Top 10 Risks
School Districts Face

Introduction

A measure of student performance is reflected in the grades they receive. If you had to grade your district's performance related to how well it manages and controls the financial risks it faces, would it pass?

You may assume your district's financial internal controls are designed and operating well to prevent mismanagement and misappropriation. Hopefully that is the case, but are you confident and willing to risk the future of your district on an assumption? As evidenced by recent state audit reports, many school districts have made that assumption and are now finding out they were wrong and that district assets and resources are now at risk. In this white paper we will address 10 risks facing school districts and how to strengthen controls within each area to avoid putting your district at risk.

The Issues

Brown Smith Wallace researched state audit reports issued in the past year for Illinois and Missouri and found some overall trends. Ten issues were reported the most. These issues are risks faced by every district. By increasing your awareness of these risks and providing you with suggestions to mitigate and monitor these risks, we hope to help you avoid mistakes made by others. Every district is unique, so we encourage each district to perform an individual risk assessment to determine the risks that directly impact it. That way, the district can implement and strengthen controls to monitor and mitigate those risks. Following is a discussion of each of the ten most reported issues.

1. Cash Controls

Cash deposits were not always made in a timely manner. Bank accounts were not being reconciled.

- Risks faced:
    - Not depositing cash in a timely manner can result in opportunities for fraud and errors to go undetected.
    - If left un-reconciled, bank accounts present many areas for fraud to occur.
- Suggestions:
    - School districts should deposit cash in the bank in a timely manner.
    - A manager should oversee the process to ensure it is taking place regularly.
    - The bank statements (cash accounts) should be reconciled monthly to identify any discrepancies.
    - Someone other than the person who receives or deposits cash into the bank account should do the reconciling.

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2. Procurement Cards

Non-district employees were included on district accounts and credit limits were not appropriate based on job description. There was a lack of adequate management review, and approving officials did not appear to be monitoring and approving accounts as required.

- Risks faced:
  - o Districts that do not have tight controls around procurement cards are subject to increased liability and financial losses, not to mention an opportunity to be featured in the local media for spending funds in a careless manner.

- Suggestions:
  - o School districts should ensure that management reviews and approves each procurement card request.
  - o Basic controls should be established in policy; the types of allowable charges and the documentation required to support each charge should be well defined.
  - o Management should monitor charges and ensure the procurement card statements are reconciled to appropriate source documentation monthly.

3. Expenditures

Expenses were charged to the wrong fiscal year and expense reports had errors and duplicative charges. There was a lack of adequate management review.

- Risks faced:
  - o Charging expenses in the wrong fiscal year can cause the financials to be misstated.
  - o Expense reports which are not properly reviewed for compliance with district policies can cause unallowable expenses or duplicative expenses to be paid to employees, resulting in financial loss.

- Suggestions:
  - o School districts should ensure that management reviews transactions near the end of the fiscal year to ensure they are credited in the appropriate fiscal year.
  - o Also, expense reports should be reviewed by management to determine if each expense is deemed appropriate and complies with the district's purchasing policy. If no such policy exists, it should be created.

4. Segregation of Duties

There was a lack of proper segregation of duties. Individuals were accepting cash payments and crediting such fees collected to accounts (i.e., student activity fees, lunch fees).

- Risks faced:
  - o This improper segregation of duties can result in theft and financial loss to the school district.

- Suggestions:
  - o School districts should ensure duties are properly segregated to ensure the person collecting cash is not also the same person posting fees collected to accounts.

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5. Capital Assets

School districts were not performing annual inventory counts to determine what assets they still possess. As a result, some school districts continue to pay utilities on closed buildings and pay for equipment they are no longer using (i.e., copy machine).

- Risks faced:
    - Failure to properly monitor capital assets can cause a School District to waste scarce funds.
- Suggestions:
    - School districts should implement an annual inventory process to properly monitor and track all assets.

6. Fuel Use

School districts were not tracking fuel purchases and lacked policies for bus transportation, and non-district owned vehicles were fueled with district fuel. There were multiple instances in which school district employees used school district resources (fuel and vehicles) for their own personal use. It was also noted in several instances that there were no policies in place to determine when to use school district bus transportation, resulting in school districts paying for bus service as well as outside transportation.

- Risks faced:
    - Not maintaining up-to-date policies and procedures around fuel purchases and usage and failing to monitor fuel use resulted in school districts overpaying for fuel.
- Suggestions:
    - School districts should reconcile fuel purchases and usage to invoices.
    - A fleet management system should be implemented to track fuel usage by vehicle.
    - Clear policies should be developed to dictate when district-owned vehicles should be utilized.

7. Computer Controls

School districts did not require user passwords for computers and computer systems did not track invalid login attempts. Computers and the associated data contained on such devices pose a rather large threat to any school district.

- Risks faced:
    - Data which is not properly safeguarded with proper due diligence can result in increased liability for the District resulting in large financial losses.
- Suggestions:
    - School district information technology departments should implement uniform policies and procedures to ensure each staff member is required to have a password and change it on a regular basis.
    - In addition, systems should keep track of any invalid access attempts which should be promptly investigated.

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8. Attendance Monitoring

School districts were cited for not having proper attendance controls. Several school districts' attendance systems allowed staff members to modify attendance records at any time during the year; others could not be relied upon as they contained inaccurate information.

- Risks faced:
  - Not properly tracking and monitoring attendance can have detrimental effects, including the potential loss of state funding.
- Suggestions:
  - A school district should review its attendance tracking system to ensure it has proper safeguards (such as not allowing modifications after 30 days, or requiring supervisor review).
  - In addition, school districts should, on a routine basis, reconcile the attendance system to ensure records are accurate.

9. Internal Audit

School districts did not have an internal audit function (or outsource function) in place.

- Risks faced:
  - Not having an internal audit function can result in school districts not properly monitoring internal controls that were put in place to protect the district from errors or losses.
- Suggestions:
  - Internal audit provides an independent and objective assurance function that plays a critical role in testing processes to ensure internal controls are operating as intended and effectively to prevent and detect errors and losses.
  - School districts should consider developing an internal audit function or contracting out for internal audit services.

10. School Safety

School district policies and procedures were outdated and lacked essential items. In addition, IT security was lacking (i.e., servers and data not properly secured), and security policies related to information security were outdated and had not kept up with advancing technology as well as recent threats.

- Risks faced:
  - Not having appropriate IT security controls places school districts in an extremely vulnerable position with legal and regulatory compliance, as servers contain extremely sensitive and confidential data.
- Suggestions:
  - School districts should perform an initial risk assessment to determine what security controls are lacking.
  - Once identified, the district IT staff and management should be responsible for implementing and monitoring these controls.

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Conclusion

The good news is that there are steps every school district can take to help avoid errors, loss or theft. Leaders need to set expectations regarding ethics, have the right policies and internal controls in place, and provide proper oversight and monitoring to ensure the success of the district.

For More Information

Ron Steinkamp, CPA, CIA, CFE, CRMA, CGMA, leads the Brown Smith Wallace risk advisory services government industry team. With over 20 years of experience, Ron has worked extensively with federal, state and local government agencies to develop, enhance and direct internal audit functions, implement process improvement initiatives, conduct compliance reviews, lead and perform operational and construction audits and complete fraud investigations. He is supported by additional subject matter experts, making Brown Smith Wallace the largest and most experienced firm to serve the risk management needs of governments throughout the Midwest.

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