



Washoe County School District

Every Child, By Name And Face, To Graduation

**Report to Audit Committee
Student Activity Funds
As of December 31, 2011**

**Internal Audit Department
April 11, 2012**

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Student Activity Fund Audits
As of December 31, 2011
Executive Summary

Background

Student activity funds are an essential source of funding at the ninety-three schools operated by the Washoe County School District. Approximately \$15 million in revenue was derived from these activity funds during the school year ended June 30, 2011, as can be seen in the STATISTICAL INFORMATION section of this report.

School Board Policy 3434 states that “*Activity funds of the various schools shall be audited periodically by the internal auditor of the school district and the resulting working papers shall be reviewed by the external auditor.*” The information in this report reflects the results of the activity fund audits performed as of December 31, 2011.

Audit Perspective

Present student activity fund audit status

As of December 31, 2011, the Internal Audit Department performed audits of student activity funds at six high schools, five middle schools, and one elementary school. An additional interim audit was performed at one middle school. The findings for these schools are included in the attached *Audit Issues and Summary*. These thirteen schools represent 14% of all schools in the District. Student activity fund revenues generated at these thirteen schools totaled \$4.8 million, which represents 32% of student activity fund revenues at all schools.

Present performance audit status

The Internal Audit Department completed and presented the Payroll Audit and performed a Six Month Follow-Up Report of the Human Resources Audit. A Substitute Services Audit and Risk Management Audit will be completed and presented to the Committee in the next fiscal year.

External audit coverage – The annual audit performed by Kafoury, Armstrong, & Co. is an audit of the District’s financial statements as a whole. The scope of this audit does not include specific detail testing of student activity funds; however, Kafoury, Armstrong, & Co. places reliance on the student activity fund audits performed by the WCSD Internal Audit Department when issuing their opinion on the District’s comprehensive financial statements.

Scope & Objectives

The scope of the student activity fund audits are financial and operational in nature and cover the period July 1, 2010 through June 30, 2011. The audits were performed to ensure that financial data was properly recorded, that adequate operational procedures exist over the management of these activity funds, and that district staff is in compliance with appropriate documented procedures, policies and regulations. These audits were conducted in accordance with the Standards for the Professional Practice of Internal Auditing and applicable Government Auditing Standards. Fieldwork commenced in January 2011 and was substantially completed by December 31, 2011.

The audit objectives were to determine if:

- ✓ The school’s student activity fund financial records are correctly stated and adequately support the corresponding financial statement prepared for the District as a whole.
- ✓ The financial statement reporting requirements are being met.
- ✓ Internal controls over student activity funds are adequate.
- ✓ School employees understand and are in compliance with, District policies and procedures relative to student activity funds.

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- ✓ Cash receipts are deposited promptly and are adequately supported by valid documentation.
- ✓ Cash disbursements are properly authorized and adequately supported by valid documentation.
- ✓ Cash receipts and cash disbursements are accurately recorded in the accounting records.
- ✓ Operations are efficient and effective.

Summary of Findings

The results of the audits of student activity funds performed for the purposes of this report disclosed no major findings warranting the attention of, or action from, the Superintendent. All audit findings are summarized on the attached reports titled Audit Issues Rankings and SAF Audit Issues Summary. The detailed reports of audit issues with the Principal's written responses are available in Internal Audit Department files for review

Auditor's Opinion

In our opinion, we found the student activity fund financial transactions for the thirteen audited schools to be properly recorded and operational procedures to be adequate, in all material respects, for the period under audit. We have identified instances of non-compliance with school district policies, procedures, and regulations relative to student activity funds, as well as certain opportunities to improve the efficiency and effectiveness of certain operating procedures; these are discussed in the individual Report of Audit Issues prepared for each individual school, which are available in Internal Audit Department files.

Paula J. Ward

April 11, 2012

Paula J. Ward
Chief Internal Auditor

Date

**FY11 Student Activity Fund Audits
STATISTICAL INFORMATION**

Elementary Schools (64)	Middle Schools (14)	High Schools (15)	Other Agency Funds (3)	Total Fiduciary Funds for CAFR
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Annual Fiduciary Funds for FY11 (A)	<u>4,427,018</u>	<u>1,813,110</u>	<u>8,760,335</u>	<u>47,323</u>	<u>15,047,785</u>
% of Total Receipts for all Schools	<u>29.4%</u>	<u>12.0%</u>	<u>58.2%</u>	<u>0.3%</u>	<u>100.0%</u>

Annual SAF Receipts for FY11 Audited Schools:

Galena			1,045,939	
Hug			305,331	
Incline			263,018	
McQueen			970,849	
Reed			991,086	
Sparks			429,749	
Billinghurst		209,602.25		
Mendive		141,490.71		
Pine		186,118.90		
Sparks		114,217.13		
Traner		46,969.09		
Vaughn		36,370.50		
Alice Smith	71,439			

Total Annual Receipts of Audited Schools	<u>\$ 71,439</u>	<u>\$ 734,769</u>	<u>\$ 4,005,972</u>		<u>\$ 4,812,180</u>
Annual Receipts of Audited Schools as a % of Total Receipts for all Schools of This Type	<u>1.6%</u>	<u>40.5%</u>	<u>45.7%</u>		
Annual Receipts of Audited Schools as a % of Total Fiduciary Fund Receipts					<u>32.0%</u>

SUMMARY OF AUDIT COVERAGE:

1.6% of **Elementary Schools** were audited (1 of 64 schools). Annual receipts for these two schools represent 1.6% of all elementary school receipts.

43% of **Middle Schools** were audited (6 of 14 schools). Annual receipts for these six schools represent 40.5% of all middle school receipts.

40% of **High Schools** were audited (6 of 15 schools). Annual receipts for these six schools represent 45.7% of all high school receipts.

14% of **All Schools** were audited (13 of 93 schools). Annual receipts for these 13 schools represent 32% of all schools' receipts.

(A) Source: WCSD Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2011

**Student Activity Fund Audits
As of December 31, 2011
AUDIT ISSUE RANKINGS**

AUDITED SCHOOLS				Number of Audit Issues Found With a Ranking of: See (A) for ranking description			
	School Name	Report Status	1	2	3		Total
High Schools:							
	Galena High School	(C)		6	1		7
	Hug High School	(B)		17	4		21
	Incline High School	(B)		9	2		11
	McQueen High School	(B)		9	6		15
	Reed High School	(C)		6	5		11
	Sparks High School	(C)		9	4		13
Middle Schools							
	Billingshurst Middle School	(C)		8	8		16
	Mendive Middle School	(C)		10	6		16
	Sparks Middle School	(C)		2	2		4
	Traner Middle School	(B)		6	2		8
	Vaughn Middle School	(B)		7	4		11
	Pine Middle School (Interim)	(B)		5	1		6
Elementary Schools							
	Alice Smith Elementary School	(C)		6	2		8
(A) Audit Issue Ranking:							
	1	Very High Exposure to Loss. Issue is serious and requires the immediate attention of the Superintendent.					
	2	High Exposure to Loss. Issue is serious and deserves the attention of the Area Superintendent. Corrective action is required within six months.					
	3	Moderate Exposure to Loss. Issue to be reported to and corrected by the school Principal. Issue may be material and, if not resolved, could result in inefficient management of student activity funds.					
	4	Low Exposure to Loss. Issue is to be reported to the Principal and should be resolved in due manner. The issue is a minor risk to student activity funds and management of such is generally efficient and effective.					

**Student Activity Fund Audits
As of December 31, 2011
AUDIT ISSUE RANKINGS**

(B)	The school has provided a written response to each audit issue noted including the corrective action to be taken, if applicable. The response is deemed acceptable and addresses all issues adequately. Material issues will be followed-up during interim contacts within 12-18 months after the audit.		
(C)	The school has yet to provide a written response to each audit issue noted including the corrective action to be taken, if applicable. Upon receipt, the response will be reviewed to determine that all issues are adequately addressed. Material issues will be followed-up during interim contacts within 12-18 months after the audit.		
	<i>Paula J. Ward</i>		<i>April 11, 2012</i>
	Paula J. Ward, Chief Internal Auditor		Date

SAF Audit Issues Summary for ALL Schools

Schools Audited in 2011	Audit Issue Ranking (A)	Galena High School	Hug High School	Incline High School	McQueen High School	Reed High School	Sparks High School	Mendive Middle School	Billingshurst Middle School	Sparks Middle School	Traner Middle School	Vaughn Middle School	Pine Middle School	Alice Smith School (Interim)	# of Schools Where Finding is Noted
Audit Issue	Potential Risk														
<i>Administrative Regulations</i>															
Failure to follow WCSD School Board Administrative Regulation 3321 - Bids and Quotations.	Failure to adhere to WCSD School Board Policies regarding Contracts, Bids & Quotations (especially those exceeding \$25,000.00) could lead to misuse of Student Activity Funds. The open solicitation of project bids helps ensure that scarce resources are spent wisely and that prices paid are	3				1								1	
<i>Activity Account Review</i>															
Fees collected from students are not expended on the students from whom the fees were collected.	The perception that schools are collecting fees from students, which are not needed for the purpose the funds are collected increasing the risk of diminished fundraising support from the public.	3	1		1	1		1	1					5	

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Audit Issue	Potential Risk														
Instructional and lab fees collected for classroom accounts appear excessive.	The perception that schools are overcharging students results in poor public image.	2	1							1				2	
Inappropriate purchase or transfer from restricted funds and student fees.	Funds not expended on the purpose intended creates poor public image.	2	1	1		1	1			1	1			6	
Textbooks fines are being deposited directly into classroom accounts.	Inadequate audit trail to ensure "textbook fines" are being spent on textbook repair or replacement and instructional materials. In addition, increased risk that cash funds may be manipulated or misappropriated.	3				1								1	
Lack of internal controls over fundraising activities; no advanced approval and/or no review of profit/loss and inventory control.	Increased risk of funds being misused or misappropriated.	2	1			1				1				3	

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Audit Issue	Potential Risk	Galena High School	Hug High School	Incline High School	McQueen High School	Reed High School	Sparks High School	Mendive Middle School	Billingshurst Middle School	Sparks Middle School	Traner Middle School	Vaughn Middle School	Pine Middle School	Alice Smith School (Interim)	# of Schools Where Finding is Noted
<i>Appropriateness of Expenditures from Restricted Funds</i>															
Funds used for purposes other than those intended by the donor.	Projects a negative image to donor and the general public.	2	1											1	
Funds restricted for the purchase of educational materials resulting from Unclaimed Book Deposits and/or Textbook Fines are being spent on items other than the restricted purpose.	Spending Unclaimed Book Deposit funds and Textbook Fines on purchases other than those to which these funds are restricted may result in insufficient funds being available for purchases of replacement books or educational materials - the purpose for which these funds are intended.	3			1									1	

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<i>Safeguarding of District Assets</i>															
Student Activities collected funds, checkbook and unused check stock is stored in a file cabinet, left unlock during business hours, in the Principal's office.	Access to checks by unauthorized individuals increases the risk of unauthorized checks being written.	2			1		1						2		
Multiple individuals, including the custodian, have a master key that unlocks the office and the vault.	Because the safe is currently broken and unlocked, allowing multiple people access to the vault increases the risk of funds being misappropriated or stolen.	2				1						1	2		
Safe is not attached to the building	Potential risk that someone could take safe and misappropriate funds.	2										1	1		

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Audit Issue	Potential Risk														
<i>General Ledger Accounting</i>															
Voided checks not maintained.	Increased Risk of Mishandling or Misappropriation of Funds.	2	1											1	
Certain activity accounts reflect negative balances.	Improper transfers between accounts.	2				1								1	
Petty cash funds recorded in the general ledger do not match actual petty cash funds on hand.	Potential Misstatement of SAF Account Activity and/or Financial Statements.	2										1		1	
A disbursement out of a student activity account was made for petty cash.	Misappropriation of school activity funds.	2									1			1	
Transfer Authorization Forms used to document transfers between activity accounts do not contain proper authorizing signatures.	Potential Misstatement of SAF Account Activity and/or Financial Statements.	3	1				1	1		1				4	

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Audit Issue	Potential Risk														
Transfer Forms were not always used to evidence transfers between activity funds.	Lack of Adequate Trail Resulting in an Increased Risk of Unauthorized Transfers from Activity Accounts	3				1		1						2	
The total in the scholarship asset account does not equal the total in scholarship activity accounts.	Potential misstatement of activity account financial statements.	2			1	1								2	
Not all check numbers are recorded in the accounting system.	Lack of Adequate Audit Trail.	2				1								1	
Bank Statement miscellaneous debits and credits do not reflect the journal entry number used to record the transaction.	Insufficient audit trail.	3					1	1						2	

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Audit Issue	Potential Risk														
Monthly Bank Reconciliations/Reporting															
Money Market account is not being reconciled monthly and bank statement adjustments have not always been recorded correctly.	Misstatement of financial records.	2												1	1
Bank Statements are opened by the bookkeeper.	Risk that errors, irregularities, or fraud will go undetected.	2						1							1
Checking Account overdrawn at year end.	Poor public image and assessment of additional bank fees.	2						1							1
Monthly bank reconciliation reports and Summary Trial Balance reports were not received by the Business Office by the deadline established in the SAFPPM.	Increased Risk of Accounting Record Manipulation.	3												1	1
Detail Trial Balance Reports are not being provided to the respective account advisors monthly.	Lack of Adequate Oversight of Student Activity Funds Resulting in an Increased Risk of Funds Manipulation or Misuse.	2	1	1				1						1	4

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Audit Issue	Potential Risk														
Outstanding checks reflected on the bank statement are in excess of six months old.	Stale-dated checks remaining as outstanding on an entity's bank reconciliation increases the risk that the funds represented by such checks might be used in an inappropriate and/or unauthorized manner.	3					1							1	
Question #5 on the Principal's Monthly Checklist - <i>Is there at least one bank deposit per week?</i> - is being answered "Yes" when bank statements indicate otherwise.	Lack of Adequate Oversight of Student Activity Funds Resulting in an Increased Risk of Funds Manipulation or Misuse.	3										1		1	
Cash Receipts															
The preparation of bank deposits does not include reconciling Expected cash and check totals to Actual cash and check totals on the Closeout Summary Reports.	Increased risk of misappropriation of funds.	2					1					1		2	

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Audit Issue	Potential Risk														
Athletic gate procedures lack appropriate internal controls to ensure all funds collected are deposited.	Increased risk of funds being misused or misappropriated.	2	1	1										2	
The Tracks Closeout History Report does not reconcile to the Tracks Sales by Receipt Report.	Increased risk of misappropriation of funds.	3			1									1	
Cash receipts are not entered into Tracks with the correct type (cash or check).	Increased chances of misappropriating school funds.	3							1	1				2	
Monies are taken directly to the bank prior to verification, receipting, and inputting in Tracks accounting software.	Increased risk of funds being misused or misappropriated.	2	1											1	
The fees charged to students for spirit packs are in excess of the cost.	Public perception, risk of funds being misused or stolen.	2	1											1	

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Audit Issue	Potential Risk														
Funds turned into the office for deposit are not being verified, nor is a receipt written in a timely manner.	Increased Risk of Funds Being Misused or Stolen	2					1		1					2	
Only one individual counts/verifies cash receipts.	Increased risk of cash collections being mishandled or misappropriated.	2	1			1	1							3	
The procedures for receipting monies collected in the office lacks the internal control of segregation of duties.	Increases the risk of cash collections being mishandled or misappropriated.	2					1							1	
Cash collected in the classroom is not being turned into the office on a timely basis.	Increased risk of misappropriation of funds.	2		1	1	1	1	1		1		1		7	
Bank deposits have not always been made in accordance with the timeframes established in the SAFPPM.	Increased Risk of Mishandling or Misappropriation of Funds.	2	1	1			1	1		1		1	1	8	

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Audit Issue	Potential Risk														
Cash Count Slips have not always been completed in their entirety.	Lack of Adequate Audit Trail Resulting in an Increased Risk of Funds Misappropriation.	3	1	1	1	1	1	1						6	
Cash Count Slips are not being prepared for all cash and checks that are deposited into Student Activity Funds.	This lack of an adequate audit trail increases the risk of cash collections being mishandled or misappropriated.	2		1										1	
The total of all Cash Count Slips turned into the main office as deposits for book fair or other fundraiser (cash and checks) revenues do not match the funds turned into the organization.	Lack of proper reconciliation increases risk of misappropriation of funds.	2	1											1	
Cash disbursements have been made directly from cash collections.	Increased Risk of Mishandling or Misappropriation of Funds.	2				1								1	

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Audit Issue	Potential Risk															
<i>Cash Disbursements</i>																
Duplicate invoice payments are being made from student activity funds.	Increased risk that student activity funds may be spent inappropriately.	2				1									1	
Non-compliance with Administrative Regulation 1330 (Community Use of School Facilities) when outside entities have been allowed to use school facilities.	Non-completion of an Application for Use of Facilities when outside entities request the use of school facilities subjects the District to potential liability issues. Not remitting applicable rental fees to the WCSD Business Office deprives the District of funds needed to cover the costs associated with the use of the facility by outside groups.	2		1				1							2	
Disbursements made from student activity funds are not supported by adequate documentation.	Increased Risk of Inappropriate Expenditures or Invalid Reimbursements.	2	1	1	1	1		1	1	1	1			1	10	

SAF Audit Issues Summary for ALL Schools

Schools Audited in 2011		Audit Issue Ranking (A)																
Audit Issue	Potential Risk																	
Only two individuals' signatures are found on certain checks and the corresponding Check Authorization Forms.	Increased Risk of Funds Being Misused or Stolen.	2		1	1									1	1			4
Check Authorization Forms are not being prepared for disbursements.	Increased Risk of Funds Being Spent Without Proper Approval.	2	1							1								2
Check Authorization Forms do not always contain the required approval signatures (activity advisor and administrative approval) or not completed in its entirety.	Increased Risk of Unauthorized Expenditures.	2		2	2	1				1	1			1				8
Checks were not recorded with the correct date in the Schoolbooks accounting software.	Inaccurate accounting records may result in additional banking errors or the misuse of funds as intended.	2												1				1

SAF Audit Issues Summary for ALL Schools

Schools Audited in 2011		Audit Issue Ranking (A)																			
Audit Issue	Potential Risk																				
<p>Gift cards purchased with Student Activity Funds for distribution to non-district employees were not accounted for using the Gift Card Distribution List found in the SAFPPM.</p>	<p>Increased Risk of Misappropriation or Misuse of Gift Cards</p>	2		1																	
<p>Checks have been issued directly to students for scholarship payments in amounts of \$500 or more.</p>	<p>Issuing scholarship payments directly to the student may result in those monies not being spent on the purposes for which the funds were raised. In addition, failure to issue scholarship payments directly to the educational institution of higher learning may lead to tax implications for not adhering to Internal Revenue Code requirements relative to completion of form 1098-T.</p>	2																		1	
																					1 3

SAF Audit Issues Summary for ALL Schools

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Audit Issue	Potential Risk	Galena High School	Hug High School	Incline High School	McQueen High School	Reed High School	Sparks High School	Mendive Middle School	Billingshurst Middle School	Sparks Middle School	Traner Middle School	Vaughn Middle School	Pine Middle School	Alice Smith School (Interim)	Alice Smith Elementary School	# of Schools	Where Finding is Noted
Checks have been made payable to "Cash".	The lack of an adequate audit trail increases the risk that student activity funds may be spent inappropriately.	3					1								1		
Payments made directly from student activity funds to non-school district individuals (Independent Contractors) for services rendered.	Exposure to Potential IRS Penalties	3		1				1		1					3		
Gift cards have been issued to teachers and other WCSD staff members without consideration given to the Internal Revenue Tax Code relative to payments to employees.	Exposure to Potential IRS Penalties	3				1				1			1	3			

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Schools Audited in 2011	Audit Issue Ranking (A)														# of Schools Where Finding is Noted	
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<p>Payments for facility improvement projects have been made directly to vendors without approval from Area Superintendent or subsequent review by the Plant Facilities Department.</p>	<p>Site improvement projects that are not approved by the Area Superintendent or reviewed by Plant Facilities may not meet District standards or comply with all regulatory requirements; this may expose the District to potential liability issues.</p>	3				1							1			
<p>Cash and/or cash type items (baseball tickets, show tickets, bowling) distributed to students are not accounted for using the Cash Distribution Signature List found in the SAFPPM.</p>	<p>Increased Risk of Misappropriation or Misuse of cash or cash type items</p>	2	1			1					1		3			

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Student Activity Funds received by the school for Student Planners, ID Photos and Locker Fees are being utilized for remodeling and/or school-grounds improvement projects.	Expenditures of student activity funds on items not connected with, or related to the activity that generated the revenue gives the impression that the fees charged to the students for these activities might be excessive. This perception projects a negative image to taxpayers and the general public.	2				1								1		
An excessive amount of the Principal's Discretionary Fund within Student Activity Funds has been spent on school staff incentive awards and office lunches.	Excessive expenditures of student activity funds on items benefiting school staff instead of student's projects a negative image to taxpayers and the general public.	3						1	1					2		

SAF Audit Issues Summary for ALL Schools

Schools Audited in 2011	Audit Issue Ranking (A)														# of Schools Where Finding is Noted
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Voided checks are not properly defaced.	Removing the signature fields on voided checks reduces the risk that such check can be altered by someone who might obtain such checks in an illegal manner.	3					1	1		1			3		
Purchases of fixed assets in amounts of \$1000.00 or more have been made directly from vendors bypassing the Business Plus accounting system and, consequently, WCSD's inventory tagging process.	Untraceable (untagged) assets increase the risk that items might be taken by a district employee and since untagged items are not covered by District insurance, they increase the risk of uninsurable loss.	3	1	1	1	1		1					5		
Duplicate invoice payments are being made from student activity funds.	Increased risk that student activity funds may be spent inappropriately.	2				1							1		

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Schools Audited in 2011	Audit Issue Ranking (A)	Galena High School	Hug High School	Incline High School	McQueen High School	Reed High School	Sparks High School	Mendive Middle School	Billingshurst Middle School	Sparks Middle School	Traner Middle School	Vaughn Middle School	Pine Middle School	Alice Smith School (Interim)	# of Schools Where Finding is Noted	
Audit Issue	Potential Risk															
The minimum requirements established for operating a student store have not been implemented.	The lack of accountability over the student store increases the risk of funds being misused or misappropriated.	2	1			1								2		
The Purchase Order Log is not being completed as required by the SAFPPM.	Increased Risk of Misappropriation of Misuse of Student Activity Funds.	3				1								1		
Total Audit Issues			7	21	11	15	11	13	16	16	4	8	11	6	8	147
			C	B	B	B	C	C	C	C	B	B	B	C		
(A) Audit Issue Ranking:																
1 High Exposure to Loss. Issue is serious and deserves the attention of the Area Superintendent. Corrective action is required within six months.																
2 Moderate Exposure to Loss. Issue to be reported to and corrected by the school Principal. Issue may be material and, if not resolved, could result in inefficient management or ineffective oversight of student activity funds																
3 Low Exposure to Loss. Issue is to be reported to the Principal and should be resolved in due manner. The issue is a minor risk to student activity funds and management of such is generally efficient and effective.																

SAF Audit Issues Summary for ALL Schools

Schools Audited in 2011	Audit Issue Ranking (A)	Audit Issue	Potential Risk		
	Galena High School Hug High School Incline High School McQueen High School Reed High School Sparks High School Mendive Middle School Billingshurst Middle School Sparks Middle School Traner Middle School Vaughn Middle School Pine Middle School Alice Smith School (Interim) # of Schools Where Finding is Noted				
		(B) The school has provided a written response to each audit issue noted including the corrective action to be taken, if applicable. The response is deemed acceptable and addresses all issues adequately. A follow-up to the audit response will be performed in 12 - 18 months to determine that appropriate action has been taken.			
		(C) The school has yet to provide a written response to each audit issue noted including the corrective action to be taken, if applicable. Upon receipt, the response will be reviewed to determine that all issues are adequately addressed. A follow-up to the audit response will be performed in 12-18 months to determine that appropriate action has been taken.			
		(D) This audit is in final supervisory review. Plans are for the closing conference to be held by February 25th with the Principal's response to follow. Because the audit issues have yet to be reviewed with the Principal they are not presented in this report. It can be noted that no major issues were discovered during the audit.			