Presented by:

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“The secret of managing is to keep the guys who hate you away from the guys who are undecided.”

Casey Stengel
Act 1599 of 2001

- Applies to Board Member, Administrators, and Employees.
- Act 1599 sets the guidelines for business transactions between the school district and its board, administrators and employees.
- May require both local board approval and state board approval.
- Refer to Arkansas Code 6-24-100 through 6-24-120 for detailed information.
Act 1599 of 2001

- The spirit of this act is to provide for full disclosure of business activities between the local school district and its board members, administrators and employees.
- Board Members and Administrators are held to higher ethical standards, since they are in a position of control.
Act 1381 of 2005

SECTION 2. Arkansas Code § 6-24-105 is amended to read as follows:

(a) General Prohibition. Except as otherwise provided, it is a breach of the ethical standards of this chapter for a board member to contract with the public educational entity the member serves if the board member has knowledge that he or she is directly or indirectly interested in the contract.

(b)(1)(A)(i) Employment of Family Members. This chapter does not prohibit family members of board members from being employed by the public educational entity the board member serves if the board determines that the employment is in the best interest of the public educational entity. A board member’s family member may not be initially employed by the public educational entity the member serves during the member’s tenure of service on the local board for compensation in excess of five thousand dollars ($5,000) unless the Director of the Department of Education issues a letter of exemption and approves the employment contract based on unusual and limited circumstances.
(ii) The determination of unusual and limited circumstances shall be at the sole discretion of the Director of the Department of Education and may be further defined by rule of the State Board of Education.

(B) A family member of a school board member who was employed by the public educational entity during the school year immediately preceding the election of the board member may continue employment with the public educational entity under the same terms and conditions of the previously executed contract and any renewal of the contract under § 6-17-1506.

(C) Subject to the local board’s written policy, a qualified family member of a board member may be employed as a substitute teacher, substitute cafeteria worker, or substitute bus driver for a period of time not to exceed a total of thirty (30) days per fiscal year for the public educational entity served by the board member.
(2)(A)(i) No employment contract that is prohibited under subsection (b) of this section is valid or enforceable by any party to the employment contract until approved in writing by the Director of the Department of Education.

(ii) The Director of the Department of Education’s approval of an employment contract may include restrictions and limitations that are by this subsection incorporated as terms or conditions of the contract.
Act 1381 of 2005

(B) Excluding any renewal of a contract under § 6-17-1506, any change in the terms or conditions of an employment contract, a promotion, or a change in employment status for a family member of a school board member employed by a public educational entity that will result in an increase in compensation of more than two thousand five hundred dollars ($2,500) must be approved in writing by the Director of the Department of Education before any change in the terms or conditions of the employment contract or promotion or changes in employment status are effective, valid, or enforceable.
WHY BOTHER?

Roslyn, New York

$11.2 million dollars stolen

Those involved:
  Superintendent
  District Treasurer
  Accounting Clerk (Treasurer’s niece)
  School Auditor
Summary Analysis of Audit Findings
Division of Legislative Audit
For the Two Years Ended June 30, 2000

- Fixed Asset Findings
- Accounting Records/Internal Control
- Employee Records/Payments
- Uncollaterized Bank Accounts
- Federal Compliance Issues
- Activity Funds
- Bids, Bonds, Architects
- Undocumented/Unauthorized Transactions
- Self Construction
- Conflicts of Interest
Summary Analysis of Audit Findings
Arkansas Department of Education
For the Year Ended June 30, 2013

- Segregation of Duties/Internal Control
- Exceeded Budget/Unallowable Costs
- Misstatements Missed by Internal Controls
- Allowable Cost/Cost Principles
- Fixed Asset Findings
- Procurement/Debarment
- Financial Statement Correction During Audit
- Federal Time Certifications
- Free/Reduced Lunch Eligibility
- Lack of Support for Records
## Comparison of Findings

### June 30, 2000

1. Fixed Asset Findings  
2. Accounting Records  
3. Employee Records/Payments  
4. Uncollaterized Bank Accounts  
5. Federal Compliance  
6. Activity Funds  
8. Unauthorized Transactions  
9. Self Construction  
10. Conflicts of Interest

### June 30, 2013

1. Segregation of Duties/IC  
2. Exceeded Budget/Costs  
3. Misstatements Missed by IC  
4. Allowable Cost/Cost Principles  
5. Fixed Asset Findings  
6. Procurement/Debarment  
7. F/S Correction during Audit  
8. Federal Time Certifications  
9. Free/Reduced Lunch Eligibility  
10. Lack of Support for Records
Other Findings As Of June 30, 2013

Failure To Get Bid/Performance Bond
Failure To Register Debt with ADE
Failure To Distribute EETF Salary To Certified Staff
Errors In Payroll Regarding Overtime And Comp Time
Unused Vacation Days Paid In Violation Of District Policy
Employees Paid Through A/P And Not Reported To IRS
Uninsured And Uncollateralized Bank Balances
Misappropriated Funds By Employees
Personnel Policy Sick Leave Payout Errors
Contracting With Business In Which Employee Has An Interest Without Board Resolution Or ADE Approval
Failure To Reconcile Bank Statements
Allowable Costs/Cost Principles

Finding:
The majority of findings in this category involved the failure to maintain periodic time certifications or monthly personnel activity reports were not prepared for employees who worked with Federal programs.

Fix:
Maintain accurate time sheets for all employees, especially those working in federal programs.
Clarksville School District  
Monthly Time Sheet

<table>
<thead>
<tr>
<th>Name:</th>
<th>Social Security Number (Last 4 Digits Only)</th>
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</thead>
<tbody>
<tr>
<td>School:</td>
<td>Source of Federal Funding:</td>
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For Month Ending July 31, 2010

(Please record the hours worked each day.)

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<tr>
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<th>Total Hours</th>
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</table>

This represents a true and accurate record of time worked.

Codes:

- S = Sick Leave
- P = Personal Leave Paid
- H = Holiday
- V = Vacation
- X = Absent without leave
- PD = Professional Development

I certify that the hours shown above reflect the actual time the employee worked for the Federally Funded Program indicated, and that the employee listed above was paid from the non-federal funds only for the hours indicated. Hours other than those spent in the Federally Funded Program were paid by other district funds.

Signature of Employee: ___________________________ Date: ____________

Signature of Supervisor: ___________________________ Date: ____________

Overtime Approval/Authorization Forms Must Be Attached To This Time Sheet
Finding:
Inadequate or Non Existent Records.

Fix:
If you have no asset records you must inventory all fixed assets and create a listing of them.
Be sure to include all known data:
   a. Date Purchased
   b. Cost
   c. Asset Tag Number
   d. Location
   e. Estimated Life
Once the asset listing is complete, you must maintain an annual recap of additions and deletions.
Recommend that the local school board adopt a capitalization policy for asset acquisitions.
Record lease/purchase in fixed asset records at the time of purchase.
Police report is needed for any stolen assets.
Finding:
Bank accounts not reconciled.

Fix:
Adopt an accounting policy of having all district bank accounts reconciled within 7 days of the end of the month. This includes any activity fund accounts.
Accounting Records

Finding:
Expenditures were made without proper documentation.

Fix:
1. Do not pay any invoices before item is received.
2. Use purchase orders and other means to insure that the items purchased were authorized by the proper personnel.
3. Make sure that the amount paid agrees with the invoice.
4. Verify that the items invoiced were received.
5. Pay only on original invoices. No photocopies.
6. Record all expenditures in the period in which they were paid.
Accounting Records

Finding:
Revenues were not properly receipted or accounted for.

Fix:
1. Deposit all monies received on a timely basis. (Preferably daily)
2. Receipt all monies as they are received by the district.
3. Record receipts in the period received.
4. In order to assist the auditor, record range of receipt numbers on the deposit slip.
5. Instruct all sponsors to turn in activity funds promptly. (Within one day is preferable)
Accounting Records

Finding:
Travel expenses are not properly documented.

Fix:
1. Document all travel and meeting expenses with original receipts.
2. Meal and motel tickets, detailing the expenditures by item, must be maintained for inspection by the auditor. Credit card slips are not adequate!
3. Travel expenses must be for school personnel and school related activities only. No payments can be made for spouse or children.
4. Adopt a district policy on amounts that can be allowed for mileage reimbursement and for meal reimbursement.
5. Try to avoid advancing cash for travel. You are much better off reimbursing an employee.
Bank Accounts Not Adequately Collateralized

Finding:

Bank accounts in excess of the FDIC insured limit were not collateralized.

Fix:

1. Instruct bank in writing that all monies deposited with their institution must be collateralized by proper securities.
2. Review monthly bank reconciliations and verify that collateralization amounts are adequate.
3. Be aware of any unusual transfers (ex: bond proceeds) that may be wired to your bank. They will need to make arrangements to have these amounts collateralized on the day received.
4. Deposit funds only in approved institutions. (Those with federal insurance guarantees)
Employee Records/Payments

Finding:
Salary schedule and contracts did not reflect actual pay practices.

Fix:
1. Pay according to salary schedule and contract amounts.
2. No salary advances.
3. Maintain accurate records on leave balances.
4. No “borrowing” from next years leave. (However, a district can establish a leave bank that employees donate to)
5. Uncompensated leave must be deducted from the current year contract.
Other Issues - Bids

1. Maintain a file for all items on which bids were taken and received. Retain proof of mailing, faxing or email, response received from vendor, and amount of bids.

2. If you accept anything other than the low bid, you should document the reason(s) that the low bid was rejected. Have the board approve any bid acceptance that is not the low bidder.
Other Issues

Lease/Rental Agreements

1. Maintain a file on all lease items.

2. Maintain a repayment schedule on all items that are acquired through a lease/purchase agreement.
Other Issues - Insurance

1. Maintain adequate insurance coverage for equipment, vehicles, buildings, etc.

2. Maintain copy of each policy and binder.

3. Maintain a copy of builders risk insurance for projects under construction.
Other Issues - Budgets

Adjust for any additional revenues received and/or expenditures incurred after original budget is complete.
INTERNAL CONTROL

- How to get rid of that irritating comment in the audit that says:

- “The District had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.”
Internal Control

- Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.
Internal Control Procedures

Separation of Duties
How to Separate Duties

- Each transaction should require more than one person for approval.
- Purchase Orders must be approved by someone other than the person placing the order.
- Invoices must be approved by someone other than the person responsible for writing the check.
- Divide a transaction into multiple steps from being initiated until completion with different people approving different steps.
Written Procedures

- Use a written accounting procedures handbook. (Green Book)
- Make sure that all administration and staff are familiar with the written accounting procedures handbook.
- Follow your written procedures.
- Any departure from the written procedures must be approved by more than one person. (Approving persons should not be party to the transaction)
Internal Control Procedures

Board Approved Policies
Board Approved Policies

- Have the local board approve your accounting policies.
- One section of your board policies should address fiscal procedures.
- Board policies should address minimum capitalization amounts.
- Board policies should address amounts that require board approval and amounts that the superintendent is allowed to approve.
Internal Control Procedures

- 1. Separation of Duties
- 2. Written Procedures
- 3. Board Approved Policies
- 4. Adherence to Items 1-3.
“That old law about “an eye for an eye” leaves everybody blind. The time is always right to do the right thing.”

Rev. Martin Luther King, Jr.
“Change is the law of life and those who look only to the past or present are certain to miss the future.”

John F. Kennedy
“Life is like a dogsled team. If you ain’t the lead dog, the scenery never changes.”

Lewis Grizzard
Definition of an Audit

Audit is a term used to describe independent and objective work done by accountants and auditors in examining or reviewing the

Fair Presentation of Financial Statements

Economy and Efficiency of Operations

Effectiveness in Achieving Program Results

Compliance with Laws and Regulations
Types of Audits

Internal - Evaluation of risk exposures relating to the school’s governance, operations and information systems regarding -

- Reliability Integrity of Financial and Operational Information
- Economy and Efficiency of Operations
- Safeguarding of Assets
- Compliance with Policies, Procedures, Laws, Regulations and Contracts

Financial - Attestation to the Fair Presentation of a School’s Financial Statements

Compliance - Assessment of Adherence to Policies, Procedures, Laws, Regulations and Contracts

Investigation - Determination Regarding the Validity of Allegations of Wrongdoing or Misuse of School Funds
Internal Audits

Who Does the Internal Audit?
Me and YOU (Us)

What Are The Objectives of An Internal Audit?
Economy
Efficiency
Effectiveness
Financial Audit

Who Does The Financial Audit?
State Of Arkansas - Division of Legislative Audit
Independent Auditors - CPA Firms

What Are The Objectives Of A Financial Audit?
Validity
Completeness
Authorization
Accuracy
Classification
Accounting
Cutoff
Compliance Audit

Who Does The Compliance Audit?

State Of Arkansas - Division of Legislative Audit
Independent Auditors - CPA Firms

What Are The Objectives Of A Compliance Audit?

Federal Regulations
  Circular A-133 Compliance
Regulatory Requirements
  IRS - Title Program Requirements - State Categorical Program Requirements
Award Terms
  Specific Grant Requirements
Investigative Audit

Who Does The Investigative Audit?

- YOU
  - Internal Audit
  - Governmental Audit Agencies
  - Federal or State
    - Division of Legislative Audit
  - IRS - FBI - Department of Justice

What Are The Objectives Of An Investigative Audit?

- Verification of the Facts
- Objectivity
- Confidentiality
Audit Process

Planning

Fieldwork

Summarization and Reporting

Follow Up
Tips on Interacting with Auditors

Listen to questions and understanding of questions before answering
Keep answers simple and direct
Be HONEST
Do not get offended by WHY questions

“Why isn’t” or “Why aren’t” - Does not mean you’re doing this wrong. It is for the most part asking “Help me understand”

Recognize they may be experts

They may be specialists in this particular area of the audit.

Recognize they may NOT be experts

This may be their first audit - so be patient
Proactive Measures to Ensure Good Audit Results

Review Your Internal Controls

Perform A Self Audit
Internal Control
How to Prevent Disastrous Audit Results?

Internal Controls

If internal controls are functioning properly, the risk of financial irregularities, non-compliance issues, misstated financial statements and ineffective and inefficient operations are greatly reduced.

The General Business Manager is responsible for the Internal Controls in your school. The Internal Audit function at your school is in a sense, your doctor providing a health check of your internal controls.
Primary Objectives of Internal Controls

Accurate Financial Information
Compliance with Policies and Procedures
Safeguarding Assets
Efficient Use of Resources
Accomplishment of Objectives and Goals
Creating the Control Environment

Create environment that fosters internal controls
Expect Ethical Behavior
Hire qualified staff
Get to know your staff
Clear assignment of responsibility/Job Description
Supervision
Clear Communication
Examples of Financial Risk:

Accounting processes
Auditing Matters
Compliance with Regulatory Issues
Falsification of reports/records
Fraud
Improper receipt of gifts
Improper vendor activity
Theft
Waste and Abuse
Misuse of Resources
Internal Control

Key Components - Control Activities

- Policies and Procedures
- Staff Training
- Organization Charts/Job Descriptions
- Performance Measures
- Segregation of Duties
  Preventing one individual from having virtually complete control over a financial process.
Internal Control

Adequate Transaction Documentation
- A record of *(paper or electronic)*
  - for Revenue
  - Receipt
  - Transfer
  - Deposit
  - for Expense
  - Purpose
  - Authorization
  - for Other

Delegation of Signature Authority
Monthly Account Status Report Reconciliation
Annual Property Inventory

Properly Designed Documentation
- Unique numbering

Independent Verification
Internal Control

Types of Controls

**Preventive Controls**
- Forestall errors and thereby avoid the cost of correction
- Discourage fraud

**Detective Controls**
- Measure the effectiveness of preventive controls
- Uncover errors and misappropriations
- Provide the means to establish accountability
Internal Control

Are Internal Controls Foolproof?

Controls will not always prevent fraud or misappropriation.

Making controls infallible is cost prohibitive and unnecessarily cumbersome.

Controls do not eliminate the “human factor”. To a significant extent, systems of internal control rely on people and their actions.
Internal Control

Real World Summary

Why Internal Controls Are Important

Provides management with confidence that the entity is operating according to standards which are monitored—someone is watching.

Indicates to staff that what they are doing is important and that QUALITY is important.

Sends a signal that certain behaviors will not be tolerated.
Cash Receipts

The term “cash receipts” includes:

Currency
Checks
Credit cards
Wire transfers

received by mail or in person
Cash Receipts Internal Controls

Audit Check List

Persons verifying the monthly Reports do not process cash receipts

Timely and adequate restrictive endorsement of checks

Documentation and procedures are sufficient so that loss or misappropriation of funds can be traced to the responsible individual(s)
Cash Receipts Internal Controls

Documentation and Procedures

Types of documentation
Pre-numbered cash receipt form
Payment log
Cash register tape using locked-in sales totals
Activity Fund Reports
Cash Receipts Internal Controls

Documentation and Procedures

**Verification Procedures**

- Depositing cash receipts timely and intact
- Independently tracing cash receipt forms, logs and/or register tapes to the receipt report
- Accounting for unsold tickets
- Maintaining control over pre-numbered receipts
- Immediate notification to the General Business Manager of detected shortages or inappropriate activity
Signature Authority Internal Controls

Audit Check List

The school has identified faculty and staff members authorized to sign documents in either paper or electronic form.

The list is up-to-date.

Principals, Superintendents, etc. understand their responsibility.

Documents are signed by the appropriate individuals at both the departmental and school levels.

Delegated faculty and staff members **sign their own name** and not the name of the Principal, Superintendent, etc.
Purchasing and Accounts Payable Internal Controls

Audit Check List

Transactions are properly approved and the stated purpose is reasonable

Invoices are submitted to Accounts Payable timely

Account Status Reports are independently reviewed for accuracy of encumbrances and charges
Payroll Internal Controls

Audit Check List

Staff members who approve or process payroll documents do not have access to payroll checks.
Payroll vouchers are properly approved by an appropriate supervisor having knowledge of the hours worked.
Payroll vouchers agree with time sheets and leave records.
Payroll vouchers are signed and approved on the last working day of the pay period.
Time cards are checked for accuracy.
Overtime if paid is allowable and approved in advance.
Time cards are not returned to employees after they are approved by supervisors.
Terminated employees are removed promptly from payroll.
New hires are processed and paid in the appropriate pay cycle.
I-9 documentation, Forms W-2, etc. are complete and on file for all employees.
Payments to Non-Employees Internal Controls

Audit Check List

The determination on the classification of an individual as either an independent contractor/consultant or employee meets the IRS criteria.

There is sufficient documentation for need, qualifications, and selection process.

The fee is reasonable considering the qualifications and services to be provided.
Travel Internal Controls

Audit Check List

Travel forms are signed by the traveler and an authorized official

Reported expenses are in compliance with the school’s policies and procedures:
  Correct per diem rates
  Forms are accurately totaled

Original receipts or other appropriate documentation attached to support charges on the Travel Expense Statement

Paid consultant travel expenses are included in the consulting contract
Meal and Entertainment Internal Controls

Audit Checklist

The purpose for these types of expenses are of a business nature rather than personal.

Expense reimbursement requests include written documentation stating the business purpose of the activity, the names of all individuals present and original receipts.

The proper object codes are used when coding various meal and entertainment expenses.

Departmental personnel approving such expenses are familiar with the school’s policies and procedures.
Property and Equipment Internal Controls

Audit Checklist

Equipment purchases are made in accordance with purchasing guidelines, properly authorized, and recorded.

Proper equipment object codes are used for equipment with a per unit cost of $1,000 or more and with a useful life of more than one year.

All School equipment has a decal that is easily visible.

Inventory Control Person is notified of:
- Donations, transfers, or fabrication of equipment
- Equipment lost, stolen, salvaged, or scrapped
- Equipment moved to an off-campus location

An annual school inventory report is completed and reconciled to the school district.
Conflict of Interest Internal Controls

Audit Checklist

All faculty and staff members have access to the School’s policies regarding conflict of interest.

Faculty and staff members know the conditions when special permission needs to be obtained before undertaking any commitment that may appear to be a conflict of interest.

Faculty and/or staff members have not made purchases with vendors where there is a personal interest or reward.

The department is free of situations where a staff member supervises or has significant control over the work or career of another staff member who is his/her relative or is someone with whom he/she shares a residence.
Information Technology Internal Controls

AUDIT CHECKLIST

Employees with access to computer systems have an established need for the access
Passwords are secure and not shared
Procedures are in place to prevent unauthorized use or transmission of information
Access to the system is removed for terminated or transferred faculty, and staff, timely
Computers located in heavily traveled public areas have a screen saver with password activation invoked
Each computer software package is licensed for the current user
Computer files are backed up on a regular basis and backup data is stored in a location away from the originals
The department has sufficient technical support for ongoing operations to keep downtime minimal
The department has adequate resumption procedures for their automated systems that are considered critical or vital to their daily operations
Remember Some Things Are Not As They Appear

Would you trust this group with your future?

Microsoft 1978
GOOD LUCK
I HOPE I HAVE HELPED

ALWAYS REMEMBER THIS!

IT IS NEVER TOO LATE
TO HAVE A HAPPY CHILDHOOD