Internal Audit Report
Overall Assessment from FY16-17
Campus Based Controls Audits

December 21, 2017

Office of Internal Audit
Executive Summary

In accordance with the Fiscal Year (FY) 2016-17 Audit Plan, the Office of Internal Audit has completed its campus based controls audits. The purpose of this report is to identify common deficiencies in controls at both campus and administrative levels. While our individual audit reports on campus based controls provided recommendations on how to address the noted deficiencies, this report attempts to identify the root causes of the deficiencies. Additionally, we hope this report brings an awareness to both Dallas Independent School District (District) Administration and Board of Trustees (Trustees) on District operations as they relate to campus activities.

Audits on campus based controls were conducted at Urban Park Elementary, L. V. Stockard Middle School, and Bryan Adams High School. Audit procedures were performed on activity funds, purchasing activity, payroll activity, PEIMS compliance, campus safety plans, credit recovery, campus improvement plans, grant compliance, and dual credit operations. Our audit procedures identified several opportunities for improvements in controls at the campuses and with processes at the District Administrative level.

The following issues occurring at multiple schools audited were identified:

1. There are opportunities for improvement in the District’s management and administration of activity funds. All three schools had instances of noncompliance issues concerning administration of activity funds including:
   a. Incorrect classification of student activity funds
   b. Monthly activity fund reconciliation not submitted to Finance and Accounting Support to Campuses (FASC) by the due date
   c. Required supporting documentation not attached to respective Oracle receipts

2. Lack of understanding of payroll processing and documentation retention at the campus level
   a. Lack of supporting documentation for payroll transactions
   b. Leave of absence/FMLA eligibility determination coordination
   c. Failure to retain purchasing documentation

Objective, Scope and Methodology

The overall objectives of our audits were to:

- Determine if the campuses were in compliance with selected applicable District policies as well as regulatory requirements
- Determine if the campuses had adequate internal controls established and implemented to limit exposure to unauthorized or inappropriate transactions
- Verify the campuses had retained appropriate supporting documentation for transactions associated with activity funds.

The scope of the audits was to review and/or analyze key personnel, procedures, processes, and data/information for the FY 2016-17.

The audits focused on evidence that provided reasonable, but not absolute assurance controls were operating with sufficient effectiveness during the scope of the audit. Our methodology included reviews of procedures and analysis of selected documents and transactions. The audits were conducted in
accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

Background

The Office of Internal Audit’s 2016-17 annual Audit Plan included several audits of campus-based controls. The specific campuses selected for these audits were based on input from School Leadership Executive Directors as well as FASC.

The first campus chosen for audit was Bryan Adams High School (BAHS). BAHS has been rated by the Texas Education Agency for 2015 as “Met Standard” in Academic Achievement, Student Progress, Closing the Achievement Gap, and Postsecondary Readiness. This high school also achieved a TEA Distinction Designation for Achievement in Reading/ELA and also Science. This campus has an enrollment of approximately 1,936 students that range from ninth through twelfth grade. The students receive the basic high school program offered in all District high schools. In addition, the Athletics department offers opportunities for students to participate in many different sports, join numerous organizations and clubs, and participate in several different Career and Technical Education paths. Students are also provided opportunities to take a variety of dual-credit courses for college credit enabling them to begin college with course work already behind them.

L. V. Stockard Middle School (Stockard) was the second campus selected for audit. Stockard has an enrollment of approximately 1,192 students that range from 6th through the 8th grade. The campus administration consists of a principal and five assistant principals. The current principal assumed her responsibilities at the campus in August 2017, and the former principal left at the end of his second year at the school. The total number of support staff at the campus is approximately 118.

Urban Park Elementary (Urban Park) was the third and last campus selected for audit. Urban Park has been rated by the Texas Education Agency for 2016 as “Met Standard” Academic Achievement. This campus has an enrollment of approximately 607 students that range from pre-kindergarten through fifth grade and has an attendance rate in excess of 97%. Urban Park offers a Principal Advisory Committee, a talented and gifted program, computer lab, University Interscholastic League opportunities, and Arts Partners programs. Urban Park has partnered with Skyline High School's mentor program, Ready Set Teach. Skyline seniors will mentor and tutor struggling Urban Park students to help increase student achievement in all grade levels and all content areas. Navidad in the Neighborhood, Reading is Fundamental, Six Flags' Read to Succeed, Pizza Hut Book It Program, Dallas Mavericks' Reading Challenge, and Dallas Stars' Stick with Reading Program have improved student success at Urban Park.

Observations, Recommendations and Management’s Action Plan

Issue 1: Management of Activity Funds Needs Improvement

A. Incorrect Classification of Student Activity Funds (Urban Park Elementary School)

There are two types of activity funds recognized in the State of Texas:

- District or Campus Activity Funds support co-curricular and extracurricular activities and are under the control of District or campus administrators. Revenue is comprised of monies
collected and raised by the District or campus through fund-raising efforts or donations. Expenditures/purchases must follow state purchasing law and use approved district vendors. There is no student approval requirement regarding how to use the funds.

- Student Activity Funds support the activities of student-led organizations or clubs. Revenues are comprised of monies raised and collected by students typically through school-approved fund-raisers, club dues, or donations. These funds fall into a fiduciary category which means they are assets belonging to the student organizations; and the District, as an agent, holds the funds on their behalf. Approval to spend these funds rests solely with the student organizations, and they do not need to use District approved vendors.

- By definition most activity funds at elementary campuses should be classified as District or Campus Activity Funds. However, as of June 2017, the District had ending balances of close to $859,000 classified as Student Activity Funds at elementary campuses. The total activity for FY 2016-17 included revenues of approximately $799,000 and expenditures of approximately $795,000.

**Risk Level - HH**

**B. Monthly Activity Fund Reconciliations Not Submitted by Due Date (Stockard Middle School)**

Per review of dates on copies of monthly activity fund reconciliations, the auditor determined various monthly reconciliations, specifically during FY 2015-16, were not submitted to FASC by the due date.

Per Activity Funds Manual, *Module C – Bank Accounts*, monthly reconciliations must be prepared by the school bookkeeper, reviewed and approved by the school principal, and submitted to FASC by the 10th calendar day of each month for the month just ended. These monthly reconciliations, reconciled deposits, other charges and fees on the bank statements to Oracle.

**Risk Level - MM**

**C. Required Supporting Documentation Not Attached to Respective Oracle Receipts (Stockard Middle School)**

The auditor selected a sample of receipting transactions and determined supporting documents, Tabulation Forms, S1 Receipts, and/or Ticket Stubs were not attached to the respective Oracle receipts. Supporting documentation helps ensure all funds collected from students are turned in to the bookkeeper for receipting and depositing.

Per Activity Funds Manual, *Module D - Cash Handling – Section II*, office Staff and/or Sponsors must complete and submit the required supporting paperwork with the collections to the bookkeeper. This documentation includes, Sponsor’s Deposit Slip, Tabulation Forms, S1 Receipts, and/or Ticket Stubs, if applicable.

**Risk Level - MH**
Issue 2: Lack of Understanding of Payroll Processing and Documentation Retention at the Campus Level

A. Lack of Supporting Documentation (Bryan Adams High School)

Audit procedures for payroll processing required the review of the procedures addressing payroll and confirmation the campus is in compliance with District policies. From a sample of employees, the auditor:

- Verified payroll records had valid backup documentation and were properly approved;
- Verified overtime was properly calculated;
- Determined if Job Description and Personnel Activity Report exists in Title I Binder for employees paid from funds 211 or 21M;
- Determined whether Attendance Report Worksheets agreed with absences per clock-in on Biometric clock reports in Oracle; and,
- Determined whether account coding appears proper.

However, not all documentation could be found on the campus as is required. A review of the Title I binder found, in the binders that could be located, all Job Descriptions were present in the binder, as per policy. Upon comparing the Exempt/Non-Exempt Attendance Reports to the Time Clock In/Out Details to ensure all time was entered correctly and the correct amount of time and/or PTO type was used, the audit found the campus did not enter payroll accurately.

Risk Level - MH

B. Leave of Absence/FMLA Eligibility Determination Coordination

There is no framework of controls that provides a safety net to prevent or identify processing mistakes or misappropriation of assets relating to the processing of Leave of Absence during determination of FMLA eligibility/approval. Because a payroll transaction is effected by input from the school, the Human Capital department, and the third party administrator for FMLA before it gets processed by the Payroll Department, it would be necessary to coordinate with those other departments on an approach to establishing an appropriate process and implementing internal controls.

Risk Level - HH

C. Failure to Retain Purchasing Documentation (Bryan Adams High School)

During FY 2015-16 the campus had processed purchase orders (PO) in total of $276,000, including building construction. Audit procedures for purchasing required the review of the funding source, verification of proper approval, verification of the receiver to determine the items were received and the purchase was valid (including documentation as evidence of receipt), determining if processing was done in a timely manner, determining if the purchase was bid properly and an approved vendor was used, and verification of accurate calculations of quantities and amounts.

Review of the purchasing procedures for the campus indicated the campus did not retain all purchasing documentation, specifically, receiving documentation. Evidence of receiving would have been in the form of a packing slip, delivery log, or staff signature of acceptance. Because there was no documentation of receipt, it could therefore not be determined that the sample of purchases was
processed in a timely manner, or if quantities and amounts were accurately calculated. The review did find the funding sources used were appropriate.

**Risk Level - MH**

**Conclusion**

Problems with the management and oversight of activity funds at the campus level remain an area of concern based upon the results of this year’s Campus Based Audits, however, FASC has taken steps to address reported issues associated with activity funds through the development of an upgraded procedures manual, increased campus presence, and enhanced training programs.

Additionally, lack of coordination on activities/processes involving multiple supporting departments continues to be a problem as indicated by the issue pertaining to Leave of Absence/FMLA eligibility approval. Internal Audit also identified an issue with the administration of the Credit Recovery Program which is also a holdover from issues reported in last year’s report.

As recommended in this report last year, Internal Controls are continuous built-in components of operations that provide reasonable but not absolute assurance an organization’s objectives will be achieved. The District still has not adopted a set standard of internal controls on which to base its operations. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Guidance on Internal Controls and the United States Government Accountability Office’s Standards for Internal Control (Green Book) are two widely used documents that could help the District identify internal control procedures. Consideration should be given to these documents as they relate to the District’s operations. Additionally, the District should provide a greater emphasis on the establishment and benefit of internal controls at all levels to help mitigate risks to the achievement of goals.