Houston Independent School District
Internal Audit Report: Activity Funds Audit
Lamar High School and T.H. Rogers School

September 6, 2024

RSM

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TRANSMITTAL LETTER

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September 6, 2024

The Audit Committee of
Houston Independent School District
4400 W 18th St.
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Pursuant to the approved internal audit plan for fiscal year ("FY") 2024 for Houston Independent School District ("HISD"), we hereby submit the internal audit report of the Activity Funds Audit- Lamar High School ("Lamar") and T.H. Rogers School ("T.H. Rogers"). We will be presenting this report to the Audit Committee at the next scheduled meeting on July 30, 2024.

Our report is organized in the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit over Lamar's T.H. Rogers' internal controls over the activity funds process(es).
Background	This provides an overview of Lamar's and T.H. Rogers' internal controls over the activity funds process(es), as well as relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
Observations Matrix	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,

Internal Audit

EXECUTIVE SUMMARY

Houston Independent School District – Activity Funds Audit

Background

The District's Finance Procedures Manual is essential for managing and ensuring accountability of all fund activities. Section 300 defines activity fund accounts, which are resources collected from students and other sources, held in trust by the school, and used according to specified conditions. These funds support co-curricular and extracurricular activities, enhancing the educational development and morale of students.

HISD classifies activity funds into Campus Activity Funds and Student Activity Funds (Agency). Campus Activity Funds support activities under the campus principal's purview, while Student Activity Funds are for student organizations meeting specific criteria. Fund 461 accounts for Campus Activity Funds, and Fund 865 accounts for Student Activity Funds.

Key responsibilities include the superintendent, principal, and sponsors managing the funds. The principal ensures compliance with laws and policies, while general clerks handle transactions and fund forms. Sponsors oversee fundraising activities and secure funds until deposited.

Cash Handling:

- All collected funds must be receipted, recorded, and deposited promptly.
- Dual involvement is required in cash handling to prevent errors and fraud.
- Individuals managing funds are accountable for any losses due to negligence or theft.

Total T.H Rogers & Lamar High approximate student enrollment by school year July 1 to December 31 2023

1,000
- T.H. Rogers School

3,000
- Lamar High School

4,000
Total Students Enrolled

Source: Texas Education Agency data.

Internal Audit Objectives

The primary objective of this internal audit was to evaluate the Lamar High School and T.H. Rogers School's compliance with district policies and procedures governing activity funds. Our procedures included:

- Conducted interviews and walkthroughs with key personnel to gain an understanding of the district's operating policies, procedures, and roles/responsibilities related to the scoped processes.
- Developed a work program to evaluate the operating effectiveness of processes and controls based on information obtained through reviews, inquiries, and walkthrough procedures.
- Reviewed documentation supporting a sample of activity fund cash receipts and deposits to assess completeness, accuracy, and existence.
- Reviewed documentations supporting activity fund cash disbursements to assess completeness, accuracy and existence.

At the conclusion of this internal audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel and have incorporated Management responses into this report.

EXECUTIVE SUMMARY (CONTINUED)

Observation Summary

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

Observation Risk Rating Definitions	
Rating	**Definition**
Low	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).
Moderate	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).
High	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 (Continued)

Below is a summary of the observations identified during this internal audit. Detailed observations are included in the observation matrix section.

Summary of Observations	
Observations	**Rating**
1. Lamar High School - Completeness of AF-104 Forms ***Condition:*** 2 of 20 sampled deposit slips and cash receipts from Lamar's activity funds had incomplete Form AF-104 documentation, lacking comprehensive descriptions of collected funds. This risks the integrity of financial records, leading to potential discrepancies and reduced accountability within the school's activity funds. ***Recommendation:*** Train personnel on completing Form AF-104 and conduct regular reviews to ensure compliance with policies and accurate record-keeping for HISD Fund Activities.	**Moderate**
2. Lamar High School - Evidence of Review AF–104 Forms ***Condition:*** Our review found that 1 of 20 sampled deposit slips and cash receipts from Lamar's activity funds lacked evidence of review and acknowledgment on the AF-104 form, as required by HISD Finance Procedures. This non-compliance increases the risk of fraudulent activities and financial discrepancies. ***Recommendation:*** Conduct training sessions for individuals completing the AF-104 form to enhance their understanding of relevant policies and procedures. Enforce existing protocols with oversight from the Business School Manager and the fund collector to prevent future occurrences.	**Low**

BACKGROUND

Overview

Activity funds within the Houston Independent School District (HISD) are resources collected from students (and other sources on occasion) and held by the school, acting as 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: Houston ISD classifies activity funds into two distinct categories: Campus Activity Funds and Student Activity Funds (Agency). Campus Activity Funds are designated to support co-curricular and extracurricular activities under the purview of the campus principal, while Student Activity Funds (Agency) 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 (Agency) in Fund 865 as an Agency Fund.

Responsibilities for Activity Funds: In adherence to board policy CFD(LOCAL), designated individuals, including the superintendent, principal, and sponsors, bear responsibility for the proper administration of activity funds. The school principal 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. General clerks are tasked with administering fund transactions, maintaining adequate supply of activity fund forms, and safekeeping of these forms. Sponsors, full-time HISD employees, oversee the fundraising activities of their respective clubs and safeguard activity funds until deposited by the General Clerk.

BACKGROUND (CONTINUED)

Cash Receipts

Receipt, Recording, and Depositing Funds: All funds collected from school activities must be receipted, recorded, and deposited into the Centralized Activity Fund bank account to promote transparency and accountability.

Dual Involvement in Cash Handling: 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.

Responsibility for Student Activity Funds: Those handling student activity funds are held accountable for any losses due to negligence, theft, or fraud and may be required to reimburse the activity fund accordingly. Emphasis is placed on conducting all financial transactions with integrity, displaying honesty and trustworthiness in managing school funds.

Exclusive Use of Activity Fund Cash Receipt Books: 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, ensuring consistency and authenticity in record-keeping.

Immediate Acknowledgment through Receipts: 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.

Acceptable Forms of Receipting: Three acceptable forms for receipting cash or checks are specified:
- Activity Fund Cash Receipts – Receipts books used for all cash and checks received by Financial Clerk.
- Form AF-104 - Tabulation of Monies Collected by Person other than the Financial Clerk
- Official Alternative Receipts - Tabulate monies collected and reconcile to alternate receipts issued by the sponsor/teacher in the presence of the sponsor/teacher.

Completion of Receipts: 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. Protocols also note that the General clerk cannot accept a Form AF-104 that has not been completed correctly or one that has altered amounts, names, or collection dates unless the alterations have been re-signed by the payer and the principal.

Handling of Alternate Cash Receipt Funds: General Clerks are responsible for tabulating and reconciling monies collected by individuals other than the Financial Clerk, issuing receipts, completing deposit summaries, and reviewing for adherence to documentation protocols.

Secure Deposit Procedures: Guidelines outline secure deposit procedures in the cafeteria and office settings, emphasizing the importance of preparation, verification, logging, and inspection of deposits to safeguard funds. Pursuant to this aim of safeguarding funds procedures for interacting with armored car services during deposit pickups are detailed, including verification of deposit bags and receipt of deposits. Additionally Specific protocols for changing safe combinations upon employee or Principal changes are outlined, facilitating secure access to safe deposit boxes, and minimizing the risk of unauthorized access.

BACKGROUND (CONTINUED)

Cash Deposits

Deposit Threshold and Frequency: The General Clerk and/or the Campus Secretary is responsible for depositing all cash, check(s), and money order(s) on a timely basis as well as completing all the necessary documentation. Deposits must be made if the total cash on hand exceeds $500. However, the General Clerk has discretion to make deposits even if cash on hand is less than $500. Deposits of less than $500 should be made biweekly at a minimum as policy dictates.

Storage of Funds: The General 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.

Form of Deposits: 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.

Numerical Sequence of Receipts: Cash receipts supporting cash deposits must be in numerical sequence when turned over to the armored courier to facilitate tracking and reconciliation.

Management of Shortages/Overages: Any shortage or overage found through the bank reconciliation process will be booked to General Revenue, and the General Clerk will be notified if the shortage or overage exceeds $25.

Internal Fund Transfers: If the appropriate account can be identified, the General Clerk may request an internal transfer using Form AF-107 - Internal Transfer of Funds. Otherwise, funds will be left under General Revenue until further action is taken.

Cash Disbursements

Cash disbursements are broken down into the three following types as they related to General Fund Activities:

- **Travel:** Monies raised for trips related to student activities require approval from the campus principal. Trips exceeding three regular school days must also be approved by the Superintendent of Schools.
- **Purchases:** 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 Purchas goods/Services.
- **Cash Gifts, Awards, and Prizes:** Activity funds cannot be used to pay cash awards or purchase cash prizes for individuals. Instead, awards or prizes with reasonable value (less than $100) may be purchased for students or school personnel upon approval.

Supporting Documentation: Vendor invoices or detailed receipts must be attached to payment requests in OneSource. Additionally, Form AF-115 – Authority to Purchase Goods/Services must accompany payment requests as aforementioned. Statements of balance due from vendors and incomplete data processing cards are not acceptable forms of supporting documentation as outlined within Fund Activity Policies.

Procedure for Adjustments: Any adjustments to invoices must be properly authorized and supported with additional documentation. The original invoice must be amended accordingly, and the principal's original signature must be indicated.

BACKGROUND (CONTINUED)

Cash Disbursements (Continued)

Reimbursements: 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.

Refunds: 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.

Advanced Payments: Advance payments for expenses related to school activities must be requested using Form AF-116, indicating the amount and purpose of the advance.

Settlement and Documentation: After the activity, the sponsor must provide invoices and return any unused funds to the general clerk. All supporting documents must be submitted promptly for proper accounting.

OBJECTIVES AND APPROACH

Objective

The primary objective of this internal audit was to evaluate the schools' compliance with district policies and procedures governing activity funds.

Approach

Our approach consisted of the following phases:

Understanding and Documentation of the Process
This phase consisted primarily of inquiry and walkthroughs in an effort to obtain an understanding of the current operating policies and procedures, monitoring functions, and control structures as they relate to the processes within our scope. The following was performed as part of this phase:

- Conducted interviews and walkthroughs with key personnel to gain an understanding of the district's operating policies, procedures, and roles/responsibilities related to the scoped processes.
- Developed a work program to evaluate the operating effectiveness of processes and controls based on information obtained through reviews, inquiries, and walkthrough procedures.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness
The purpose of this phase was to test compliance and internal controls for operating effectiveness based on our understanding of the processes 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:

- A review of Standard Operating Procedures to confirm adherence to applicable policies and procedures.
- Confirm that policies are made public, accessible, and communicated to all relevant employees by reviewing HISD's compliance directory.
- Investigations of instances of non-compliance with established policies as applicable.
- Reviewed documentation supporting a sample of activity fund cash receipts and deposits to assess completeness, accuracy, and existence.
- Reviewed documentation supporting activity fund cash disbursements to assess completeness, accuracy, and existence.

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

OBSERVATIONS MATRIX - LAMAR HIGH SCHOOL

Observation	1. Completeness of AF-104 Forms at Lamar High School
Moderate	HISD's financial procedures manual designates Form AF-104 as an alternative method for managing multiple collections, as outlined in Section 303.3.6.2. Completing Form AF-104 in its entirety is emphasized in Section 305b.3 to maintain rigorous control standards and ensure accuracy in financial documentation. Our review identified 2 of 20 sampled deposit slips and cash receipts from Lamar's activity funds where Form AF-104 was incomplete during fund collections. Additionally, these instances lacked a comprehensive description of funds collected from designated fund-generating activities, such as ticket sales. Incomplete Form AF-104 documentation poses risks to the integrity of financial records within Lamar's activity funds. Without comprehensive descriptions of funds collected, discrepancies and inaccuracies may occur in financial reporting, compromising accountability and transparency. This could lead to misallocating funds and compromised financial management practices within the school's activity funds.
Recommendation	We recommend the following: • Provide training for personnel responsible for completing Form AF-104 to support a thorough understanding of policies and procedures. • Conduct a review of Form AF-104 documentation to facilitate compliance with established policies and procedures, emphasizing the importance of accurate and complete record-keeping for HISD Fund Activities.
Management Action Plan	**Response:** We acknowledge the incomplete Form AF-104 documentation and will address this by providing targeted training to staff on accurate completion of the form per HISD policies. Additionally, we will implement regular reviews of Form AF-104 to promote compliance with procedures and improve the accuracy and completeness of financial records for activity funds. **Responsible Party:** Rita Graves **Estimated Completion Date:** September 27, 2024

OBSERVATIONS MATRIX - LAMAR HIGH SCHOOL (CONTINUED)

Observation	2. Evidence of Review AF–104 Form at Lamar High School
Low	As outlined in the HISD Finance Procedures Manual Section 305b.3, the receipt (AF-104 form) must be completed in ink or ballpoint with signatures from both the fund submitter and recipient. Signature stamps are strictly prohibited. Our review identified that 1 of 20 sampled deposit slips and cash receipts from Lamar's activity funds did not have evidence of review and acknowledgment on the AF-104 form. Failure to adhere to established procedures increases the risk of fraudulent activities and other financial risks.
Recommendation	We recommend the following: • Conduct training sessions for individuals tasked with completing the AF-104 form to enhance their comprehension of relevant policies and procedures. • Enforce existing protocols, with oversight from both the Business School Manager and the fund collector, to mitigate the likelihood of similar occurrences in the future.
Management Action Plan	**Response:** We acknowledge the observation regarding the missing signature on the AF-104 form. To address this, we will provide additional training to staff responsible for completing the form, emphasizing the importance of following HISD policies regarding signatures. Furthermore, the Principal will provide oversight of fund collectors to prevent future occurrences. **Responsible Party:** Rita Graves **Estimated Completion Date:** September 27, 2024

Opportunity for Improvement – Lamar High School

Below is a summary listing of the improvement opportunities identified during this internal audit.

Opportunity	1. Unsecure School Safe
	The HISD finance procedures manual, Section 303.4, mandates the utilization of school safes as intended and their secure locking at all times to maintain financial security. Two safes were observed in the school—an affixed larger safe and a small one on a desk. The small safe lacks proper attachment to the wall or floor, posing a theft risk. The unsecured small safe undermines financial security, risking unauthorized access and non-compliance with district policies.
Recommendation	We recommend bolting all school safes securely to the wall or floor to prevent theft and ensure compliance with district policy.

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