



Office of Internal Audit

Report to the Principal,  
Zamorano Elementary School

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August, 2015

**ZAMORANO  
ELEMENTARY  
SCHOOL**

Review of Associated  
Student Body Fund  
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 action to be taken will be made by the appropriate San Diego Unified School District officials.

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## Abbreviations and Acronyms Used

Administrative Procedure	AP
Associated Student Body	ASB
Board of Education	BOE
San Diego Unified School District	District
Elementary School Assistant	ESA
U.S. Government Accountability Office	GAO
Office of Internal Audit	OIA
San Diego Unified School District	SDUSD
Zamorano Elementary School	Zamorano

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6 August 2015

Derek Murchison  
Principal  
Zamorano Elementary School  
2655 Casey Street  
San Diego, CA 92139

This review of the Associated Student Body (ASB) Fund was requested by the present Zamorano Elementary School (Zamorano) Principal. Both the former Zamorano Principal and the Elementary School Assistant (ESA), who had daily operational control of the ASB Fund, received other assignments. The Office of Internal Audit (OIA) undertook this review as part of our fiscal year 2015 work plan.

The review encompasses the period 1 July 2014 through 31 May 2015. This report discusses the review's findings, recommendations for corrective action, and includes the Principal's response to our findings and recommendations. We considered this response in the preparation of this final report.

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## Results in Brief

During the period we reviewed, the financial operations of the Zamorano ASB Fund were significantly flawed and placed the ASB Fund's assets at risk for waste, misappropriation, and manipulation. We identified significant noncompliance with the San Diego Unified School District's (District or SDUSD) policies and administrative procedures (APs) for the operation of the ASB Fund. In our opinion, the system of internal controls did not provide assurances that the:

- ASB Fund: complied with the applicable laws, regulations, policies and APs;
- Books of account were reliable and adequately disclosed the operations of the ASB Fund; and
- Reports produced by the ASB Fund and its accounting system were reliable and fairly presented in all material respects.

Our testing of the data revealed that the:

- ASB Fund's failure to comply with the APs related to the safeguarding and processing of collections exposed these assets to significantly increased risks of manipulation and misappropriation;

- Failure to properly classify and account for receipts and disbursements significantly distorted the financial position of the ASB Fund and the balances of general fund and the individual trust and activity accounts;
- Absence of compliance with the prescribed APs for accounting for student funds resulted in Zamorano students being denied the use of ASB Fund general fund, trust, and activity accounts assets.

We identified questioned costs of \$13,718 that resulted from the: (a) failure to transfer dormant accounts to the ASB Fund’s general fund; (b) inappropriate transfers of a dormant trust account to the Faculty account within the ASB Fund; and (c) failure to appropriately document the ASB Fund transactions. These questioned costs represent approximately 67 percent of the cash position of the ASB Fund as of 31 May 2015.

During our fieldwork for this project, we were able to identify and initiate the recovery of \$1,014. These funds were inappropriately expended from the ASB Fund. Additional information is provided on page 10.

For the purpose of this review, we defined questioned costs as those costs identified and questioned by the auditor due to an alleged violation of a provision of the law, regulations, District policies, or APs; a finding that a cost, at the time of the review, is not supported by adequate documentation; or a finding that the disbursement is unnecessary or unreasonable. Table 1 provides additional detail for the questioned costs identified in this report.

**Table 1:** Summary of Questioned Costs

<i>Questioned Costs</i>	<i>Amount</i>
Dormant Accounts	\$ 4,356
Inappropriate Transfer of Dormant Accounts	3,329
Improper Classification of Accounts	963
Inadequate or Missing Supporting Documentation	5,070
<b>Total Questioned Costs Identified</b>	<b>\$13,718</b>

**Source:** Review of Zamorano’s ASB financial records

## Summary of Recommendations

To assist in resolving the findings identified in this report OIA addressed eight recommendations to the Zamorano Principal. These recommendations include in part:

- Require all ASB Fund receipts to be receipted and deposited within one business day of receipt;
- Mandate that cash collected for “Lost Textbooks” be deposited an appropriately titled account for transfer to the District’s Finance Department, at year end.

- Require that the ESA comply with all the ASB Fund related internal controls receipt and disbursement procedures for the operation of Zamorano's ASB Fund ; and
- Require that all ASB Fund disbursements have original documentation to support the disbursement.

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## Background

Zamorano is an arts magnet elementary school for students from Kindergarten through the 5th Grade. The school operates on the District's year round calendar and as of 12 June 2015 the enrollment was 1,248 students and staff of 98 individuals.

This review is conducted at the request of the current Principal, who assumed these duties on 11 May 2015, and is limited to the financial operations of the ASB Fund. The ASB Fund operates by and for the benefit of Zamorano's current students, to fund the extracurricular student events, student clubs and organizations, and at the elementary school level provides enhancements to District's instructional programs.

Zamorano's Principal is responsible for the daily programmatic and financial operations of the ASB Fund. Additionally, the Principal, as the sole trustee, is responsible to ensure that the ASB Fund's activities are solely for the benefit of the school's current students.

As of the close of our review period on 31 May 2015, the ASB Fund's cash balance was \$20,436. The unadjusted balance of the ASB Fund's general fund was \$3,805. During the review period ASB received \$9,320 and disbursed \$11,596.

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## Objectives and Scope

Our review's objectives were to:

- Verify that the ASB Fund operated in compliance with the applicable laws, regulations, District policies, and APs; and
- Verify that the transactions are appropriately documented, authorized and recorded.

We reviewed the transactions processed through the Zamorano ASB Fund during the period 1 July 2014 through 31 May 2015, as necessary we expanded the testing to fulfill our review's objectives.

The procedures and testing that OIA applied to Zamorano's ASB Fund data were not sufficient to constitute a review in accordance with generally accepted government auditing standards. The objective of which is an expression of an opinion on the completeness and accuracy of the Zamorano ASB Fund data, as a whole; we do not and will not express such an

opinion. Had we performed a review in accordance with generally accepted government auditing standards, other matters may have come to our attention that we would have reported to you.

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## Internal Controls for Cash Negatively Impacted by Not Issuing and Retaining Cash Receipts

The operations of the ASB Fund are controlled by AP 2225, *Administration of Student Body Funds*. Section C.6.b of this AP (AP 2225 § C.6.b) requires that:

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

The process for receipting and documenting collections are covered by several, ASB Fund related, APs and best business practices.

The APs, located at <http://www.sandi.net/page/250>, provide the principals and Elementary School Assistants (ESAs) with the base level requirements for receipting, processing, and accounting for the ASB Fund receipts. The APs also provide a description of the documentation necessary to support the receipt. For example AP 2235, *Standard Student Body Receipts*, § C.2.e requires that schools issue a receipt, in sequence, to all individuals providing monies to the ASB Fund. Section D.1, of the same AP, provides the procedures for processing the receipt of the funds by stating:

*Secretary or financial clerk<sup>1</sup> issues student body receipt at time money is collected, entering activity or fund involved, purpose of collection, and name of person or organization from whom the money was received; distributes copies of the receipt as follows:*

- a. Original to person or organization from whom money was received.*
- b. Duplicate is retained in school office for posting to ASB books and for file in numerical sequence for audit review.*

During our review period, the ASB Fund received and deposited \$9,320 in the ASB Fund's checking account. However, the former Zamorano ESA did not issue or retain the cash receipts to support the collections received. These practices resulted in OIA not able to determine whether all of the collections were deposited into the checking account. Additionally, we are unable to determine the source of the collections and whether

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<sup>1</sup> For the purposes of this report, the position title elementary school assistant (ESA) is synonymous with financial clerk.

they were properly reported and accounted for by the ESA. The absence of the receipts significantly increased the risk of asset manipulation or misappropriation.

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## Recommendations

The Zamorano Principal should take the following corrective actions:

1. Require that cash receipt slips be prepared and copies retained, as required by AP 2235 § C.2.e, for all collections received for the ASB Fund.
2. Mandate that documentation supporting the receipt of the funds be retained with the copies of the cash receipt slips as required by AP 2235 § D.1.

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## Absence of Compliance with the APs Increased the Risk to the ASB Fund

### *Use of the ASB Fund's Cash Receipts*

Zamorano, during our review period, generally did not comply with the ASB Fund related APs and best business practices. We identified that:

- Available collections were used to refund lost book charges;
- Cash collections were recorded in the wrong account;
- Cash collections for multiple purposes were recorded in the same account; and
- All disbursement documentation and supporting invoices were not cancelled or marked "PAID" prior to filing.

AP 2235 § C.2.e states, in part, that:

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

AP 2247, *Student Body Checks*, § C.3 discusses the restrictions on the use of cash receipts to pay for expenses and reimbursements by stating:

*Payment of all bills shall be by prenumbered check; cash collected by the student body shall not be used for the payment of any kind. All checks shall be drawn to a named*

*payee (never to “Cash”). Supporting documentation for all disbursements are to be marked “paid” to prevent duplicate payments. (Emphasis provided)*

Using pre-numbered documents (cash receipts and checks) in sequence allows Zamorano to determine whether a particular document has been issued, has been entered into the ASB Fund’s accounting system, and that all documents have been fully accounted for. Additionally, it reduces the amount of staff time required to determine whether a particular document was issued.

***Erroneous Classification of Receipts, Disbursements, and Transfers Distorted the Financial Position of the ASB Fund***

Classification of Receipts and Disbursements

Best business practices and compliance with accounting standards requires that the ASB Fund’s books of account properly reflect the balances within each account. The reflection of the correct account balances in the ASB Fund financial records is critical as the District’s policy is that trust and activity account within the ASB Fund must not have a negative balance, at any time.

Our review of the transactions found that seven collections, totaling \$637.70 (7 percent of total receipts) were misclassified in the books of account. Table 2 provides detail on these receipts.

**Table 2: Misclassified Receipts**

<b><i>Date</i></b>	<b><i>Account Posted To</i></b>	<b><i>Proper Account</i></b>	<b><i>Amount</i></b>
10 Jul 14	2203 – Principal’s Discretionary Fund	3000 – General Fund	\$102.75
10 Jul 14	2205 – Faculty	3000 – General Fund	15.85
21 Jul 14	2205 – Faculty	2200 – 5 <sup>th</sup> Grade	90.00
6 Nov 14	2205 – Faculty	3000 – General Fund	82.50
30 Jan 15	2203 Principal’s Discretionary Account	3000 – General Fund	97.75
2 Mar 15	2205 – Faculty	2203 – Principal’s Discretionary Account	222.60
27 Apr 15	2205 – Faculty	3000 – General Fund	26.25
<b><i>Total Misclassified Receipts</i></b>			<b><i>\$637.70</i></b>

**Source:** Analysis of ASB Fund receipts

Additionally, the ASB accounts for Lost Books and Pencils were inappropriately combined. As a result, Zamorano was unable to accurately determine the amount received from students and due to the District for the lost books and the amount available, from Pencil sales, for use in the ASB Fund.

Furthermore, testing of the ASB Fund disbursements identified inappropriately charged disbursements. These disbursements totaled \$325 during our review period. Table 3 provides additional detail for these improperly classified disbursements.



**Table 3:** Misclassified Disbursements

<i>Date</i>	<i>Check</i>	<i>Account Posted To</i>	<i>Proper Account</i>	<i>Amount</i>
29 Aug 14	1704	2205 – Faculty	3000 – General Fund	244.49
	1705		2203 – Principal’s Discretionary Account	32.68
	1706		3000 – General Fund	47.67
<b>Total Misclassified Disbursements</b>				<b>\$324.84</b>

**Source:** Analysis of ASB Fund Disbursements

Questionable Transfer of Club Account Funds

AP 2225 § C.6.n states that:

***Trust account balances.** All balances remaining in the trust account of any club or organization one year after the club or organization has been disbanded or has been inactive for one year shall be reviewed by the principal or designee and the student council, and subject to extenuating circumstances, shall be transferred to the Student Body General Fund. (Emphasis provided)*

Our testing found that \$3,329, the balance of a dormant account for the sale of school tee shirts was inappropriately transferred to Zamorano’s faculty account. This transfer did not comply with the process delineated in AP 2225. Table 4 provides additional detail.

**Table 4:** Inappropriate Transfer

<i>Date</i>	<i>Account Posted To</i>	<i>Proper Account</i>	<i>Amount</i>
29 Aug 14	2205 Faculty	3000 – General Fund	\$3,328.73

**Source:** Analysis of ASB Fund financial records.

As a result, as of 31 May 2015, the financial positions of the faculty account and the principal’s discretionary account were overstated by \$3,441 and \$11 respectively. The ASB Fund’s general fund and 5<sup>th</sup> Grade accounts were understated by \$3,362 and \$90 respectively.

***Timely Review of Dormant ASB Accounts Not Conducted***

The former Zamorano Principal did not conduct a complete review of the dormant ASB trust and club accounts as required by AP 2225 § C.6.n. Our review of the financial records found six dormant accounts with remaining balances of \$4,356. Table 5 provides additional detail for the accounts in question.

**Table 5:** Inactive Trust, Club, and Organization Accounts

<b>Account</b>	<b>Account Title</b>	<b>Amount</b>
2208	Yearbook	\$ 351.12
2209	Jog-a-thon	3,012.36
2220	Kindergarten	298.00
2221	Grade 1	438.78
2222	Grade 2	20.00
2257	Gate Fieldtrip	236.00
<b>Total Inactive Trust, Club, and Organization Balances</b>		<b>\$4,356.26</b>

**Source:** Review of the ASB Fund books of account

As previously stated, AP 2225 § C.6.n requires that principal or a designee review at least annually the dormant ASB trust, club and organization accounts to determine which accounts should be closed and the balance transferred to the ASB Fund’s general fund account.

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## **Conclusion**

The failure of the former principal and the ESA to comply with the applicable APs for the classification of receipts, disbursements and transfers of dormant account balances resulted in the significant misstatement of financial positions of several accounts within the ASB Fund.

Our testing disclosed that, as of 31 May 2015, the ASB Fund’s general fund and 5<sup>th</sup> Grade accounts were understated by \$3,362 and \$90 respectively. Conversely, the Faculty and Principal’s Discretionary accounts were overstated by \$3,441, \$11, respectively. Further, the failure to transfer the balances from the potentially dormant accounts denied the students the use of \$4,356. These distorted balances may have impacted any decision made by Zamorano’s former principal in the use of the ASB Fund and deprived the students from the use of the general fund balance.

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## **Recommendations**

The Principal should take the following corrective measures:

3. Require the ESA to comply with the APs related to the processing of receipts and disbursements in the ASB Fund.
4. Establish separate accounts within the ASB Fund for funds received for Lost Books and those received from the Pencil sales.
5. Mandate the ESA, within 30 days of this final report, make the necessary adjusting entries to restate the financial position of the trust, organization, and club accounts within the ASB Fund.
6. Evaluate those accounts inactive for more than one year, that remain open in the ASB books of account, determine the accounts that should be closed and transfer any remaining balance to the ASB Fund’s general fund.

## Improvements Needed in the Documentation of Transactions

Zamorano’s systems of internal control to ensure that all of the ASB Fund disbursements were appropriately documented were ineffective. At the time of our review, the controls did not provide a reasonable assurance that the disbursements were appropriate for the ASB Fund and were appropriately documented. Specifically we identified:

- \$4,374 of disbursements processed without supporting documentation for the transactions. These disbursements represent 38 percent of the total disbursements included in the review; and
- \$696 of additional disbursements that were issued without adequate documentation including invoices, order statements, evidence of receipt, etc.

AP 2225 § C.6.b requires that principals and schools to comply with best business practices in the management and operations of the school’s ASB Fund. Best business practices include ensuring that transactions are adequately documented to provide evidence that the goods and services purchased were appropriate for the ASB, that the goods or services were actually received and met the quantity ordered or the expected level of service, were appropriately approved by the principal, etc.

Table 6 provides additional information on the disbursements that did not have documentation to support the validity of the amount paid by Zamorano. Table 7 provides detail on the disbursements that were inadequately supported.

**Table 6:** Missing Documentation

<i>Date</i>	<i>Check</i>	<i>Description</i>	<i>Amount</i>
10 Jul 14	1693	Next Day Printed Tees	\$1,743.47
14 Jul 14	1694	Santee Lake Recreation Preserve	591.00
8 Sep 14	1709	Purchase of a TV for Staff Lounge	907.50
4 Dec 14	1717	Refund of Zamorano holiday party	35.00
10 Dec 14	1719	Tasty Pizza	57.00
17 Dec 14	1720	Murietta’s Restaurant	1,040.00
<b>Total Disbursements Missing Documentation</b>			<b>\$4,373.97</b>

**Source:** Review of ASB Fund disbursements and documentation

**Table 7:** Inadequate Documentation

<i>Date</i>	<i>Check</i>	<i>Description</i>	<i>Amount</i>
15 Jul 14	1697	Props, masks, food for Festival	\$ 31.25
15 Jul 14	1698	Student Parade props and masks	44.72
19 Dec 14	1724	Toy incentives	290.09
19 Feb 15	1730	Autograph Books for Class of 2015	329.78
<b>Total Disbursements with Inadequate Documentation</b>			<b>\$695.84</b>

**Source:** Review of ASB Fund disbursements and documentation

OIA identified that check 1709, written to the former principal and dated 8 Sep 14, was charged to the faculty account in the amount of \$1,013.88. Zamorano issued this check to the former principal as a reimbursement for items that he/she purchased, ostensibly for the benefit of the faculty and beautification of the campus. The items were said to include a television for use in the faculty lounge and materials for a beautification project. The documentation provided was limited to two receipts for the campus beautification project. The remaining receipts were missing. Additionally, the former ESA told OIA that the disbursement amount was over-stated by \$240, due to a miscalculation. She stated that she attempted to have the check returned but it had been negotiated shortly after receipt.

Further, OIA when inquiring as to the location of the television was told it was determined to be defective and returned to the vendor. We found no evidence to support that the funds were returned to the ASB Fund or the defective unit was replaced with a new unit.

During an interview, with the former principal on 5 June 2015, regarding the operations of the ASB we inquired regarding the status of the funds used to purchase the television. The former principal immediately sent a check, for \$1,013.88, to the current principal to reimburse the ASB account. The former principal sent the check to the current principal for processing.

Additionally, our testing found that the absence of documentation for adjusting entries to the accounting records significantly increased the risk of manipulation of funds within the ASB accounts. We identified that three journal vouchers were recorded without supporting documentation, as a result Zamorano is unable to provide a reasonable assurance that adjustments were appropriate, necessary, and verified prior to entry into the ASB Fund accounting system.

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## Recommendations

OIA recommends that the Zamorano Principal take the following actions:

7. Require that all disbursements be supported with original documentation and that the documentation be presented prior to the check being signed.
8. Require that the ESA obtain the written approval for the journal vouchers before posting to the ASB Fund accounting system.

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## Zamorano's Comments and OIA's Evaluation

On 23 July 2015, we provided a draft of this report to Zamorano's Principal for his review and comments. The Principal provided us with written comments, which are presented verbatim on the following page. He generally concurred with our recommendations and stated that he would undertake a number of corrective actions.

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 final 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 District's web page at <http://www.sandi.net/Page/29706>

Should you have questions or need additional information, please contact Ines Abitria at [ibitria@sandi.net](mailto:ibitria@sandi.net) or via telephone at 619.725.5695, or you may contact me at [cashmon@sandi.net](mailto:cashmon@sandi.net) or on 619.7253.5696,



John M. Cashmon  
Director, Internal Audit



August 5, 2015

To Whom It May Concern:

In response to the Audit Report by Ines G. Abitria, an OIA auditor, who is the principal auditor and contributor to this report and John M. Cashmon, Director, Internal Audit, SDUSD I will do the following:

1. I will require that my ESA implement the practice of depositing and receipting all ASB Fund receipts within on business day of receipts of any funds designated for the ASB.
2. I will mandate that cash collected for "Lost Textbooks" be deposited and appropriately titled account for transfer to the District's Finance Department, at year end.
3. I will require that the ESA comply with all the ASB Fund related internal controls receipt and disbursement procedures for the operation of Zamorano's ASB Fund; and I will require that all ASB Fund disbursements have original documentation to support the disbursement.
4. I will verify that the ASB Fund operates in compliance with the applicable laws, regulations, District policies, and APs.
5. I will verify that the transactions are appropriately documented, authorized and recorded.
6. I will require that cash receipt slips be prepared and copies retained, as required by AP 2235 C.2.e, for all cash received for the ASB Fund.
7. I will mandate that documentation supporting the receipt of the funds be retained with the copies of the cash receipt slips as required by AP 2235 D.1.
8. I will require that the ESA will comply with APs related to the processing of receipts and disbursements in the ASB Fund.
9. I will make sure that we establish separate accounts within the ASB Fund for funds received for Lost Books and those received from the pencil sales.
10. I will mandate that the ESA, by the end of the calendar year of this final report, make the necessary adjusting entries to restate the financial position of the trust, organization and club accounts with the ASB Fund.
11. I will evaluate those accounts inactive for more than one year, that remain open in the ASB books of account, determine the accounts that should be closed and transfer any remaining balance to the ASB Fund's general fund.
12. I will require that all disbursements be supported with original documentation and that the documentation be presented prior to the check being signed.
13. Finally, I will require that the ESA obtain written approval for the journal vouchers before posting to the ASB Fund accounting system.

Please contact me at (619)430-1400 or [dmurchison@sandi.net](mailto:dmurchison@sandi.net) if you have any questions.

Sincerely,

*Derek Murchison*

Derek Murchison

