

<p>Massachusetts Department of Elementary and Secondary Education</p> <p><u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u></p>	<i>ESE Audit Guidelines</i>
	Index

INFORMATION CONTACT: Massachusetts Department of Elementary and
Secondary Education (ESE)
Contact: Jay Sullivan
Phone Numbers: (781) 338-6594
Email: jsullivan@doe.mass.edu

<u>Index</u>	<u>Pages</u>
<i>Agreed Upon Procedures/Audit Guidelines</i>	
Overview	2
Administration	4
Stewardship and Custodial Responsibility	8
General Operating Procedures	11
Revenue, Receipts and Deposits	14
Purchasing and Disbursements	18
Class, Inactive Accounts and Deficits	22
Student Travel	25
 <i>Appendixes</i>	
A: Frequently Asked Questions	28
B: Massachusetts General Laws Chapter 71 Section 47	34
C: Sample Report for Use for Audits Conducted Internally	36
D: Common Problems	38
E: Revolving and Other School Department Programs	39

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Overview

OVERVIEW

Preface

A program of activities (student activity accounts) established by a School Committee should: (1) Ensure that students have an opportunity to take part in co-curricular and outside-classroom experiences, (2) Provide efficient procedures for their creation, operation and demise, and (3) Outline a system for the safeguarding, accounting and internal control of co-curricular and outside-classroom activity funds.

Chapter 66 of the Special Acts of 1996, which is codified in Section 47 of Chapter 71 of the General Laws of Massachusetts (MGL), has had a major impact on the method in which student activity accounts are administered. The law allows the use of certain administrative procedures that were previously prohibited. These provisions include procedures with respect to: (1) Establishment of an interest bearing bank account and a checking account through the involvement of the City/Town/District Treasurer, (2) Certain disbursement procedures, and (3) Auditing and reporting requirements.

There is a value to students who perform functions and handle monies belonging to student groups. The exposure the students receive is a valuable learning experience in control and administration of accounts. In addition, expeditious access of student account funds is critical to meet the goal of providing co-curricular activities to students in a timely manner. Recognizing that student activities' monies belong to the students and not to the city/town/districts illustrate the need for sound business guidelines to be developed to govern these accounts to adequately control and safeguard these monies.

These audit guidelines have been developed to provide school business officials and outside independent auditors with a vital resource that will assist them in the process of conducting agreed upon procedures of the internal control system in place used to administer student activity accounts as well as the annual transactions and activities of those accounts.

The Massachusetts Association of School Business Officials (MASBO) has published a handbook entitled: *Student Activity Accounts Guidelines For Massachusetts School Districts*. Many of the concepts outlined in these audit guidelines were developed to coincide with the guidelines delineated within that handbook.

The handbook is available for download at <http://www.doe.mass.edu/finance/accounting/> and it is suggested that users of these audit guidelines familiarize themselves with this handbook prior to conducting any procedures.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Overview

Related Massachusetts General Laws (MGLs) [See Appendix B and E]

It is recommended that the users of these audit guidelines become familiar with the following MGLs as their applicability may closely approximate and relate to the student activity accounts. The list is not intended to be all inclusive of the laws that may apply, but is intended to be used for informational purposes only in assisting the user to reach a conclusion:

- Chapter 66 of the Special Acts of 1996 – Student Activity Accounts (see Appendix B)
- MGL 44, Section 53 – Lost Textbook Revolving Account
- MGL 44, Section 53A – Grants and Gifts
- MGL 44, Section 53E ½ – Revolving Funds
- MGL 71, Section 17A – Revolving Funds For Culinary Arts Programs
- MGL 71, Section 37A – Acceptance of Grants or Gifts
- MGL 71, section 47 – Revolving Funds for Athletic programs and School Organizations
- MGL 71, Section 71C – Community School programs revolving accounts
- MGL 71, Section 71E – Adult Education and Continuing Education Revolving Accounts
- MGL 74, Section 14B – Culinary Arts and Other Vocational Technical Revolving Funds
- MGL 268A – Conflict of Interest
- Chapter 548 of the Special Acts of 1948 – School Lunch Revolving Account

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Administration

I. ADMINISTRATION

A. ESE Policy Guideline or MGL Requirement:

- The School Committee should adopt policies and procedures for the creation, operation, control and public reporting of student activity accounts. These policies should be reviewed periodically and amended when necessary. The accounts by statute are the responsibility of the school principal and thus it is the direct responsibility of the principal to ensure that the statute, School Committee policies, and administrative procedures are fully adhered to in all aspects of operating student activity accounts.

Agreed Upon Procedure/Audit Guideline:

1. Inquire and obtain evidence suggesting that policies have been adopted by the School Committee. Evidence should be included in School Committee minutes through a School Committee vote.

Results:

Evidence of a School Committee vote was obtained.

Yes No

If **Yes**, obtain policies and procedures, and go to step 2.

If **No**, report a finding.

2. Review formal policies and procedures and determine if they are effective; consider the following:
 - a. Policies must require adequate internal control to ensure protection of student monies.
 - b. Policies must be complete and satisfy MGL.
 - c. Policies must only govern student activity money and not money that is governed under other MGL. (see related Massachusetts General Laws and Appendix E)
 - d. Procedures should be developed that support policy and provide for segregation of duties.
 - e. Policies and procedures must be updated when applicable.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Administration

Results:

Formal policies and procedures are determined to be adequate.

Yes No

If **Yes**, determine if policies and procedures are enforced.
If **No**, report a finding.

B. ESE Policy Guideline or MGL Requirement:

- Although not required, it is good practice for the School Committee to approve each student activity annually. This should be done before the start of the school year unless activities are new and created during the year. The approval should include specific funding sources and objective/mission for each activity.

Agreed Upon Procedure/Audit Guideline:

1. Obtain a listing of each active student activity and inquire if each student activity has been approved annually by the School Committee or if new, was approved during the year. Evidence should be included in the School Committee minutes through a School Committee vote.

Results:

Evidence of School Committee vote was obtained.

Yes No

If **No**, report a finding.

C. ESE Policy Guideline or MGL Requirement:

- A student activity account may be used for funds raised by student organizations which will be expended by those students for their benefit. Funds raised or donated that are governed by laws other than the student activity laws cannot be deposited to a student activity account (See section on related Massachusetts General Laws and Appendix E.) In addition, funds belonging to staff through sunshine funds or vending machines or other activities not related to the students may not be deposited in the student activity account.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Administration

Agreed Upon Procedure/Audit Guideline:

1. Obtain a listing of each active student activity. From this list, determine source of funding and objective of each student activity. Evaluate if funds have been properly deposited into the student activity account or if funds are more appropriately classified as revolving, gift, grant or other type of fund.

Results:

All programs are proper student activities and deposits have been properly deposited into a student activity account.

Yes No

If **No**, report a finding.

D. ESE Policy Guideline or MGL Requirement:

- An accounting system for the student activity funds must be implemented and in a sufficient manner to facilitate basic reconciliation and control procedures. An accounting system may be an off-the-shelf accounting application, a properly designed electronic spreadsheet or for smaller student activity accounts, a manual system. The determination of the appropriate accounting system will vary school by school based on a variety of factors including volume and frequency of student activity transactions and the skills of those in charge with administering the day-to-day accounting for student activities.

Agreed Upon Procedure/Audit Guideline:

1. Through inquiry and observation, verify that the accounting system used for the student activity funds will facilitate the following:
 - a. Accurate recording and reporting of cash receipts and disbursements by each student activity fund in the school student activity ledgers;
 - b. Recording of a general cash and/or investment account that can be reconciled with the bank checking account for student activity maintained by the Principal, combined with the agency savings account maintained by the City/Town/District Treasurer; and
 - c. General cash and/or investment accounts in aggregate can be reconciled to the aggregate detailed fund accounts within the student activity fund recorded for and held by each student activity.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Administration

Results:

An assessment of the accounting system in place has determined that it will facilitate the critical items listed above.

Yes No

If **No**, report a finding.

E. ESE Policy Guideline or MGL Requirement:

- The qualifications of the individuals involved with processing, recording and reporting student activity account transactions is adequate, and an ongoing process of training is in place to ensure that these individuals maintain the required level of skills to possess such duties.

Agreed Upon Procedure/Audit Guideline:

1. Through inquiry, determine if all individuals who process, record, and report student activity transactions possess the skills necessary to perform the duties in an adequate manner.

Results:

All individuals who process, record and report student activity accounts have the suitable skills to perform the duties in an adequate manner.

Yes No

If **No**, report a finding.

2. Through inquiry, determine if there is an ongoing process of training in place.

Results:

An ongoing process of training is in place to ensure that all individuals maintain the necessary skills to perform these duties in an adequate manner.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Stewardship and Custodial Responsibility

II. STEWARDSHIP AND CUSTODIAL RESPONSIBILITY

A. ESE Policy Guideline or MGL Requirement:

- Section 47 of Chapter 71 of MGL as amended by Chapter 66 of the Special Acts of 1996, requires that once the School Committee has accepted the provisions of this law, an agency account must be set up by the City/Town/District Treasurer. These are generally established as an interest bearing savings account, and, if authorized by the School Committee, a checking account which acts as an imprest (replenishment) account to be administered by the School Principal.
- Maximum checking account fund levels are established and annually voted on by the School Committee.
- All deposits for fund raising and other student activities must be deposited in the agency account with the City/Town/District Treasurer. Disbursements may be made from either account.
- The Principal may request replenishment of the checking account to the maximum established balance by presentation of a funds request to the City/Town/District Treasurer, accompanied by invoices or other support for disbursements previously made from the checking account.
- The Principal or their designee who are designated to operate and control the student activity checking account shall give bond for faithful performance to the municipality or district in such amount as the City/Town/District Treasurer shall determine to secure the Principal's faithful performance of their duties in connection with such account. Annually, the School Committee should authorize any such designees and ensure bond coverage.
- There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the School Committee and the auditor based upon guidelines issued by ESE. In addition, ESE recommends the audit be performed by an outside independent audit firm once every three years for those with activities greater than \$25,000. In the intervening years, the audit may be conducted by a responsible individual independent of the student activities, with the approval of the School Committee. Such an individual could be the Town Accountant, who already has audit powers under MGL Chapter 41 the Treasurer, or the School Business Manager if the School Business Manager is not involved in the administration or transactional processing of the student activities.

<p><u>AGREED UPON PROCEDURES AND AUDIT</u> <u>GUIDELINES:</u> <u>STUDENT ACTIVITY FUNDS</u></p>	<p><i>ESE Audit Guidelines</i></p>
	<p>Stewardship and Custodial Responsibility</p>

Agreed Upon Procedure/Audit Guideline:

1. Determine if the School Committee has accepted the provisions of Section 47 of Chapter 71 of MGL; evidence should be included in School Committee minutes through a School Committee vote or obtain certification of vote.

Results:

Evidence of School Committee vote was obtained.

Yes No

If **No**, student activities should be administered through a legally established non-profit organization; otherwise, report a finding.

2. Determine that all student activity deposits are made to an agency account maintained by City/Town/District Treasurer.

Results:

All student activity deposits were made to the agency account maintained by the City/Town/District Treasurer.

Yes No

If **No**, report a finding.

3. Determine if the School Principal has properly made requests for replenishment of funds to the imprest checking account including submission of original invoices or equivalent supporting documentation.

Results:

Requests for replenishment to checking account are made in proper manner.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Stewardship and Custodial Responsibility

4. Review selected checking account bank statements to determine if checking account balances ever exceed amounts established by the School Committee.

Results:

Does the checking account balance ever exceed the amount established by the School Committee?

Yes No

If **Yes**, report a finding.

5. Determine if the School Principal and/or their designee (if applicable) have given bond to the City/Town/District Treasurer for faithful performance, and that all designees have been properly authorized by the School Committee.

Results:

Evidence of the School Principal and/or their designee (if applicable) securing or being secured by a fidelity bond exists.

Yes No

If **No**, report a finding.

6. Determine if the annual audits have been performed, either by an outside independent audit firm or as is permissible, internally. Evidence of this may be obtained from reports developed as a result of the process.

Results:

Verify evidence that an annual audit process exists and has been conducted.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	General Operating Procedures

III. GENERAL OPERATING PROCEDURES

A. ESE Policy Guideline or MGL Requirement:

- Section 47 of Chapter 71 does not address the adoption of specific policies or procedural guidelines, but does require adherence to administrative procedures as may be prescribed. ESE makes recommendations to maintain minimum general operating procedures in the administration of student activities including:
 - Bank reconciliations must be done at least quarterly (preferably monthly). A copy of the bank reconciliation should be sent to the School Business Administrator, School Committee, student officers, and City/Town/District Treasurer. Sign-offs must be performed by preparers and reviewers;
 - Standardized forms should be used for deposits and disbursements whenever possible;
 - The School Committee and School Business Administrator should establish periodic reporting timelines. Financial reports should be created and submitted in accordance with those guidelines to the School Committee, School Business Office, Town Accountant, Treasurer and the individual student activity class/club advisors;
 - The School Principal shall maintain individual subsidiary accounts by program within the student activity control account. This will allow proper matching of program expenditures against revenues that are collected for that purpose as well as allow for the efficient determination of the program balance;
 - Aggregate subsidiary account balances should be reconciled no less than quarterly to the total control account, and;
 - Total control account balances should be reconciled no less than quarterly to the aggregate total of the School Principal's reconciled checking account and the agency account maintained by the Treasurer.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	General Operating Procedures

Agreed Upon Procedure/Audit Guideline:

1. Through inquiry, observations, and review of sample bank reconciliations, determine if bank reconciliations are prepared at least quarterly and sent to the appropriate parties for review; and that sign-offs by both preparer and reviewer are included in the process.

Results:

Evidence was obtained that at least a quarterly bank reconciliation process is in place and that sign-offs by both preparer and reviewer are made.

Yes No

If **No**, report a finding.

2. While gaining an understanding of the internal control processes in place, determine if standard forms for deposits and disbursements are used.

Results:

Deposit and disbursement transactions are completed and documented using standard forms.

Yes No

If **No**, report a finding.

3. Through inquiry and analysis, determine if a requirement for the preparation and periodic submission to the School Committee, School Business Office, Town Accountant, Treasurer and the student activity class/club officers of financial reports exists; and if such policy is adhered with.

Results:

Financial reporting requirements are in place and are functioning as intended.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	General Operating Procedures

4. Through inquiry and analysis, determine if subsidiary student activity account detail is maintained and if the aggregate of the subsidiary accounts are reconciled to the control account on a monthly basis.

Results:

Subsidiary student activity account detail is maintained and reconciled monthly to control activity.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Revenue, Receipts and Deposits

IV. REVENUE, RECEIPTS AND DEPOSITS

A. ESE Policy Guideline or MGL Requirement:

- The receipts process is most susceptible to theft and abuse since cash collections for student activities are normally decentralized, and individuals collecting cash are often young students inexperienced with cash handling.
- ESE recommends strict procedures for control of all receipts and should include at a minimum, the following controls:
 - Receipts generated from the sale of a high volume product such as the yearbook or admission to a highly attended event like the prom or other dance or ball, should be controlled through the use of pre-numbered receipts.
 - A reconciliation process should be in place whereby pre-numbered receipts, tickets, attendance logs or other revenue source documents are reconciled to cash collected for particular activities prior to making a deposit in the bank. In the situation where it is impractical to use source documents, two people should count the cash and sign off on the process.
 - The cash collection and deposit function should be segregated from the accounting and recording function.
 - All student organizations receiving monies from any source should turn over such money to the School Principal or the Principal's designee within twenty-four hours from receipt of such funds. (If received on the weekend, then on the first business day after receipt of the funds.)
 - Any money not deposited on the same day must be kept overnight in a locked vault, safe, or other secured locked area - **under no circumstance, should student activity monies be taken home overnight.**
 - All money turned over to the school by a student organization shall be accompanied by a school deposit slip stating the source of the monies, the amount being deposited, and signed by the person turning over the money to the office. If turned in by a student, this should be co-signed by the group advisor or a teacher, who should also keep a duplicate of the deposit slip.
 - The School Principal or the Principal's designee should deposit into the agency account all monies received from student activity organizations at a minimum

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Revenue, Receipts and Deposits

on a weekly basis. Written evidence of receipt should be obtained from the City/Town/District Treasurer.

- Interest earned by the student activity agency account shall be retained by the student activity fund. The use of the aggregate earnings shall be at the discretion of the School Committee for the benefit of the students and shall be so stated in the School Committee policy.
- An ongoing philosophy of the importance of handling money with care, honesty, and accuracy should be conveyed to the students, advisors and teachers through roundtable meetings and educational trainings.
- Money collected for purposes other than student activities shall not be deposited into the student activity account and must be handled by the MGL that governs its administration.
- Any monies paid to the school or to a student activity as commissions or revenue sharing belong to the students and shall be deposited into the student activity agency account. Such funds shall be expended for the benefit of the students in accordance with School Committee policies and may not be spent to benefit the staff or to supplement the school budget. Refer to Frequently Asked Questions Q4 for the appropriate treatment of these revenues.
- A policy must be adopted by the School Committee that specifies how any other undesignated receipts will be distributed and such receipts must be deposited into the student activity agency account. No student activity revenues will be deposited into the School Principal’s checking account.

Agreed Upon Procedure/Audit Guideline:

1. Through inquiry of the School Principal or their designee, document the process by which receipts are administered in order to gain an understanding of the internal control process in place. In addition, while conducting the inquiry, determine if the following have been addressed or developed:
 - a. Determine if pre-numbered receipts, tickets, and attendance logs are used;
 - b. Determine if any pre-numbered receipts or tickets were skipped and investigate why;
 - c. Determine if a reconciliation process is performed between pre-numbered receipts, tickets, and attendance logs and the funds being turned over;
 - d. Determine that in situations when pre-numbered receipts, tickets and

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Revenue, Receipts and Deposits

attendance logs are not practical, that two responsible people have each counted the cash received;

- e. Determine if funds collected for student activities are turned over to the School Principal's Office within twenty-four hours;
- f. Determine if funds not immediately turned over are stored in a secure location;
- g. Determine if the School Principal is turning funds over to the City/Town/District Treasurer agency account weekly (at a minimum);
- h. Determine if an interest earned policy exists and is documented;
- i. Determine if a commission or revenue sharing policy exists and is documented;
- j. Determine if a policy for undesignated earnings exists and is documented; and
- k. Determine if a philosophy exists through ongoing training that monies are to be handled with care, in an accurate manner.

Results:

Document any findings that may exist as a result of any deficiencies discovered based on the understanding of the control process in place for receipts conducted in the above steps 1.a. – 1.k.

- 2. Make a sample selection of receipts to test. This sample population should be a representative sample of receipts that are made from the school deposit slips. If possible, the sample should be made from the population of duplicate deposit slips maintained by the class advisor.

Results:

Document any findings that may exist as a result of the testing of receipts in step 2.

- 3. Upon determination of the samples to be tested, perform the following procedures on each sample:
 - a. Is the receipt amount included on the deposit slip?
 - b. Is the deposit included in the bank statement?
 - c. Does the deposit amount agree with the accounting system's records?
 - d. Is the receipt for a proper student activity account?
 - e. Is the receipt recorded to the proper subsidiary activity in the student activities' ledger?
 - f. Was a pre-numbered receipt used?
 - g. Were the funds remitted within twenty-four hours or within the next business day (if a weekend day) to the principal's office?

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Revenue, Receipts and Deposits

- h. Were the funds remitted by the principal's office to the City/Town/District Treasurer's agency account within one week?
- i. Is the receipt accompanied by a school deposit slip?
- j. Is there written evidence of receipt of the deposit from the City/Town/District Treasurer?
- k. Is a duplicate of the school deposit slip maintained by the advisor and signed by the advisor?

Results:

Document any findings that may exist as a result of any deficiencies discovered in the above steps 3.a. – 3.k.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Purchasing and Disbursements

V. PURCHASING AND DISBURSEMENTS

A. ESE Policy Guideline or MGL Requirement:

- MGL 71, Section 47 gives the responsibility for the establishment of student activity accounts to the School Committee and the enforcement of School Committee policies to the School Principals; such is the case with purchasing and disbursements. It is important that disbursement policies are sound, controlled, and designed to benefit only the students.
- In order to accomplish this goal, ESE recommends the following at a minimum are in place:
 - Advance of funds should be avoided whenever possible. If it is anticipated that an advance is necessary, prior written approval must be obtained from the School Principal.
 - Equipment and supplies purchased with student activity funds are the property of the student activity groups and not any individual student or other organization. Equipment and supplies purchased with student activity funds should be used exclusively for co-curricular student activities and not for the general use of School operations.
 - Student advisors, or others involved in purchasing, may not benefit personally from any purchasing – either directly or indirectly.
 - Student activity funds may not be used for any purpose unrelated to student activities or for the benefit of any staff person.
 - All disbursements shall be made by check.
 - The policy adopted by the School Committee should specify the method or methods to be used to pay for expenses, including how to handle the reimbursement of funds when personal credit cards are used. (This is important because of the potential “reward” benefits the credit card holder may accrue).
 - Disbursements exceeding \$600 in aggregate to any one individual or entity must be reviewed to determine if a Form 1099-MISC. is required. Process should be coordinated with the Town Accountant or Treasurer to ensure compliance.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Purchasing and Disbursements

- Checks may not be written to cash.
- Checks shall be signed only after they are completely prepared.
- Check signature authority shall be in accordance with School Committee policy. Consideration should be given to require two signatures for individual disbursements made over a certain dollar amount.
- Individuals responsible for writing checks should be segregated from the record keeping and reconciliation process; or assurances should be made that other mitigating controls are in place such as a monthly review of all activity by an independent responsible individual.
- All disbursements are required to have adequate external supporting documentation such as a vendor invoice, bill contract or receipt.
- A record of all checks will be maintained, including void checks. Numerical order of checks should be retained.
- Checkbook reconciliations should be performed monthly.
- A standardized form should accompany all requests for check issuance.
- The standardized form shall be accompanied by the supporting documentation and must state to whom the check shall be payable, the reason for the payment, the amount of the check, the student activity account to be charged, and the approval signature of the advisor or student officer.
- All requests for replenishment to the School Principal imprest checking account must be adequately supported and processed through the City/Town/District accounts payable warrant process.

Agreed Upon Procedure/Audit Guideline:

1. Through inquiry of the School Principal or their designee, document the process by which disbursements are administered in order to gain an understanding of the internal control process in place. In addition, while conducting the inquiry, determine if the following have been addressed or developed:
 - a. Determine if disbursement policies are established by the School Committee.
 - b. Determine if all disbursements require the Principal's (or his designee's)

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Purchasing and Disbursements

- approval.
- c. Determine if all disbursements require supporting documentation.
 - d. Determine if cash advances are prohibited.
 - e. Determine if standard requests for disbursements are prepared.
 - f. Determine if student activity funds are used on student activities.
 - g. Assure that steps are in place to prohibit advisors or other individuals involved with purchasing to personally benefit in any way.
 - h. Determine if all purchases are recorded and check records are maintained.
 - i. Determine if all void or missing checks are accounted for.
 - j. Determine who the authorized signers on the account are. Consider contacting the bank to confirm.
 - k. Determine if a competitive process for purchasing is encouraged.
 - l. Determine if disbursements may only be charged against the accounts for which funds have been designated.
 - m. Determine if segregation of duties exists between the check writer and the individual who reconciles the bank statements. If not, determine if there are mitigating controls in place to limit risks.

Results:

Document any findings that may exist as a result of any deficiencies discovered based on the understanding of the control process in place for disbursements conducted in the above steps 1.a. – 1.m.

2. Make a selection of disbursements to test. This sample population should be a representative sample of disbursements selected from the school check register.

Results:

Document any findings that may exist as a result of the testing of disbursements in step 2.

3. Upon determination of the samples to be tested, perform the following procedures on each sample:
 - a. Is the disbursement accompanied by a standard request form for disbursement signed by the advisor or student treasurer?
 - b. Is the disbursement accompanied by adequate supporting documentation (i.e., vendor invoice or receipt)?
 - c. Was the disbursement approved by the Principal? How was the Principal's approval evidenced?

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Purchasing and Disbursements

- d. Does the disbursement agree to the amount in the accounting system?
- e. Does the disbursement agree to the amount debited on the bank statement?
- f. Is the disbursement agreed to and supported by a cancelled check?
- g. Is the cancelled check properly endorsed by an authorized signer?
- h. Is the disbursement an appropriate use of student activities monies?
- i. Is the disbursement charged against the proper student activity account?
- j. Although not legally required, as a best practice, was the purchase procured competitively?
- k. Has anyone other than the students benefited from the disbursement?
- l. If the disbursement is made to an individual and the disbursement causes that individual to equal or exceed \$600 in total disbursements, has a Form 1099-MISC been issued to the individual?
- m. Does the disbursement properly exclude any payments for sales tax?

Results:

Document any findings that may exist as a result of any deficiencies discovered for the procedures conducted in the above steps 3.a. – 3.m.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Class, Inactive Accounts and Deficits

VI. CLASS, INACTIVE ACCOUNTS AND DEFICITS

A. ESE Policy Guideline or MGL Requirement:

- It is ESE’s opinion that, because graduates are no longer students, monies for student class grades that have graduated cannot be legally maintained in student activity accounts. ESE recommends that the School Committee approve a policy that specifies how these funds shall be disposed of upon a class’ graduation. Notification of the manner of disposition should be given to the class officers and all students who contribute to the class accounts. Such policy should specify how long the class account should remain active after graduation (i.e. 90 to 180 days after graduation to permit the school to pay all class obligations). After the waiting period, the policy should specify if and how the remaining funds will be transferred to the graduates, if the funds will revert to other student activity groups (such as the incoming senior class), or other specific disposition instructions.

Agreed Upon Procedure/Audit Guideline:

1. Through review of School Committee policies, determine the policy for disposition of class accounts.
2. Obtain listing of all individual student activity accounts and scan the listing for class accounts for students who have already graduated.
3. Determine if disposition is in accordance with School Committee policies.

Results:

Disposition of class accounts that have already graduated is in accordance with School Committee policy.

___ Yes ___ No

If **No**, report a finding.

B. ESE Policy Guideline or MGL Requirement:

- Any student activity inactive for a period of three (3) years or more, and for which there has been no receipts or disbursements recorded on their behalf, shall require the following actions in order to be closed:

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Class, Inactive Accounts and Deficits

- Written notification by the advisor or student officer to the School Principal or other authorized administrator that the activity will cease to be a viable account. If an advisor or student officer is not available, such discontinuance shall be by vote of the School Committee.
- All assets of the recognized student activity shall be identified and stated in writing.
- Any disposition of assets of an inactive recognized student activity shall be determined by the School Committee, but in no case shall the disposition benefit specific individuals.
- Such policy will be communicated to the students who contribute to the accounts, when possible.

Agreed Upon Procedure/Audit Guideline:

1. Through review of School Committee policies, determine the policy for disposition of inactive accounts and its reasonableness.
2. Obtain listing of all individually listed student activity accounts. Scan listing for accounts that do not have any activity and review prior years' activity for those accounts to determine if they are inactive.
3. Determine if disposition is in accordance with School Committee policies.

Results:

Disposition of inactive accounts is in accordance with School Committee policy.

Yes No

If **No**, report a finding.

C. ESE Policy Guideline or MGL Requirement:

- Individual activity accounts should not be permitted to be in a deficit position because such a position becomes a liability to other individual activities or possibly to future classes. ESE recommends that the School Committee develop a policy for remedial action whenever a deficit not resulting from timing exists.

<p><u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u></p>	<i>ESE Audit Guidelines</i>
	Class, Inactive Accounts and Deficits

Possible remedial action could include funding from the following sources:

- School Committee appropriation;
- Accumulated investment earnings;
- Surpluses of inactive accounts;
- Gift from an activity with a surplus balance through approval of the advisor; or
- Any other legal means.

Agreed Upon Procedure/Audit Guideline:

1. Through review of School Committee policies, determine the policy for the remediation of individual student activity deficit balances and its reasonableness.
2. Obtain listing of all individually listed student activity accounts. Scan listing for accounts and determine if any have deficit balances.
3. Determine if disposition of deficit balances is in accordance with School Committee policies.

Results:

Disposition of deficit balances is in accordance with School Committee policy.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Student Travel

VII. STUDENT TRAVEL

A. ESE Policy Guideline or MGL Requirement:

- The School Committee should adopt policies and procedures for student travel related to student activities (i.e. field trips, overnight, and abroad). The policy should address how travel is to be authorized, the method or methods of paying travel expenditures, and final accountability for all travel costs associated with a trip.
- The following should be included in the travel policy:
 - A request for travel authorization and funding must be prepared well in advance of the time the funds are needed.
 - The request should be submitted by the advisor or other person responsible for the activity trip; furthermore, the request should be approved by the School Principal in accordance with policy established by the School Committee.
 - Travel Authorization Forms should contain at least the following: date of request, date funds needed, destination and purpose of trip, estimated departure and return times, number of persons traveling, estimate of cash required for tips and other various sundry items, estimate of expenses, signature of person requesting authorization, signature of person authorizing the request, check number and date of payment, and signature of the School Principal.
 - The approved travel authorizations are to be submitted to the School Principal or their designee to ascertain that sufficient funds are available.
 - Approved Travel Authorization Forms should remain in a pending file until final accountability for the trip has been completed.
 - The policy adopted by the School Committee should specify the method or methods to be used to pay travel expenses, including how to handle the reimbursement of funds when personal credit cards are used. (This is important because of the potential “reward” benefits the credit card holder may accrue).

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Student Travel

- A statement of final accountability must be submitted by the authorized trip sponsor promptly after the completion of the trip. Final accountability statements should include at least the following: date; notation of advance funds received (if applicable - amount, date, and check number); complete listing of itemized expenditures paid - together with documentary evidence of payment; totals of cash or checks expended; notation and totals of credit card or open account expenses (if applicable); the amount returned to the student activities if advances received exceed documented expenditures; the amount of additional reimbursement requested if travel expenses incurred exceed travel advances received; signature of person completing final accountability statement and signature of School Principal or their designee to indicate that there has been an acceptable final accountability.

Agreed Upon Procedure/Audit Guideline:

1. Through a review of the School Committee policies, determine if the policy for student travel is adequate.

Results:

School Committee policies related to student travel are adequate.

Yes No

If **No**, report a finding.

2. Test a sample of travel expenditures and determine that the travel is properly authorized, that there is a final accountability for all travel and there is documentation supporting all disbursements.

Results:

Student travel expenditures are properly authorized, with final accountability and supporting documentation.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Student Travel

3. Determine that travel expenditures are in accordance with School Committee policies.

Results:

Travel expenditures are in accordance with School Committee policies.

Yes No

If **No**, report a finding.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix A: Frequently Asked Questions

APPENDIX A

Frequently Asked Questions

Q1: Are student activity disbursements subject to Chapter 30B procurement laws?

No. It is ESE’s opinion that Chapter 30B of the General Laws of Massachusetts does not pertain to purchases made with student activity funds because private purpose funds are exempt from Chapter 30B. While this exemption exists, ESE strongly encourages a competitive procurement process whenever possible.

Q2: May a student activity organization accept gifts and donations?

Yes. It is ESE’s opinion that gifts to recognized student activities can be deposited into the student activity agency account and expended in accordance with the local school committee’s policies for expenditures from such student activity account.

It is recommended to have gifts under a specific threshold accepted by the Superintendent and gifts over this threshold accepted by the School Committee.

Gifts to other than student organizations are governed by Section 53A of Chapter 44 of the General Laws of Massachusetts.

Q3: May grants and gifts be accepted by a student activity organization for educational purposes?

No. Under the provisions of Section 53A of Chapter 44 and Section 37A of Chapter 71 of the General Laws of Massachusetts, all grants and gifts for educational purposes shall be deposited with the City/Town/District Treasurer and held as a separate account by the municipality or district and not included within student activity funds.

Q4: May the student activity organizations conduct fund raising activities?

Yes and No. Fund-raising activities should be held in accordance with School Committee policies and for the benefit of students to supplement student activities.

If fund raisers are held to supplement operations, such as supplies, books and other operating costs, then they are considered part of the curriculum and will fall under Section 53A of Chapter 44 of the General Laws of Massachusetts and considered a gift to the municipality or district.

<p><u>AGREED UPON PROCEDURES AND AUDIT</u> <u>GUIDELINES:</u> <u>STUDENT ACTIVITY FUNDS</u></p>	<p><i>ESE Audit Guidelines</i></p>
	<p>Appendix A: Frequently Asked Questions</p>

An example of this is a box top promotion that many organizations run. This promotion is typically designed to raise money for classroom supplies for students and thus, if designed in that manner, cannot be deposited into a student activity fund. In order to be properly considered a student activity deposit, the objective of the program must clearly state that the funds raised will be used for student activities. The same applies for reward programs based on parents signing up at retail establishments and popular restaurants resulting in the school receiving a percentage of what is purchased by the parent or family member.

Q5: Does the City/Town/District annual audit of its finances by an outside auditor satisfy the requirement that there shall be an annual audit conducted of the student activities?

No. Chapter 71 Section 47 of the General Laws of Massachusetts requires that an annual audit shall be conducted in accordance with procedures as agreed upon between the School Committee and the auditor. It is ESE’s opinion that since the City/Town/District annual audit is very broad in scope, and is only exposed to the agency activity, which is a fiduciary relationship only, that such an audit does not satisfy the degree of procedures required under Chapter 71 Section 47. However, it is ESE’s opinion that such procedures defined under the law may be performed internally by a responsible and qualified individual appointed by the School Committee who is independent of the student activities, with the caveat that at least once every three years the procedures should be performed by an outside independent auditor if student activity balances exceed \$25,000.

Q6: Please provide examples of individuals that ESE believes are suitable to perform the audit in the intervening years.

ESE believes that upon approval from the School Committee, that the City/Town/District Accountant or equivalent, the City/Town/District Treasurer, the School Business Manager (if not involved with the student activities), the Internal Auditor or a member of the Audit or Finance Committee are all examples of suitable individuals to conduct the student activities’ audit in the intervening years.

Q7: May a school district rotate schools subject to the annual audit requirements each year to reduce costs?

Yes. Each school’s student activity funds are subject to the audit described in Chapter 71 Section 47. Therefore it is ESE’s opinion that schools may be rotated with respect to the outside audit component of this requirement on an annual basis.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix A: Frequently Asked Questions

Q8: Can a City or Town Treasurer force an audit as described in Chapter 71 Section 47 of the student activity funds?

No. Since the annual audit is a process agreed upon by the School Committee and the auditor, the City or Town Treasurer may not force an audit of the student activity funds as described in Chapter 71 Section 47. This is enforceable by the School Committee only.

Q9: What happens when an account becomes overdrawn and shows a deficit balance?

Fund accounts should not be permitted to become overdrawn because the overdraft becomes a liability to other funds and to future classes. Whenever a fund account becomes nearly depleted, remedial action should be ordered immediately by the School Committee.

Q10: Are PSAT fees considered revolving funds or student activities?

Student Activities. Since the participation in a PSAT is optional and not part of the normal curriculum, if fees from the PSAT are approved as a benefit to the students by the School Committee, they may be used to supplement the student activities and may be deposited into the student activity account.

Q11: Can lost book fees be deposited into a student activity account?

No. Lost book fees are statutory revolving funds governed under MGL Chapter 44 Section 53 and like all statutory revolving funds, they may not be deposited into the student activity account. A listing of all statutory revolving funds may be reviewed under “Related Massachusetts General Laws” on page 3 of the audit guidelines and Appendix E.

Q12: Are the fees generated from a PTO account subject to Chapter 71 Section 47?

No. Since these are set up as PTO accounts, they are most likely set up as a legally established non-profit organization and thus do not fall within the jurisdiction of Chapter 71 Section 47. However, a close review of the relationship should be performed, since many schools set up PTO accounts, and do not establish a legal non-profit organization and further administer the activity through a City/Town/District bank account without the knowledge of the City/Town/District Treasurer. In these situations, these are not PTO accounts, but are in fact student activity accounts and do fall under Chapter 71 Section 47.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix A: Frequently Asked Questions

Q13: Is each Student Activity required to be approved each year by the School Committee or only once at creation?

No. Chapter 71 Section 47 does not provide guidance on the annual election of student activities by the School Committee once created; however, ESE believes that it is good practice to annually elect each activity account at the beginning of the school year since school committees have substantial turnover, and philosophies change from school committee to school committee, year to year.

Q14: May the proceeds from the sale of merchandise in a school store be deposited into a student activity account?

Yes and No. Since school stores are not governed by any specific MGL, it is ESE’s opinion that if the activity is administered by the students and the School Committee authorizes the proceeds to be used for the benefits of the students, then the proceeds from this activity may be deposited into the student activity account. If not, then these must be accounted for as revolving funds.

Q15: Are vending machine proceeds from machines situated in the school buildings included as part of student activities?

No. It is the opinion of ESE that vending machines are purchases of items that are consumed and, therefore, should be governed under Chapter 548 of the Acts of 1948 – School Lunch Revolving Funds. Accordingly, these proceeds may not be deposited into student activity accounts.

Q16: May student accounts be used to pay stipends or other payroll?

No and Yes. Payroll must be paid from the general operating budget and may not be paid from student activities. Stipends, if approved by the School Committee and directly benefit the students, may be paid from student activities accounts, however the compensation received for such activities must be included as taxable wages on the employee’s W-2.

Q17: Is the student activity required to adhere to IRS reporting with respect to backup withholding taxes and Form 1099-MISC?

Yes. A student activity organization is subject to the rules related to backup withholding taxes and Form 1099-MISC reporting.

<p><u>AGREED UPON PROCEDURES AND AUDIT</u> <u>GUIDELINES:</u> <u>STUDENT ACTIVITY FUNDS</u></p>	<p><i>ESE Audit Guidelines</i></p>
	<p>Appendix A: Frequently Asked Questions</p>

A process should be in place whereby W-9s are received from all vendors, and Form 1099-MISCs are distributed when appropriate in accordance with IRS regulations each January, for the previous calendar year’s payments. This should be performed in conjunction with the City/Town/District Treasurer.

Q18: In my school, the Principal puts all deposits into one general ledger account and spends from this same general ledger account for any purpose. Is this proper?

No. It is ESE’s opinion that each student activity has its own specific mission and funds are collected to support the viability of that mission. Therefore, it is critical that a subsidiary ledger is created to properly match expenditures against the funds that are collected for that purpose in order to allow advisors the transparency to determine the amount of funds available at any specific time. Based on this, funds should not be accounted for in only one general account.

Q19: Is it proper to purchase supplies with student activity funds?

No and Yes. Student activity funds are expressly set up to benefit the student and may not be used to supplement the operating budget or any other curriculum expenditure. However, if the supplies are purchased specifically for the use of a student activity club or organization in connection with their stated goals, then it is permissible.

Q20: Should the student activities avoid making large reimbursements to sole individuals?

Yes. The payment of large reimbursement checks to any one individual should be avoided. In addition to the control risks this presents, there is also the risk that an individual utilizes their credit card to make the purchase and then accrue credit card “rewards” which may create a conflict of interest. In the event that reimbursements are made in situations that are not avoidable, these must first be approved by the principal.

Q21: My school often gives individuals blank checks when going to the supermarket for refreshments for club functions because the amount is not known. Is this proper?

No. The issuance of blank checks should be prohibited in any situation. Efforts should be made to have the vendor set up an account and bill the student activity, or request that the individual purchase the goods and accept reimbursement upon the evidence of supporting documentation.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix A: Frequently Asked Questions

Q22: My District has over 25 schools. Do all these schools need to be audited under Chapter 71 Section 47?

No. It is ESE’s opinion that from a practical sense, all schools within the District whose activities exceed \$25,000 annually must be audited while those schools whose activity is less than \$25,000 will be audited using a representative sample. Those that are audited by the independent auditor may also be audited on a rotating basis, as discussed in a previous FAQ.

Q23: May a student activity disburse funds to a charitable organization?

Yes: The “anti-aid” amendment to the Massachusetts Constitution (Article 46, as amended by Article 103 of the Articles of Amendment) prohibits the use of public money or property “for the purpose of founding, maintaining or aiding any infirmary, hospital, institution, primary or secondary school, or charitable or religious undertaking” that is not publicly owned and controlled. *However, since student activities are private money, they are exempt from the provisions of this requirement.* ESE does believe any contributions from student activity money should be approved by the School Committee.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix B: MA General Law Chapter 71 Section 47

APPENDIX B

Massachusetts General Law Chapter 71 Section 47

The committee may supervise and control all athletic and other organizations composed of public school pupils and bearing the school name or organized in connection therewith. It may directly or through an authorized representative determine under what conditions the same may compete with similar organizations in other schools. Expenditures by the committee for the organization and conduct of physical education, athletics, sports, games and play, for providing proper apparatus, equipment, supplies, athletic wearing apparel, including appropriate souvenir garments and trophies, and facilities for the same in the buildings, yards and playgrounds under the control of the committee, or upon any other land which it may have the right or privilege to use for this purpose, and for the employment of experienced athletic directors to supervise said physical education, athletics, sports, games and play, shall be deemed to be for a school purpose. Expenditures by the committee for making special awards to pupils who have performed meritoriously in the fields of art, debating, distributive education, music, science, social studies or languages shall also be deemed to be for a school purpose. Cities and towns may appropriate for the employment of coaches to supervise in public schools physical education, athletics, sports, games and play, and for the transportation and expenses of public school athletic teams, coaches, cheerleaders, bands and any other groups composed of public school pupils which bear the school name and are under the control of the school committee, within and without the commonwealth, to places where athletic contests or physical education, sports, games, play, musical festivals, competition or other events are held, and for the purchase of band and cheerleaders' uniforms and musical instruments for the members of bands composed of public school pupils and bearing the school name and under the control of the school committee. All receipts by the committee in connection with the conduct of activities provided for under this section or any other activity not expressly provided for in this chapter but sponsored by the school committee in which participation is contingent upon the payment of a fee by the participant, shall be deposited with the treasurer of such town or, in cases where the town is a member of a regional school district, with the treasurer of such district and held as a separate account and expended by said school committee without further appropriation, notwithstanding the provisions of section fifty-three of chapter forty-four. No moneys may be expended from an appropriation or from the separate fund authorized by this section except upon the approval of the school committee, or of the selectmen in towns and of mayors in cities, for travel to other states.

Notwithstanding the provisions of the preceding paragraph or section fifty-three of chapter forty-four, the school committee of a city, town or district may authorize a school principal to receive money in connection with the conduct of certain student activities and to deposit such money, with the municipal or regional school district treasurer, into an interest bearing bank account, hereinafter referred to as the Student Activity Agency Account, duly established by

<p><u>AGREED UPON PROCEDURES AND AUDIT</u> <u>GUIDELINES:</u> <u>STUDENT ACTIVITY FUNDS</u></p>	<p><i>ESE Audit Guidelines</i></p>
	<p>Appendix B: MA General Law Chapter 71 Section 47</p>

vote of the school committee to be used for the express purpose of conducting student activities. Interest earned by such Student Activity Agency Account shall be retained by the fund and the school committee shall determine for what purpose such earnings may be used. In addition to such Student Activity Agency Account, the school committee may authorize the municipal or regional school district treasurer to establish a checking account, hereinafter referred to as the Student Activity Checking Account, to be operated and controlled by a school principal and from which funds may be expended exclusively for student activity purposes for the student activities authorized by the school committee. Such account shall be used for expenditures only and funds received for student activities may not be deposited directly into such account.

The school committee shall vote to set the maximum balance that may be on deposit in such Student Activity Checking Account. The principal designated to operate and control such Student Activity Checking Account shall give bond to the municipality or district in such amount as the treasurer shall determine to secure the principal's faithful performance of his duties in connection with such account. To the extent that the funds are available in such Student Activity Agency Account, funds up to the maximum balance set by the school committee shall be transferred from the Student Activity Agency Account through the warrant process to initially fund such Student Activity Checking Account.

Periodically, to the extent that funds are available in such Student Activity Agency Account, the municipal or regional school district treasurer shall reimburse such Student Activity Checking Account, through the warrant process, to restore the limit set by the school committee. The principal shall adhere to such administrative procedures as the municipal or regional school district treasurer or accountant may prescribe. ***There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.***

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix C: Sample Report For Use For Audits Conducted Internally

APPENDIX C

SAMPLE REPORT FOR USE FOR AUDITS CONDUCTED INTERNALLY

September 1, 20xx

Anytown Public Schools
1 Any Street
Anytown, Massachusetts 12345

To the Superintendent of Anytown Public Schools
and Members of the School Committee

I have inspected the financial records, reviewed policies and procedures and conducted tests of the internal control processes in place to administer the Student Activities of Anytown Public Schools for the year ended June 30, 20xx. The purpose of this inspection was to determine if the financial records, policies and procedures, and internal control processes in place are sufficient to support the objectives of the School Committee of Anytown Public Schools as it relates to the Student Activities.

My procedures were designed using the *Massachusetts Department of Elementary and Secondary Education Audit Guidelines*. These guidelines were used in reaching my conclusion.

As a result of my procedures, certain matters came to my attention that I have reported in the accompanying Schedule of Findings.

Except for those matters reported in the accompanying Schedule of Findings, I conclude that the financial records, policies and procedures, and internal control processes in place are sufficient to support the objectives of the management of the Student Activities of Anytown Public Schools.

Or;

The matters reported in the accompanying Schedule of Findings rise to a level of such significance that they preclude the conclusion that the financial records, policies and procedures, and internal control process in place are sufficient to support the objectives of the School Committee of Anytown Public Schools as it relates to the Student Activities

My inspection is not meant to be construed as an audit or opinion rendered by a Certified Public Accountant.

Sincerely,

Name: _____

Title: _____

Date: _____

<p><u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u></p>	<i>ESE Audit Guidelines</i>
	<p>Appendix C: Sample Report For Use For Audits Conducted Internally</p>

Schedule of Findings:

Finding 1: The Principal’s account at the Anytown Elementary School is used for a wide variety of items, many of which are not related to co-curricular activities established by the School Committee. We observed payments for bottled water used in the Principal’s office and staff lunches as well as the payment of repairs to the School’s public announcement system from student activities. We were also informed that this is an account that the Principal may use for discretionary purchases. Student activities monies should be used solely for student co-curricular activities and any other uses should be abolished immediately.

Corrective Action: The appropriate use of student activity funds was discussed at a school-wide training held subsequent to the audit. In addition, a policy was developed to coincide with ESE guidelines and MGL. As a result, we are confident that individuals in charge of these accounts are aware of the appropriate use of these accounts, and these issues will not re-occur in the future.

Finding 2: I determined that bank reconciliations for the Anytown Elementary School Student Activities are prepared only once per year at year-end. I also determined that the bank reconciliation did not agree to the student activities’ accounting ledger. Bank reconciliations are a critical component of internal control. In order for this control to be effective, it should be completed more frequently than once per year. Resultant of this deficiency, there exist variances that can’t be reconciled. ESE guidelines suggest that bank reconciliations are prepared not less than quarterly and preferably monthly. I suggest that such a process is implemented.

Corrective Action: We agree with the audit finding and as a result, beginning with fiscal year 20xx, we will begin to prepare bank reconciliations on a monthly basis and make any resulting adjustments to the accounting records in a timelier manner.

<u>AGREED UPON PROCEDURES AND AUDIT GUIDELINES: STUDENT ACTIVITY FUNDS</u>	<i>ESE Audit Guidelines</i>
	Appendix D: Common Problems

APPENDIX D

Common Problems

1. Non-student activities maintained in a student activity account.
2. Lack of segregation of duties.
3. Lack of reconciliation of bank statements and activity balances.
4. Inadequate or incomplete documentation.
5. Lack of subsidiary ledgers.
6. Existence of deficit balances.
7. Use of funds to pay stipends or payroll.
8. Use of funds to pay non-student activity related expenses.
9. Insufficient bank balance to cover fund balance as reported by activity.
10. Bank balance in excess of fund balances reported by activity.
11. Lack of audits.
12. Lack of agency savings account.
13. Checking account balances in excess of School Committee policy.
14. Inactive and graduated class accounts.
15. Lack of ongoing training.

**AGREED UPON PROCEDURES AND AUDIT
GUIDELINES:
STUDENT ACTIVITY FUNDS**

ESE Audit Guidelines

Appendix E:
Revolving and Other School Department Programs

APPENDIX E

Revolving and other Special Funds for School Department Programs

Revolving Fund	Legal Reference	Local Acceptance	Town Meeting/ City Council Action	Department/Activities	Salaries	Capital Items/ Debt Service	Spending Ceiling	Revenue Source	Interest	Fund Balance	Other Accounting Procedures	Reports	Other
School Rental	M.G.L. Ch. 40 S3.	No, but provision permitting use of funds for any facility and accumulation of funds requires acceptance.	None	Upkeep of rented facility or space, including custodial costs, utilities, ordinary repairs and maintenance. May be used for upkeep of any school facility if city/town has accepted provision so permitting	Yes	Not Prohibited	None	Rental payments	General Fund	Closes to general fund at end of FY unless city/town has accepted provision permitting carry over to next FY			
Student Athletics and Activities	M.G.L. Ch. 71 S 47.	No	None	School Committee sponsored athletic and extracurricular programs, awards, equipment and facilities	Yes	Program Equipment and Facilities	None	Participation Fees and Program Receipts	General Fund	Carries Forward to Next FY			
Student Activity Agency	M.G.L. Ch 71 S 47	No	None	School Committee Authorized Student Activities	Not Applicable	Not Applicable	None	Student Activity Receipts	Agency Account	Carries forward to next FY		Annual audit based on procedures agreed to by the School Committee and Auditor, and DOE Regulations	Principals authorized by school committee to receive student activity receipts and deposit into agency account. S. C. fixes maximum balance on deposit in checking account. Committee transfers initial funds from agency account into checking account and treasurer replenishes.
Use of School Property	M.G.L. Ch. 71 S. 71E	Yes	None	Upkeep of facility, including custodial costs, utilities, ordinary repairs and maintenance	Yes	Not Prohibited	None	User Fees and Charges	General Fund	Carries Forward to Next FY			Use of school facilities by individuals, groups, organizations for civic, social, educational recreational purposes governed by school committee policies established under M.G.L. Ch 71 S 71.

**AGREED UPON PROCEDURES AND AUDIT
GUIDELINES:
STUDENT ACTIVITY FUNDS**

ESE Audit Guidelines

Appendix E:
Revolving and Other School Department Programs

School Choice Tuition	M.G.L. Ch. 76 S 12B(o)	No	None	Education Expenses	Yes	Instructional Equipment that could be funded from the School Budget	None	State Reimbursement, Federal Grants, gifts and grants	General Fund	Carries Forward to next FY	Funds received after the school budget fir FY is submitted must be accounted for in next year's budget		
School Day Care	M.G.L. Ch. 71 S.62C	No	None	Extended School Services for Children Ages 3-14 of working parents	Yes	Not Prohibited	None	Program Fees, Federal Funds, other grants, gifts, donations	General Fund	Carries Forward to next FY	Must comply with prescribed Federal and State reporting and Auditing Requirements		
School Lunch	Ch. 548 of the Acts of 1948, Amended Ch. 650 of the acts of 1969	No	None	Operation of School Lunch Programs	Yes	Program Equipment	None	Fees from sales of lunch and other meals, school lunch grant funds	Revolving Fund	Carries forward to next FY	Must comply with prescribed Federal and State reporting and auditing requirements		
School Bus Rental	M.G.L. Ch. 159A, S 32 and M.G.L. Ch. 71 S. 71E	Yes	None	Upkeep, including ordinary repairs and maintenance	Yes	Not Prohibited	None	Fees and Charges for Use	General Fund	Carries Forward to next FY			
Drivers Education	M.G.L. Ch. 71 S 13D and M.G.L. Ch. 71 S. 71E	Yes	None	Upkeep, including ordinary repairs and maintenance	Yes	Not Prohibited	None	Fees and Charges for Use	General Fund	Carries Forward to next FY			
Vocational Child Care Programs	M.G.L. Ch. 71 S. 71E and M.G.L. Ch. 74 S. 14B	Yes	None	Upkeep of facility, including custodial costs, utilities, ordinary repairs and maintenance	Yes under Ch. 71 S. 71E but not under 74 S 14B	Not Prohibited	None	User Fees and Charges	General Fund	Carries Forward to Next FY			Use of school facilities by individuals, groups, organizations for civic, social, educational recreational purposes governed by school committee policies established under M.G.L. Ch 71, S 71.

**AGREED UPON PROCEDURES AND AUDIT
GUIDELINES:
STUDENT ACTIVITY FUNDS**

ESE Audit Guidelines

Appendix E:
Revolving and Other School Department Programs

Vocational Education (Shop Revolving Accounts)	M.G.L. Ch. 74 S. 14B	Yes In Regional School District, by vote of the school committee and a majority of the boards of selectmen/City council members	None	Culinary Arts, Home Economics and other Vocational-Technical Programs	No	Program Equipment	\$15,000 total \$5,000 cap annually in equipment purchases	Sales of program products and services	General Fund	Carries Forward to Next FY	FY receipts over \$15,000 credited to general fund	Annual Report by School Superintendent to Mayor, City Manager and City Council Selectmen/Town Manager Copy to BOA (schedule A)	
Adult Education and Continuing Education	M.G.L. Ch. 71 S. 71E	Yes	None	Adult Education, Continuing Education, Adult Physical Fitness, Summer School and Community School Programs	Yes	Not Prohibited	None	Participation Fees and Program Receipts	General Fund	Carries Forward to Next FY			
Community Schools	M.G.L. Ch. 71 S. 71C	No	None	Materials and Equipment for Community School Programs	No	Program Equipment	\$3,000	Participation Fees and Program Receipts	General Fund	Carries Forward to Next FY			Not clear if this still applies when City/Town has accepted M.G.L. Ch. 71 S. 71E
Culinary Arts	M.G.L. Ch. 71 S. 71A	Yes In regional school district, acceptance by majority vote of boards of selectmen/city council member	None	Culinary Arts Programs	No	Program Equipment	\$15,000 Total \$5,000 in equipment purchases	Sale of Culinary Program Products	General Fund	Carries Forward to next FY	FY receipts over \$15,000 credited to general fund	Annual Audit by treasurers to school committee, mayor/City Manager and City Council Selectmen/Town Manager. Copy to BOA (schedule A)	
Non-Resident Student Tuition	M.G.L. Ch. 71 Section 71F	Yes	None	Educational Expenditures of non-resident and foster care children enrolled in school	Yes	Instructional Equipment that could be funded from the School Budget	None	Non-resident tuition payments and State reimbursements for foster care children	General Fund	Carries Forward to next FY			
School Bus Advertising	Ch. 184 S. 197 of the Acts of 2002	No	None	Education Expenses	Yes	Instructional Equipment that could be funded from the School Budget	None	Sale of Advertising Space on School Buses	General Fund	Carries Forward to next FY			Sale of space must be overseen by governing board appointed by school committee and is subject to statutory standards