



# **Seattle Public Schools Office of Internal Audit**

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**Internal Audit Report  
Centralized ASB**

**September 1, 2011 through July 31, 2012**

Issue Date: September 11, 2012



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## **Executive Summary**

### **Background**

We completed an audit of the District's centralized associated student body (ASB) function for the period September 1, 2011 through July 31, 2012. ASB is a formal organization of students established with the approval of, and operated subject to the control of, the school District. ASB allows students to engage in money-raising activities for the benefit of the students. ASB events are optional, non-credit, extracurricular activities of a cultural, athletic, recreational, or social nature. The county treasurer has established an ASB fund in which all money generated through the programs and activities of the ASB are required to be deposited. Students create an ASB budget and must approve all disbursements. However, the District legally owns, and has the responsibility to account for, ASB resources. The District has developed an *ASB Procedures Manual*, and Superintendent Procedure 3510 requires the schools to follow it.

ASB is an area often cited for cash handling abuses and overall lack of accountability. During our annual risk assessment, we conducted numerous interviews with staff to identify areas that pose significant risks to the District. ASB was frequently mentioned as an area of concern. This prevalent belief that problems exist with ASB funds is further substantiated by recent ASB fund exceptions noted by the State Auditor's Office and by the results of audits we recently performed at schools. The District can, however, reduce potential problems in this inherently risky area by implementing effective policies and procedures, providing adequate training to employees, and performing reasonable monitoring of ASB activities.

Although the financial impact is minimal--the total value of the ASB fund is approximately \$4 million, less than 1% of the District's general fund--ASB money is generated by students and the District, as a steward to these funds, has an obligation to ensure they are safe.

### **Roles and Responsibilities**

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on October 11, 2011. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit with due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

### **Audit Scope and Objectives**

The audit covers the period September 1, 2011 through July 31, 2012. The objective of this audit was to determine whether central administration is providing adequate monitoring, resources, and guidance to schools to support them in safeguarding and controlling ASB funds. The scope of this audit also includes reviewing the June 14, 2012 revisions made to the *ASB Procedures Manual*.



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## **Audit Approach and Methodology**

We performed five school audits to gain an understanding of the challenges schools are facing with regards to ASB activities. The school audits not only highlighted areas that the schools did not understand, it also highlighted the areas where they did not have clear guidance or adequate resources to properly perform their key functions.

In addition to the school audits, we performed the following procedures:

- Gained an understanding of central administration's role as it pertains to ASB funds and activities.
- Reviewed applicable RCWs and WACs, the *Washington Association of School Business Officials ASB Procedures Manual*, and the District's revised *ASB Procedures Manual*.
- Gained an understanding of the procedures the District has in place to monitor ASB activity at the schools.

## **Conclusion**

We are encouraged by the District's recent efforts to train staff to perform more ASB oversight procedures. However, current monitoring of school ASB activity is limited, and oversight could be improved. This report contains recommendations for additional monitoring and for additional changes to the *ASB Procedures Manual*. The recommendations are intended to improve overall accountability and safeguarding of ASB funds.

*Andrew Medina*

Andrew Medina, CPA, CFE  
Director, Office of Internal Audit



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## Findings and Recommendations

### 1) Monitoring of School ASB Operations and Follow Up on Known Issues

We noted that the Accounting Department performs numerous procedures to monitor ASB operations, including:

- Monitoring imprest replenishments
- Verifying bank reconciliations
- Monitoring the frequency of deposits
- Reviewing cases of reported ASB and cash handling non-compliance

However, the follow-up procedures performed by Accounting when errors or non-compliance are noted are not always consistent, tracked, or communicated.

### Recommendations

We recommend that the Accounting Department:

- Document noted errors and non-compliance, and institute a system to communicate the correct procedures to the schools. This communication with the schools could be accompanied by an explanation as to why compliance is important, the location of the correct procedures in the *ASB Procedures Manual*, and instructions to contact Accounting with any future questions. This is an opportunity to not only improve customer service to the schools, but also to provide ongoing training of the proper procedures.
- Implement a progressive disciplinary system to report instances of repeated non-compliance to school principals, executive directors, the Assistant Superintendent of Business and Finance, and so on. These procedures will stress the importance of compliance in order to avoid senior management attention.
- Consider making periodic site visits to schools that may need additional assistance.
- Perform the following additional oversight:
  - Ensure reconciliations of imprest accounts to their authorized balances are complete, accurate, and timely. As part of this process, Accounting should periodically scan bank statements for unusual or improper activity and for transactions other than checks and replenishments.
  - We noted that although Accounting monitors the frequency of ASB deposits, schools continue to be cited for untimely deposits. Pursuant to RCW 43.09.240, Accounting should actively monitor schools for compliance with the 24-hour deposit rule, or consider obtaining a waiver from the County Treasurer to permit less frequent deposits.



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## **Management Response**

*We concur with the recommendations. We had begun a process earlier in the year of noting errors and communicating correct procedures to the schools. This will be formalized and added to the ASB Manual, including communication to directors and the Assistant Superintendent of Business and Finance. Additional oversight and monitoring will be performed as staff resources allow.*

## **2) Resources and Support Provided to Schools**

The District could provide better support to the schools by improving upon the provision of ASB training, procedures, and other resources.

## **Recommendations**

In keeping with its responsibility to be a resource to schools for policy and procedure issues, the Accounting Department currently provides regular ASB training to fiscal specialists. However, the training is not mandatory. We recommend the District make ASB training mandatory for fiscal specialists, coaches, principals, ASB activity coordinators, and any other staff who may be responsible for ASB cash receipting activities.

The Accounting Department recently revised its *ASB Procedures Manual* as a result of the school audits conducted by Internal Audit. We recommend the following additional changes related to the *ASB Procedures Manual*:

- Update all Inside Seattle Public Schools links to the *Manual*. Currently, there are still links to the 2007 version of the *Manual*.
- The *Manual* should highlight that Superintendent Procedure 3510 requires school principals to follow the *ASB Procedures Manual*.
- As some schools have online bank accounts, online banking should be addressed in the *Manual*. Transactions such as electronic payments and wire transfers should be prohibited.
- Authorized check signers should be instructed not to sign checks made payable to them. Each check requires two signatures, but the schools should have three authorized signers available to accommodate these situations.
- The authorized check signers should be specifically instructed to not sign a check until they have verified that the supporting documentation matches exactly what is recorded on the check. This procedure will help to prevent a check custodian from obtaining check signatures before the payee and amount fields are complete.
- Canceled check images should be included with all bank statements or printed from an online account, and should be attached to the monthly bank reconciliation that is approved by the principal. This procedure will help to prevent and detect a check that is written for personal purposes.



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- The *ASB Procedures Manual* should state that the deposit form should identify which receipt numbers are being deposited.
- The *Manual* should clarify that the procedures on ticket sales apply to events where tickets are sold at the event. The *Manual* should be updated to explain the proper procedures for advance ticket sales.

**Management Response**

*We concur with the recommendations. The ASB Manual is currently under revision and will include items as recommended. The district is reviewing web based training and methods to reach all staff.*