisers, student club-sponsored activities do not require additional approval from the School Support Officer.

Fundraising Activities Form AF-108	
Form AF-108	Principal's Permission Request and Operating Report for Fundraising Activity

### Activity Funds Deposits: Electronic Vs. Cash Deposits

The process for handling activity fund deposits differs based on whether the deposit is electronic or cash.

- ❖ Electronic deposits are funds received electronically through the SchoolPay application.. All electronic payments are directed to a centralized SchoolPay account managed by the Activity Funds District department. Twice a week, the Activity Funds Senior Analyst extracts data from SchoolPay, cleanses the data, and prepares it for upload into SAP. Once the data is uploaded, the Senior Analyst submits the deposit in SAP for approval, with the final approver provided by the Assistant Controller.
- ❖ For cash deposits, the process is managed at the campus level before being routed to the District level for approval. Cash is collected and receipted by two separate individuals. An acceptable cash receipt form must be signed and dated by the appropriate parties. Next, Form AF-114 Recap of Activity Fund Deposits is prepared, signed, and dated by the Financial Clerk or General/Financial Clerk, who is responsible for depositing the cash. The form is then approved by the school Principal. The Financial Clerk or General/Financial Clerk typically submits the deposit in SAP and attaches the completed Form AF-114 to the SAP deposit entry. The cash deposit then enters the SAP approval workflow. Note: There are key differences in the SAP approval workflow between non-NES and NES schools. Non-NES schools require three levels of approval: the school Principal or their designee, the Activity Funds Department, and Assistant Controller. NES schools only require two levels of approval: the corresponding Finance Division and the Assistant Controller.

### Activity Funds Disbursements: Direct Pay Vs. Regular AP Payment

The process for activity fund disbursements differs based on whether the disbursement is processed as a Direct Pay (check) or through the regular Accounts Payable (AP) payment cycle.

- ❖ For Direct Pay, the school Financial Clerk completes an Acceptable Form for Disbursements, typically using Form AF-115 or AF-116. These forms must be supported by documentation such as vendor receipts or quotes; vendor invoices are not required. Once completed, the forms are approved by the school Principal. After approval, the Financial Clerk submits the disbursement in SAP. The Direct Pay disbursement then enters the SAP approval workflow. Note: There are key differences in the SAP approval workflow between non-NES and NES schools. Non-NES schools require two levels of approval: the school Principal or their designee, and the Activity Funds Department. NES schools only require one level of approval: the corresponding Finance Division.
- ❖ For AP payment disbursements, a vendor invoice is required, and the vendor must be an HISD-approved vendor. The Financial Clerk initiates the process by submitting a Shopping Cart request in SAP. The Shopping Cart then enters the SAP approval workflow. Note: There are key differences in the SAP approval workflow between non-NES and NES schools. Non-NES schools require three levels of approval: the school Principal or their designee, the Activity Funds Department, and the Procurement Department. NES schools only require two levels of approval: the corresponding Finance Division, and the Procurement Department.



## BACKGROUND (CONTINUED)

### Differences between non-NES and NES Schools

In 2024, NES schools represented more than 30% of all schools within the District. Our review of the Activity Fund process revealed differences in the expectations for how NES and non-NES schools approve transactions in SAP. The following illustration outlines the required procedures for Activity Fund transactions, distinguishing between NES and non-NES schools.

Activity Fund Transaction		non-NES	NES
Deposits	Electronic (SchoolPay)	In SAP approval workflow, the SchoolPay Deposit data is submitted by the Activity Funds Senior Analyst and approved by the Assistant Controller.	
	Cash	<p>In SAP approval workflow, three levels of approval are required:</p> <ol style="list-style-type: none"> <li>School Principal or designee</li> <li>Activity Funds Department</li> <li>Assistant Controller</li> </ol> <p><i>*Principal approval is still required on physical Form AF-114 (Recap of Activity Fund Deposit).</i></p>	<p>In SAP approval workflow, two levels of approval are required:</p> <ol style="list-style-type: none"> <li>Corresponding Finance Division</li> <li>Assistant Controller</li> </ol> <p><i>*Principal approval is still required on physical Form AF-114 (Recap of Activity Fund Deposit).</i></p>
Disbursements	Direct Pay	<p>In SAP approval workflow, two levels of approval are required:</p> <ol style="list-style-type: none"> <li>School Principal or designee</li> <li>Activity Funds Department</li> </ol> <p><i>*Principal approval is still required on physical Form AF-115 (Authority to Purchase Goods/Services) or Form AF-116 (Advanced Payment Requests).</i></p>	<p>In SAP approval workflow, two levels of approval are required:</p> <ol style="list-style-type: none"> <li>Corresponding Finance Division</li> <li>Activity Funds Department</li> </ol> <p><i>*Principal approval is still required on physical Form AF-115 (Authority to Purchase Goods/Services) or Form AF-116 (Advanced Payment Requests).</i></p>
	AP Payment	<p>In SAP approval workflow, three levels of approval are required:</p> <ol style="list-style-type: none"> <li>School Principal or designee</li> <li>Activity Funds Department</li> <li>Procurement Department</li> </ol>	<p>In SAP approval workflow, two levels of approval are required:</p> <ol style="list-style-type: none"> <li>Corresponding Finance Division</li> <li>Procurement Department</li> </ol>



## OBJECTIVES AND APPROACH

### Objectives

The objective of this internal audit was to assess the District's policies and procedures managing activity funds, evaluating their alignment with best practices and compliance with established regulations.

### Approach

Our approach consisted of the following phases:

#### Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs to understand the current operating policies and procedures in place related to the processes within our scope. The following was performed as part of this phase:

- Obtained and reviewed key documents, including policies and procedures related to Activity Funds, specialized guides for Activity Funds, and organizational charts for the Activity Funds Department.
- Conducted walkthroughs with key personnel to understand the District's processes and roles/responsibilities related to the Activity Funds management process.
- Developed a work plan to evaluate the operating effectiveness of procedures and controls based on the information obtained through reviews, inquiries, and walkthrough procedures.

#### Evaluation of the Process and Controls Design

The purpose of this phase was to assess the operating effectiveness of processes and controls based on our understanding obtained during the first phase. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. Our testing procedures included, but were not limited to:

- Evaluated the adequacy and accessibility of existing policies and procedures related to Activity Funds management.
- Evaluated the design and control structure, including adherence to policies and procedures.
- Evaluate the differences between NES and non-NES schools, highlighting the differences at both the campus and District levels.
- Conducted an analysis of NES versus non-NES schools and selected two schools for detailed testing: Bellaire High School and Houston MSTC High School.
- Selected a sample of 50 Activity Fund deposits from Bellaire High School and Houston MSTC High School from our audit period.
  - For deposits related to fundraising activities, verified that the required approvals were obtained prior to the start of the activity.
  - Verified that proper segregation of duties were maintained among cash collection, receipt issuance, and deposit processes.
  - Verified that deposits were supported by the necessary documentation.
  - Verified that deposits were properly approved by the designated individuals at both the campus and District levels.
  - Verified that deposits were accurately coded to the correct Activity Fund number.
- Selected a sample of 50 Activity Fund disbursements from Bellaire High School and Houston MSTC High School from our audit period.
  - For disbursements processed through the Regular AP Payment process, verified that all vendors were approved by the HISD Board.
  - Verified that proper segregation of duties were maintained between the cash disbursement requestor, approver, and payment processor.
  - Verified that all disbursements were supported by the necessary documentation.
  - Verified that the disbursements were properly approved by the designated individuals at both the campus and District levels.
  - Verified that the expenses were reasonable based on the corresponding activity fund code used for payment.

#### Reporting

During this phase, we summarized the results of this internal audit and reviewed the results with appropriate representatives from the District.



## OBSERVATION MATRIX

Observation	1. Direct Pay Disbursements - Forms AF-115 and AF-116 at Bellaire High School
<p style="text-align: center;"><b>High</b></p>	<p>As stipulated in the Houston Independent School District (HISD) Finance Procedures Manual, Sections 307 and 309, the school Principal is fully responsible for all purchases and financial commitments involving Activity Fund monies.</p> <ul style="list-style-type: none"> <li>• <b>Section 307.1.2</b> requires that teachers obtain written authorization using Form AF-115 (Authority to Purchase Goods/Services Related to Activity Funds) from the school Principal before making any purchases on behalf of the school.</li> <li>• <b>Section 309</b> allows for advance payments to cover necessary expenses incurred by athletic teams and other student groups participating in out-of-town and local activities. Such requests must be submitted using Form AF-116 (Advanced Payment Request), detailing the amount needed and the purpose of the advance.</li> </ul> <p>Our sample testing of 20 Direct Pay disbursements at Bellaire High School identified the following:</p> <ol style="list-style-type: none"> <li>1. None of the sampled Direct Pay disbursements included the required Forms AF-115 or AF-116, as mandated by the HISD Finance Procedures Manual. Instead, Direct Pay Cover Sheets were used.                     <ul style="list-style-type: none"> <li>• These cover sheets, while capturing key details such as amount, date, and activity fund number, do not meet District policy requirements as they lack a school Principal's approval signature to provide pre-approval for expenditures. Instead, Principal approval is obtained retroactively in SAP after purchases occur.</li> <li>• The HISD Finance Procedures Manual, updated as of August 2024, does not recognize the Direct Pay Cover Sheet as an acceptable form for activity fund disbursements. Through conversation with the Activity Funds Department, the aforementioned exceptions were approved by the Activity Funds department due to a misunderstanding the acceptability of the Direct Pay Cover Sheet as a form of documentation.</li> </ul> </li> </ol> <p>The use of unapproved forms and the absence of required pre-approval processes for activity fund disbursements increase the risk of non-compliance with HISD Finance Procedures. These gaps reduce financial oversight and accountability, creating opportunities for unauthorized or unplanned expenditures.</p>
<p><b>Recommendation</b></p>	<p>We recommend that Bellaire High School adhere to the HISD Finance Procedures Manual by using the required Forms AF-115 and AF-116 for all activity fund disbursements and advance payment requests. Additionally, targeted training should be provided to school leadership and staff to reinforce compliance expectations and promote consistency in pre-approval processes and document retention practices. The District should also reevaluate the HISD Finance Procedures Manual to clarify and identify acceptable forms for activity fund disbursement documentation.</p>



## OBSERVATION MATRIX (CONTINUED)

Observation	1. Direct Pay Disbursements - Forms AF-115 and AF-116 at Bellaire High School
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> The Controller’s Office will review the cash disbursement process with Bellaire HS. In addition, current training documents will be reviewed and updated. The Financial Procedures Manual (FPM) will be reviewed and updated by July 31, 2025. However, an immediate update will be a review of the forms to be submitted with disbursements requests. For example, the principal’s signature is not needed since an approval is required in the workflow process in SAP.</p> <p><b>Responsible Party:</b> Sherrie H. Robinson, Controller</p> <p><b>Estimated Completion Date:</b></p> <p>Review with Bellaire HS: February 21, 2025</p> <p>Immediate update to FPM: March 1, 2025</p> <p>Review training documents: March 31, 2025</p> <p>Review entire FPM: July 31, 2025</p>



## OBSERVATION MATRIX (CONTINUED)

Observation	2. Cash Deposits – Segregation of Duties at Bellaire High School
<p style="text-align: center;"><b>High</b></p>	<p>As outlined in the HISD Finance Procedures Manual Section 303.1, to maintain effective cash control, at least two people must be involved in the functions of collecting cash, receipting cash, and depositing cash. The person collecting the money cannot issue their own cash receipts.</p> <p>During our review of 20 Bellaire High School activity fund cash deposits, we identified that the same individual was responsible for collecting, receipting, and depositing cash for 7 of the 20 sampled deposits:</p> <ul style="list-style-type: none"> <li>• <b>6 deposits</b> related to checks received by mail from an outside organization, totaling \$26,284.27.</li> <li>• <b>1 deposit</b> related to parking lot cash payments, totaling \$1,620.00.</li> </ul> <p>While the exceptions were properly supported by an Activity Fund Cash Receipt, we noted that 6 of the 7 transactions involved checks, which represent a lower risk. However, they still represent a segregation of duties concern, as a single individual performed all three critical cash-handling tasks. Evidence of Activity Fund Cash Receipt, such as Forms AF-104, are physical forms kept at the campus level and not uploaded as a form of documentation in SAP.</p> <p>Failure to adhere to established procedures for segregation of duties increases the risk of fraud, errors, and other financial risks by concentrating critical control responsibilities on one individual.</p>
<p><b>Recommendation</b></p>	<p>We recommend that the District enhance training programs for personnel responsible for cash handling to reinforce compliance with established policies and procedures. Training should emphasize the importance of segregating cash collection, receipting, and deposit functions to minimize conflicts and strengthen internal controls.</p> <p>Consider having campuses upload <i>Form AF-104 – Tabulation Of Monies Collected By A Person Other Than The Financial Clerk</i>, or an Official Alternative Receipt, along with the deposit <i>Form AF-114 – Recap of Activity Fund Deposit</i> to SAP. This would create a more comprehensive audit trail for deposits and enhance oversight of segregation of duties.</p>
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> The Controller’s Office will review and update the Activity Fund training documents as well as follow up with Bellaire HS staff on cash handling procedures. The Financial Procedures Manual (FPM) does not address checks received by mail. The FPM will be reviewed and updated by July 31, 2025.</p> <p><b>Responsible Party:</b> Sherrie H. Robinson, Controller</p> <p><b>Estimated Completion Date:</b></p> <p>Review with Bellaire: February 21, 2025</p> <p>Review training documents: March 31, 2025</p> <p>FPM update: July 31, 2025</p>



## OBSERVATION MATRIX (CONTINUED)

Observation	3. Direct Pay Disbursements – Variance between SAP and Direct Pay Cover Sheet at Bellaire High School
<p><b>Moderate</b></p>	<p>As outlined in the HISD Finance Procedures Manual, all disbursement records must be accurate, properly supported, and aligned with District-approved documentation requirements. Additionally, amounts entered into the financial system should match supporting documentation to maintain the integrity of financial records.</p> <p>During our review of 20 Bellaire High School activity fund Direct Pay disbursements, discrepancies were identified in 2 transactions. Specifically:</p> <ul style="list-style-type: none"> <li>• The amounts recorded on the Direct Pay Cover Sheets did not match the amounts entered into SAP.</li> <li>• Clerical errors during data entry caused a total variance of \$10.50, with the disbursed amount exceeding the requested amount of \$2,473.41.</li> </ul> <p>We noted the Direct Pay Cover Sheet samples were properly supported and reconciled with vendor invoices and receipts. However, these forms are not recognized as acceptable documentation under the HISD Finance Procedures Manual (see Observation 1).</p> <p>Although the monetary impact of this variance is minimal, such errors highlight a lack of accuracy in data entry processes. Without effective controls, similar errors could lead to larger inaccuracies, reduced reliability of financial records, and weakened accountability.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Provide targeted training for staff responsible for data entry, emphasizing the importance of accuracy and proper reconciliation procedures.</li> <li>• Consider implementing a secondary review process to validate amounts entered into SAP match supporting documentation prior to submission.</li> <li>• Explore automated validation checks within SAP to flag discrepancies between entered amounts and supporting documentation for review prior to approval.</li> </ul>
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> Training documents will be reviewed. In addition, individuals at the campus and in the Controller’s Office will be reminded to review the amounts. As we implement a new ERP, the validation check will be considered. (These variances are small and the cost vs. reward does not warrant a change to the correct system.)</p> <p><b>Responsible Party:</b> Sherrie H. Robinson, Controller</p> <p><b>Estimated Completion Date:</b></p> <p>Review training documents: March 31, 2025</p> <p>Targeted training: February 21, 2025</p>



## PROCESS IMPROVEMENT OPPORTUNITIES

### 1. Utilization of Form AF-114 – Recap of Activity Fund Deposit Form

Form AF-114 – Recap of Activity Fund Deposit Form is used to summarize deposits allocated to various activity fund codes processed in a single batch. While the form includes fields for the preparer's and approver's printed and signed names, it lacks fields for signature dates. Additionally, the SAP approval workflow for deposits at Non-NES schools may be redundant considering deposit approvals are already documented on Form AF-114.

- Non-NES Schools require principal approval on the physical Form AF-114 and separately in SAP before the Activity Funds Department can review and approve the deposit.
- NES Schools only require the principal to complete Form AF-114, which is then reviewed by the corresponding Finance Division and approved.

To enhance efficiency and reduce redundancy, we recommend the following:

- Align the deposit approval workflow for Non-NES and NES schools by removing the principal approval in SAP for Non-NES schools. This change will eliminate the duplication of approvals, as Form AF-114 already serves as the principal's authorization.
- Modify Form AF-114 to include a signature date field for both the preparer and the approver. This addition will improve documentation of the timeliness of approvals and provide greater transparency.



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