



Office of Internal Audit

## Report to the Principal, Bethune K-8 Elementary School

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July, 2015

# **BETHUNE K-8 ELEMENTARY SCHOOL**

## Review of the Associated Student Body Fund's Financial Operations

# NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective actions to be taken will be made by the appropriate San Diego Unified School District officials.

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## Abbreviations and Acronyms Used

Administrative Aide	AA
Administrative Procedure	AP
Associated Student Body	ASB
Bethune K-8 Elementary School	Bethune
Board of Education	BOE
San Diego Unified School District	District
Office of Internal Audit	OIA

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8 July 2015

Sandra Cephas  
Principal  
Bethune K-8 Elementary School  
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The principal of the Bethune K-8 Elementary School (Bethune) requested that the Office of Internal Audit (OIA) review the financial operations of the Associated Student Body (ASB) Fund, as a result of the change of the Administrative Aide (AA). The review included the period 1 July 2014 through 30 April 2015. This report includes the results of our review work and provides a series of recommendations to the Bethune Principal to correct the causes of the conditions that we identified.

Bethune’s permanently assigned AA, whose duties included the financial operations of the ASB Fund, retired on 31 December 2014. Subsequently Bethune was assigned a temporary AA until 13 April 2015, when a new permanently assigned AA assumed the position. This high level of staffing turnover may have been a factor in the conditions that we identified in the balance of this report.

## Results in Brief

Bethune’s system of internal controls failed to provide reasonable assurance of compliance with applicable APs and the appropriate documentation of all ASB Fund transactions.

OIA’s testing of the ASB Fund transactions identified:

- Bethune’s failure to comply with the APs related to the establishment, safeguarding, and control of the change fund significantly increased the risk of asset misappropriation and manipulation; and
- Bethune did not comply with the APs regarding the transfer of dormant funds to the ASB Fund general fund denying the students use of these assets.

Additionally, we identified questioned costs of \$8,941 from the failure to appropriately document transactions, and transfer dormant accounts to the ASB Fund’s general fund. Table 1 provides additional detail on the amount of costs that we questioned.

**Table 1:** Summary of Questioned Costs

<i>ASB Questioned Costs</i>	<i>Amount</i>
Dormant Accounts	\$1,706
Missing and Inadequate Supporting Documentation	7,235
<b>Total Questioned Costs<sup>a</sup></b>	<b>\$8,941</b>

**Source:** Review of ASB Fund accounting records

**Note:** <sup>a</sup> May not add to the total due to rounding

Questioned costs are costs identified and questioned by the auditor because of an alleged violation of a provision of law, regulation,

policy or administrative procedure; a finding that the cost, at the time of the review, is not supported by adequate documentation; or a finding that the expenditure is unnecessary or unreasonable.

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## Summary of Recommendations

Our report includes seven recommendations addressed to the Principal. These recommendations include in part:

- Require that all funds received for ASB activities are receipted and deposited intact within one business day into the ASB Fund checking account;
- Require that cash collected for ASB Fund activities not be used for payments of any kind;
- Mandate that the AA comply with the requirements and process outlined in the APs for processing receipts and disbursements; and
- Require that all ASB disbursements be supported with original documentation.

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## Background

Bethune is a kindergarten through eighth grade elementary school operating with the San Diego Unified School District's (District's or SDUSD's) year-round calendar. As of 17 April 2015, Bethune enrolled 651 students and 56 employees are assigned to this school.

The ASB Fund operates solely for the benefit of the current students at Bethune. It is used to support the student's extracurricular activities, clubs and social events. The Bethune Principal, in addition to having the authority and responsibility for the operation of the ASB Fund, is the ASB Fund's sole trustee. As the trustee, the principal has the responsibility for the preservation of the ASB Fund assets for the benefit of the current students.

The ASB Fund cash balance as of 30 April 2015 was \$41,298; the general fund's portion of this balance was \$16,189. The general fund benefits the Bethune's entire student body. During our review period the ASB Fund received \$36,384 and disbursed \$38,897.

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## Objectives and Scope

Our objectives were designed to address the following questions:

- Does the Bethune ASB Fund operate in accordance with the applicable laws, regulations, Board of Education policies and administrative procedures; and
- Are the ASB Fund transactions appropriately documented, authorized, and recorded by Bethune's staff?

Our review covered the period 1 July 2014 through 30 April 2015.

The procedures that OIA applied to the data provided by Bethune were not sufficient to constitute review in accordance with generally accepted government auditing standards. The objective of such a review would be to opine on whether the ASB Fund financial statements present fairly, in all material respects, the financial position and activities of the ASB Fund. Therefore we do not, and will not, express such an opinion on the financial statements or the related data. Had we performed a review in accordance with generally accepted government auditing standards, other items may have come to our attention that we would have reported to you.

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## **Bethune's Change Fund Inappropriately Used as a Petty Cash Fund**

AP 2225, *Administration of Student Body Funds*, outlines the basic procedures that are applicable to all ASB Funds and their financial management practices. Section C.6.b of this AP (AP 2225 § C.6.b) states that:

***Management.** Student body funds shall be managed in accordance with the best business practices, including sound budgetary and accounting procedures.* (Emphasis provided)

APs in addition to providing the District' principals, financial clerks, AAs and elementary school assistants with the base requirements for processing and accounting for the ASB Fund receipts and disbursements; they describe the type documentation necessary to support the specific receipt or disbursement.

The current ASB Fund policies require that all funds be deposited within one day of receipt and that all expenses are paid by an ASB Fund check only. The current policies do permit a change fund but do not permit petty cash funds.

During our fieldwork, the Bethune staff informed us of a change fund that they had established. However, they did not record the change fund in the ASB Fund financial records. OIA was unable to reliably determine the amount of the change fund or the source(s) of the funds used to create it.

The individual performing the AA duties, as a substitute, purportedly counted the change fund on 20 April 2015 and obtained a balance of \$297.97. The permanent AA deposited \$265.97 in the ASB Fund checking account. The difference of \$32 was withheld from the deposit to reestablish the change fund with a lower amount. The Bethune staff failed to record the revised change fund in the ASB Fund books of account.

On 22 May 2015, OIA performed a surprise count of the change funds. At the time of our count, the change fund had a balance of \$12. The AA explained the differences as a payment made to a

parent who returned a gym uniform and the remaining \$10 was covered by a Bethune staff member. The AA deposited the change fund, \$22, in the ASB Fund checking account and closed the change fund.

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## **Recommendations**

OIA recommends that the Bethune Principal take the following actions:

1. Require that all ASB Fund receipts be receipted and deposited intact within one business day of the receipt of the fund.
2. Determine whether a change fund is warranted at Bethune. If the fund is warranted, require that it be recorded in the ASB Fund books of account. Conduct periodic surprise counts of the change fund and obtain and document explanations for any differences.
3. Prohibit the use of ASB Fund cash receipts for the payment of expenses of any type with the receipts.

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## **Internal Controls Impacted by Noncompliance with APs**

The general operation of the ASB Fund is governed by State of California law, State regulations, and Board of Education (BOE) policies. In order to assist the principals with their responsibilities of daily operation of the ASB Fund and their duties as the ASB Fund's trustee, the District developed APs to provide the specific practices that must be followed in operating the ASB Fund. The APs also assist in assuring that the systems of internal control function effectively.

Bethune's systems of internal control were ineffective in providing a reasonable assurance of compliance with the applicable BOE policies and District's APs. Further, the controls did not provide assurances that the ASB Fund transactions were appropriately documented and accounted for. The balance of this report discusses the absence of functional and effective systems of internal control.

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## ***Absence of Compliance with Accepted Business Practices***

Our testing protocols for the ASB Fund include reviews of records and activities related to the cash receipts and disbursements. We verified that the receipts and disbursements were processed in compliance with the applicable APs and with accepted business practices. Our testing of the Bethune ASB Fund revealed:

- Approximately 14 percent of the total receipts (\$4,862 of \$36,834) were not receipted;
- 16 duplicate copies of the supplementary receipts were removed from the receipt book;
- 2 master receipts could not be located;
- Supplementary receipts were not cross-referenced to the master receipts;
- Original supplementary receipts that were voided were not retained;

- Source(s) of the cash receipts were not included on the master receipts; and
- 41 percent of the invoices supporting the disbursements were not “cancelled” or marked paid prior to filing.

AP 2235, *Standard Student Body Receipts*, § C.2.e states:

*School shall issue receipts in triplicate for all money collected, except cafeteria funds which are controlled by cash register. The receipts must be written in sequence.* (Emphasis added)

Accepted business practices strongly encourage that complete audit and documentation trails be retained for all cash collections and receipts. This includes:

- retaining duplicate copies of all receipts whether voided or used, in the receipt book;
- retaining the original receipts that have been voided with the ASB Fund accounting records; and
- Cancelling or marking all invoices and supporting documentation “PAID” to minimize the opportunity for duplicate payments to a vendor or others.

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### ***Year End Merchandise Inventory Not Taken***

The schools with merchandise that is available for the sale to students and others are required by AP 2360 § C.2.a and accepted business practices to conduct, at a minimum, an annual wall-to-wall inventory of the saleable merchandise and to record the results of the inventory, together with any adjustments, in the ASB Fund records. The inventory results assist in determining the financial position of a “student store” and ASB Fund, as a whole. Also, the results can be used to determine the merchandise types and quantity to be ordered in the coming year.

Bethune, through the ASB Advisor, “student store sponsor”, or the AA did not take the required annual merchandise inventory at the close of 2014 school year. Generally, the merchandise inventory held by a school is a material amount in determining the financial position of the “student store” including any profit or loss from its operations. As the “student store” represents a significant portion of the ASB Fund assets and operations, the absence of ending inventory calculation impacts the reliability of the Bethune ASB Fund financial position and operations, as a whole.

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### ***Timely Review of the ASB Activity Accounts Not Performed***

As a result of not transferring dormant balances to the ASB Fund general fund account, the Bethune students were unable to use \$1,706 for other purposes and activities. Our review of the ASB Fund’s accounts identified two accounts that did not have activity

for more than one year as of 30 April 2015. Table 2 provides additional detail for these accounts.

**Table 2:** Dormant ASB Accounts

<i>Account No.</i>	<i>Account Title</i>	<i>Amount</i>
2245	Grade 5 Activity	\$ 32.33
2248	Student Council	1,674.14
<b>Total Dormant ASB Fund Balances</b>		<b>\$1,706.47</b>

Source: ASB Fund financial records

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## Recommendations

OIA recommends that the Bethune Principal take the following corrective actions:

4. Require that the AA comply with the ASB Fund APs related to the holding, processing, documenting and accounting for all cash receipts.
5. Review with the Bethune Student Council, on an annual basis all ASB Fund accounts that have been inactive for one year or more at the date of the review and (a) determine whether the account should be closed and any balance transferred to the ASB Fund general fund account; (b) obtain the Student Council’s approval to close the designated accounts; (c) document the results of the Student Council determination in their minutes for that meeting; and (d) direct the AA to close the accounts and transfer any remaining balances to the ASB Fund general fund account.
6. Require (a) the ASB Advisor. “student store sponsor”, or the AA to conduct a complete physical inventory count of all the merchandise available for sale and compile the results of the inventory; and (b) require the AA to enter the inventory results and any adjustments into the ASB Fund financial system prior to the year-end close of the system; and (c) for all significant changes in the inventory amounts ( $\pm 5$  percent) obtain and document the explanations for the change.

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## Improvements Needed in Transaction Documentation, Processing, and Approval Process

At the time of our fieldwork for this report, the Bethune system of internal controls did not provide the necessary assurances that all transactions were properly documented, processed and approved as required by various ASB Fund related APs. Specifically, we identified that improvements were needed in evidence of approvals for ASB Fund requisitions, retention of requisitions, and the documentation of ASB Fund expenditures. As a result, the Bethune ASB Fund is unable to provide a reasonable assurance that ASB Fund related expenditures are appropriately documented and supported. The U.S. Government Accountability Office’s report *Internal Control Standards in the Federal Government*<sup>1</sup> discusses the need for documentation of transactions by stating in part:

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<sup>1</sup> U.S. Government Accountability Office, formerly the General Accounting Office, *Internal Control Standards in the Federal Government*; Report Number AFMD-00-21.3.1; November, 1999



*Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. (Emphasis added)*

AP 2247, *Student Body Requisitions and Purchase Orders* requires each ASB Fund check be supported by a completed requisition form signed by the Principal, ASB Advisor or club/organization sponsor, and a representative of the student council or the club/organization. For some ASB Fund purchases an ASB Fund purchase order may also be required.

Accepted business practices also mandate that the vendor’s original invoice and evidence that the goods or services have been received before the payment is made be included with the documentation file.

In short, an individual who is unfamiliar with the ASB Fund procurement process should be able to examine the documentation supporting the check and without assistance determine the type of good or service purchased, the amount bid/negotiated, the date the good was received or the service performed, and the individuals responsible for the review and approval of the purchase of this good or service.

***Requisitions Missing Signatures or Missing from Documentation***

Based on a review of the requisitions, processed during our review period, we concluded that Bethune did not fully comply with AP 2437.

We found that six requisitions, valued at \$1,384 were missing the signatures of one or more individuals. Table 4 provides additional detail on these requisitions.

**Table 3:** Requisitions with Missing Approvals

<i>Date</i>	<i>Check No.</i>	<i>Requisition Missing Signatures</i>	<i>Amount</i>
9 Oct 14	1483	Principal	\$ 61.99
18 Mar 15	1500	Principal	148.17
18 Mar 15	1501	Principal and Activity Sponsor	108.03
18 Mar 15	1502	Principal	171.12
18 Mar 15	1503	Principal	882.86
18 Mar 15	1504	Principal	11.96
<b>Total Missing Signatures from ASB Requisitions</b>			<b>\$1,384.13</b>

Source: Review of ASB Fund financial records

Additionally, we identified that four checks, with a value of \$1,396, were not supported with requisitions. Table 4 provides detailed data on these checks.

**Table 4:** Missing Requisitions

<i>Date</i>	<i>Check No.</i>	<i>Amount</i>
5 Aug 14	1476	\$552.00
19 Sep 14	1481	450.00
22 Apr 15	1505	250.70
27 Apr 15	1506	143.58
<b>Total Missing Requisitions</b>		<b>\$1,396.28</b>

Source: Review of ASB Fund disbursement records

### ***Disbursements Inadequately or Not Supported by Documentation***

Our review identified 13 disbursements that were either inadequately supported by documentation or not supported by documentation, at all. Documentation is critical in providing the necessary assurances that the disbursement is appropriate for the ASB Fund, the goods or services were requested by the ASB Fund and received, and that the amount paid agrees with the requisition, purchase order, or bid price. Table 5 provides a list of the disbursements that we identified that did not have appropriate or sufficient documentation.

**Table 5:** Inadequate Documentation

<i>Date</i>	<i>Check No.</i>	<i>Description</i>	<i>Amount</i>
9 Jul 14	1467	P.E. Equipment Reimbursements	\$2,726.44
18 Jul 14	1470	Reimbursement of a donation	15.00
18 Jul 14	1471	Reimbursement of a donation	50.00
18 Jul 14	1472	Classroom library books	109.00
19 Aug 14	1481	Supplies for movie night	267.96
9 Oct 14	1483	Supplies for parent day	61.99
9 Oct 14	1484	Scholastic Magazine – past due	140.00
27 Oct 14	1486	Fall Festival	19.12
19 Nov 14	1488	Library books	120.00
2 Dec 14	1493	Scholastic books for the library	36.00
2 Feb 15	1497	GTT – Element Chart	13.78
18 Mar 15	1503	All American Fundraising	882.86
18 Mar 15	1504	Birthday Crowns for Students	11.96
<b>Total Inadequately Documented Disbursements</b>			<b>\$4,454.11</b>

Source: Review of Bethune’s ASB Fund disbursement records

## **Recommendations**

OIA recommends that the Principal take the following actions:

7. Require that the AA ensure that all requisitions, purchase orders and disbursements are approved and documented in compliance with the applicable APs

## **Bethune’s Comments and Our Evaluation**

We provided a draft of this report to Bethune’s Principal for review and comment. The Principal provided us with written comments, which are presented in Appendix I. We also received technical comments from the Bethune Principal and the AA that are incorporated as appropriate into the report. Bethune’s Principal agreed with our findings and recommendations. The response includes actions taken to implement the report’s recommendations;

we did not review the effect of these corrective actions, prior to the close of our fieldwork for this report.

OIA's review of the Principal's responses to the recommendations found them to be responsive and when fully implemented should address the causes of the conditions cited in this report.

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*Contributor*

Ines G. Abitria, an OIA Auditor, is the principal auditor and contributor to this report.

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Copies of this report will be provided to the Board of Education, Audit and Finance Committee, Superintendent of Public Education, General Counsel, Chief of Staff, and the Area Superintendent – Area 2. A copy of this report will be placed on the OIA webpage at [www.sandi.net/Page/29706](http://www.sandi.net/Page/29706).

Should you have any questions, please contact Ines Abitria at [iabitria@sandi.net](mailto:iabitria@sandi.net) or on 618.725.5695; or you may contact John Cashmon at [jcashmon@sandi.net](mailto:jcashmon@sandi.net) or on 619.725.5696.



John M. Cashmon  
Director, Internal Audit


# Appendix I – Response from the Principal, Bethune K-8 Elementary School



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**TO:** John M. Cashmon  
Director, Office of Internal Audit

**FROM:** Sandra Cephas  
Bethune Principal 

**DATE:** July 7, 2015

**SUBJECT:** Response to May 22, 2015 Associated Student Body Audit

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## Funds Received and Change Fund

1. **Recommendation by the Office of Internal Audit (OIA):** Require that all ASB Fund receipts be received and deposited intact within one business day of the receipt of the fund.

**Action Taken:** The new Administrative Aide (AA) ensures that all funds received are receipted and deposited daily.

2. **Recommendation by the OIA:** Determine whether a change fund is warranted at Bethune. If the fund is warranted, require that it be recorded in the ASB Fund books of account. Conduct periodic surprise counts of the change fund and obtain and document explanations for any differences.

**Action Taken:** During the audit on May 22, 2015 the remaining Cash Fund was deposited to the ASB General Account and the Cash Fund was closed. At the present time, there is no need for a Cash Fund.

3. **Recommendation by the OIA:** Prohibit the use of ASB Fund cash receipts for the payment of expenses of any type with the receipts.

**Action Taken:** Cash is no longer used for payment of any kind.

## Transaction Documentation, Processing, and Approval Process

4. **Recommendation by the OIA:** Require that the AA comply with the ASB Fund APs related to the holding, processing, documenting and accounting for all cash receipts.

**Action Taken:** The new AA ensures that all supplementary receipts and master receipts are retained and kept intact, and all secondary receipts are cross-referenced to the master receipts. Sources of cash receipts are indicated on the master receipts. A "PAID" stamp was purchased by the new AA on April 22, 2015 and this is used to cancel original invoices/receipts that were paid. Duplicate copies of all receipts are retained whether voided or used.

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# Appendix I – Response from the Principal, Bethune K-8 Elementary School

Response to May 22, 2015 Associated Student Body Audit  
Page 2 of 2

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## Timely Review of the ASB Activity Accounts

5. **Recommendation by the OIA:** Review with the Bethune Student Council, on an annual basis all ASB Fund accounts that have been inactive for one year or more at the date of the review and (a) determine whether the account should be closed and any balance transferred to the ASB Fund general fund account; (b) obtain the Student Council's approval to close the designated accounts; (c) document the results of the Student Council determination in their minutes for that meeting; and (d) direct the AA to close the accounts and transfer any remaining balances to the ASB Fund general fund account.

**Action Taken:** On May 11, 2015, the new AA communicated with the ASB advisor through email regarding dormant accounts. The new AA was advised that the 2248 Student Council account belongs to Middle School Dance account basing on the description of deposits and expenses. A Journal Entry was created to move the funds from Student Council to Middle School Dance thereby closing the Student Council account. The funds on the 2245 5<sup>th</sup> Grade account will be used by the current 5<sup>th</sup> graders for year-end activities.

## Year-End Merchandise Inventory

6. **Recommendation by the OIA:** Require (a) the ASB Advisor "student store sponsor", or the AA to conduct a complete physical inventory count of all the merchandise available for sale and compile the results of the inventory; and (b) require the AA to enter the inventory results and any adjustments into the ASB Fund financial system prior to the year-end close of the system; and (c) for all significant changes in the inventory amounts ( $\pm$  5 percent) obtain and document the explanations for the change.

**Action Taken:** On April 20, 2015, the new AA conducted an inventory of uniform T-shirt and a year-end T-shirt inventory was taken on June 30, 2015. On June 15, 2015 it was confirmed that Bethune has a total of 300 tiles, 116 of which had been decorated and the 184 undecorated tiles are kept in the library.

**Requisitions Missing Signatures or Missing from Documentation.** This has been rectified. The principal signatures have been provided.

## Disbursements Inadequately or Not Supported by Documentation

7. **Recommendation by the OIA:** Require that the AA ensure that all requisitions, purchase orders and disbursements are approved and documented in compliance with the applicable Aps.

**Action Taken:** All disbursements are now supported with proper documentation such as original receipts, invoices and signed/approved ASB requisitions.

Bethune K-8 School