

June 4, 2014

Dr. Bruce Law
Superintendent of Schools
Hinsdale Township High School District 86
5500 South Grant Street
Hinsdale, Illinois 60521

Re: Internal Controls Review and Recommendations

Dear Dr. Law:

Sikich was engaged to provide expert and independent opinion in the form of an investigation to explore certain issues related to the financial and human resources operations of Hinsdale Township High School District 86 (“the District”) which were identified in our prior assignment and by the District’s Board of Education. The scope of our investigation specifically included the areas of payroll, purchasing/accounts payable, and student activity funds. We have summarized our findings in the report which accompanies this letter of transmittal. We performed these professional services in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants.

As stated in our letter of engagement, the scope of this assignment was limited to a review of the internal controls in three key business functions. Our work builds on control issues cited by Baker Tilly in the Auditor's Management Letter. This report presents our recommendations for improvement of the District’s internal controls for the areas reviewed.

We appreciate the opportunity to assist you in this important assignment.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Sikich LLP'.

Sikich LLP
By: Mary O’Connor, ASA, CFE
Partner, Dispute Advisory Services

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Executive Summary

Our work as presented within this report builds upon and expands on the information developed and reported at the State of the District Committee meeting on February 12, 2014. The scope of our investigation specifically included the areas of purchasing/accounts payable, payroll, and student activity funds. The scope of service did not include a full fraud investigation.

In the course of our investigation, we gathered information regarding the systems and procedures that are currently in place through a variety of means:

- Interviewed personnel throughout administration and the schools, Hinsdale Central High School (“Central”) and Hinsdale South High School (“South”)
- Observed processes and procedures currently in place, including functional interactions between administration and employees at each school.
- Documented and mapped current procedures in each functional area of our review.
- Requested data from District software providers, DCR and Aesop.

We performed various analytical procedures designed to capture the exposure of the District to the internal control weaknesses observed.

We found the potential for abuse in the current configuration of the purchasing/accounts payable, payroll, and student activity funds processes is concerning. As stated above, we did not undertake a fraud investigation and as such did not find any fraud but have a serious ongoing concern of the ease for fraud to occur. The noted control deficiencies within each area are outlined along with our recommendations to improve the District’s internal controls and help prevent fraud while providing better information to the administration and taxpayers.

Payroll

CURRENT PROCESS OVERVIEW

Information specific to the District's current payroll process was obtained through review of the District's contract with the teachers' union and the support staff handbook and interviews and/or walkthroughs with the following:

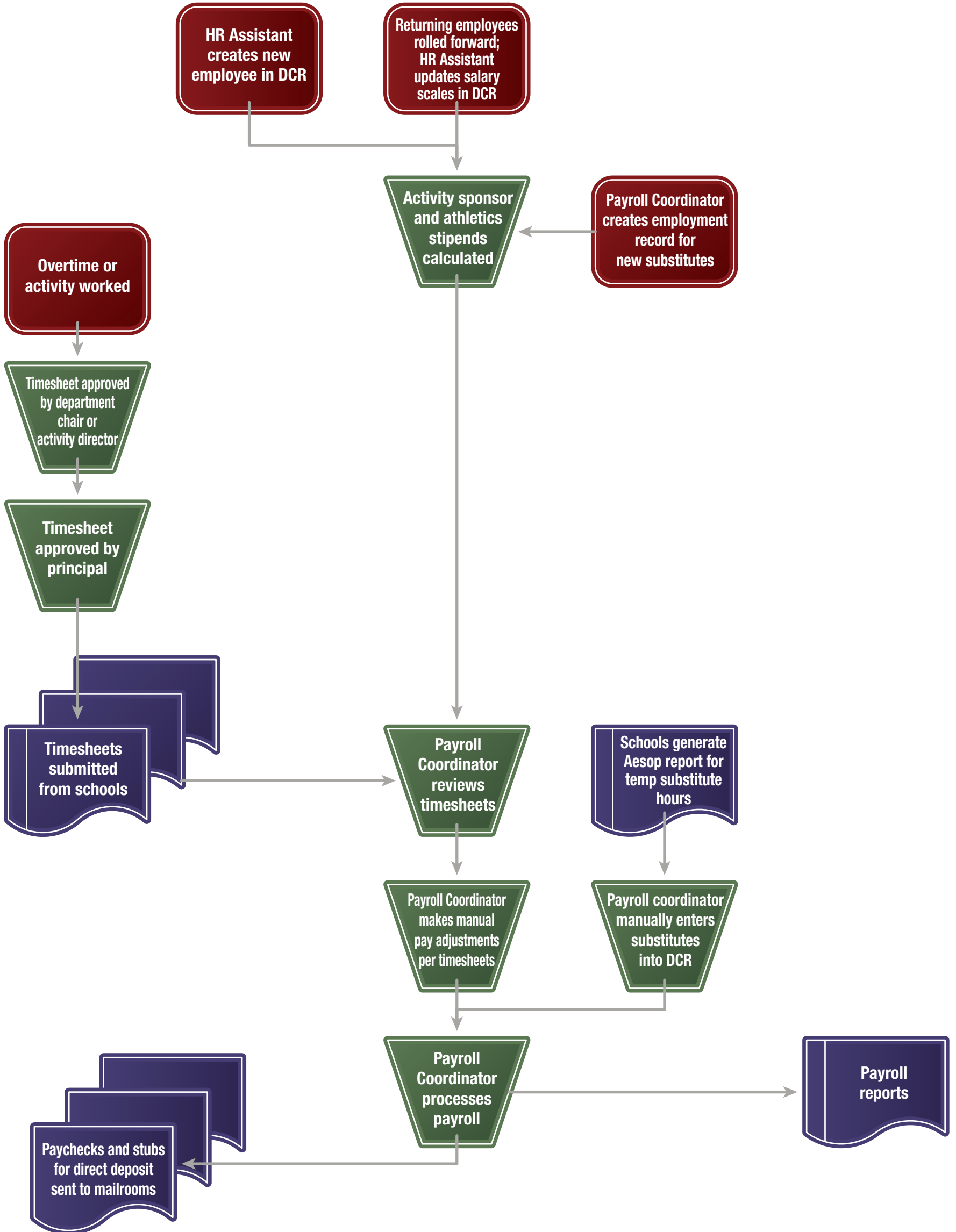
- Domenico Maniscalco – Director of Human Resources
- Karen Zahara – Administrative Assistant for Human Resources
- Mark Gillono – Director of Fiscal Services
- Carol Petracek – Coordinator of Payroll (retired as of April 3, 2014)
- Michele Pinkard – Coordinator of Payroll
- Bill Walsh – Assistant Principal of Operations, Central
- Greg Gardner – Activities Director, South

A summary of the current procedures is included in the process map on the following page.

Hinsdale Township High School District #86

Payroll

As of April 17, 2014



New Employee Creation

New employees are created in DCR system by the Administrative Assistant for Human Resources (HR) (the HR Assistant) based on approved documentation which is retained in the personnel files. The HR Assistant will obtain the necessary employee information and salary information and populate the fields on the “E-1” and “G-3” screens, respectively. Currently, employees are identified by their social security number rather than another employee numbering system. The HR Assistant determines the appropriate salary for teachers based on years of experience and education. There are several “lanes” established in the salary schedule based on achieving certain educational milestones and “steps” within each lane based on years of experience. As long as a teacher stays in the same lane, DCR automatically rolls them over to the next step for the next school year. Step advancements are based on full school years of service and are only granted at the beginning of a school year (not between fall and spring semesters). If a teacher takes a leave of absence, the step is manually adjusted back to account for that leave. Lane changes are made manually. When pay rates are renegotiated, the HR Assistant updates the salary scales in DCR.

Occasionally, a new personnel record will be created by the Coordinator of Payroll. This occurs when there is a new substitute teacher who has never been paid by the District. The Coordinator of Payroll will enter employee information for screen E-1 and process payroll with the appropriate rate. There is no process to notify HR of new substitute teachers added by the Coordinator of Payroll. The Coordinator of Payroll also has access to set up or modify employees through the E-1 and G-3 screens and will occasionally use this access in the HR Assistant’s absence. Typical uses for this access are zeroing payroll data if someone has terminated employment and should not receive a check or adjusting the number of pay periods if a teacher started mid-year in the previous school year and pay periods had not been adjusted in the roll over process (e.g. increasing from 5 to 10 pay periods). Changes to the system are not detailed on an edit report and are not reviewed by supervisory personnel.

The standard payroll should be reconciled for new employees on at least a monthly basis.

A detailed account of the determination of employee compensation is included as Appendix A to this report.

Employee Terminations/Resignations

At the school level, the Principal or Assistant Principal for Operations will notify the Director of Human Resources (the HR Director), of all employee terminations/resignations. Notification is generally sent via email. The HR Director will forward the notification to the HR Assistant and the Benefits Coordinator. When the HR Assistant receives notification that an employee is

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leaving the District, she enters the termination date in the system and performs a “count out” of the final salary payment to be made to the employee. This “count out” involves determining total salary earned based on days worked, adjusting for any vacation and sick days used but not earned, and subtracting salary paid to date to arrive at a net amount due to the employee. The count out is summarized in a letter to be sent to the employee with copies to the Coordinator of Payroll and Benefits Coordinator.

It is our understanding that the District has purchased the fixed asset module of the Infinite Visions software. We recommend that the District also purchase the equipment to create bar codes and fixed asset tags. This will assist in creating a list of fixed assets, such as IT equipment, by employee which will aid in the retrieval of valuable equipment when an employee leaves the District.

Terminations/resignations at the Administrative Office are handled similarly; however, all Administrative Office employees generally have first hand knowledge of terminations/resignations because of the relatively small number of staff working in that building.

As with new employees, the standard payroll should be reconciled for terminations on at least a monthly basis.

Stipends for Student Activities

Based on information provided by the South Activities Director, there are approximately 250 student activity sponsor positions (extra-curricular assignments) across 160 active student groups/activities combined for both high schools. Of those positions, 217 receive stipends. These activities exclude coaching positions. A group must be active for three years minimum before becoming eligible for a stipend position. Per the teachers’ contract, there are up to 140 additional stipend positions for head coach and assistant coach positions in 40 different sports activities.

Per discussion with the South Activities Director, the activities currently listed in the teachers’ contract have not been updated for the last two negotiation cycles and are not reflective of currently active positions and stipends, although the ability to adjust and reallocate stipends based on changes from year to year exists. The District needs the added control of an annual report which lists all changes made from year to year. Regular updating of this file would allow the District to reallocate stipends from inactive groups to new positions and would serve as a control against payments which should have been terminated.

Payroll Data Accumulation

Building and Grounds (B&G) employees use a time clock system to record hours worked. The time clock located at the loading dock requires an employee enter their code as well as scan their hand. Time sheets are run every two weeks (the day after each pay date) by the B&G administrative assistant and reviewed/approved by the B&G supervisor. Approved time sheets are sent to the Coordinator of Payroll to be manually entered into the payroll system. This system is open to significant error and possible abuse.

For salaried employees, timesheets are only required when extra pay is involved. This would include overtime for support staff (non-certified), special activities/extra duty, and long-term substitutes. There is no verification that the employee worked his or her scheduled hours.

Timesheets are prepared by employees using template worksheets available to them in the employee section of the District website. Timesheets are prepared and signed by the employee, approved by the employee's supervisor and school principal and forwarded to the Coordinator of Payroll for processing.

Payroll data for temporary substitutes is generated through the Aesop system. For each payroll date, each school generates a report from Aesop showing the number of periods worked by each temporary substitute. The Coordinator of Payroll manually enters this information into DCR in order to process payment. This manual process is subject to considerable error and abuse.

Absences are tracked at the school level and it is their task to verify that employees have paid-time-off available. We do not know the effectiveness of this review but because it is essentially manual, it is subject to error. HR records in this regard are only a reflection of what is being entered at the school level. HR has the ability to run a deduction report at end of year to ensure proper amount of deductions were taken, but this is not a formalized or regular procedure. In other words, there is no master calculation of pay due to each employee that would serve as a check against payments made.

There is no scan card or security system from which an audit could be based, meaning the current system effectively does not allow for appropriate review procedures.

Payroll Processing

Before each pay date, the Coordinator of Payroll will review and enter all manual timesheets. The Coordinator's review attempts to determine that payments are appropriate – such as whether an employee worked the required hours during the week to earn overtime pay, whether an employee is eligible for the additional pay (e.g. support staff cannot earn internal substitution pay

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in addition to their base salary for working the normal required hours), or possibly determining whether special activity/extra duty pay was reported in a prior pay period.

Once all manual timesheets have been entered, the Coordinator of Payroll runs the payroll process which involves preparing the bank transaction for direct deposit, printing paper checks and running them through the check signer, and printing pay stubs. Support staff are paid twice each month on the 15th and last day of the month. Teachers are paid once each month on the last day of the month. It is considered best practice to discontinue the use of paper payroll checks which are subject to check tampering and are inefficient to produce. Direct deposit of payroll checks eliminates the disclosure of banking accounts to outside parties.

Copies of payroll reports are provided to the Director of Fiscal Services, who utilizes the payroll reports for cash flow analysis only. There is no supervisory role in the accounting department to check and verify payroll. This represents an organizational control deficiency that could be remedied by incorporating this function into the Director of Financial Controls position.

Paper checks and pay stubs are sent to the buildings where they are distributed to the employee's mailbox. The insecurity of this process is obvious. Paper checks for temporary substitutes are mailed by the Coordinator of Payroll to the substitute with no review/approval. There is no supervisory review verifying that the payroll processed is the payroll paid. Supervisors and principals are not asked to review any payroll reports after payroll has been processed.

PAYROLL DATA ANALYSIS

Based on the preliminary findings identified in our observation of various payroll processes, we designed several tests to be applied to payroll data during fiscal years 2013 and year-to-date 2014 (July 1, 2012 through March 28, 2014). These tests were focused on the more prominent weaknesses which would allow for fraud or error. Due to significant complexity in the methods to calculate compensation within the District and inconsistencies in the way transactions are recorded (pay types, assignments, etc), tests were not designed to identify all possible instances of fraud or error. Implementation of recommendations would significantly reduce opportunities for error and fraud.

Data for this analysis was provided by two of the District's software vendors: Data Control & Research, Ltd. (DCR) (human resources and payroll data) and Aesop (substitute teacher data).

Analysis of Approved Salary Schedules and Payroll Paid

For each fiscal year separately, we summarized approved salary data and actual payroll paid by employee to identify significant discrepancies between expected payroll and actual payroll.

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Approved salary data consisted of base salary and stipends (activities, athletics, and master's/certifications) as entered in the Salary Verification screen (G-3) of DCR as of June 30, 2013 and March 28, 2014. Actual payroll paid consisted of all payroll checks from July 1, 2012 through March 28, 2014. Our analysis focused on instances where actual payroll paid exceeded the expected payroll for a particular fiscal year.

While numerous discrepancies were noted, further review of salary and payroll data revealed discrepancies were primarily the result of (a) overtime payments, (b) substitute teacher pay, in particular long term substitutes, and (c) supplemental retirement pay. Overtime and substitute pay are further discussed below. After accounting for these three items, remaining potential overpayments of \$10,000 or more were reviewed in detail. This additional review yielded one potential irregularity in the pay for an employee in fiscal year 2014. The approved salary schedule for the employee included \$85,115.94 for English instruction and \$13,263.06 for "ELL TBE/TPI GRANT." At twelve contract pays, payments to the employee for the ELL TBE/TPI GRANT should have been \$1,105.26 per pay period. However, payroll data showed eight payments of \$2,744.91. On September 30, 2013, there was an adjustment to pay of (\$1,639.65) which reduced the September 30, 2013 payroll to \$1,105.26. No other pay adjustments were noted.

Other significant potential overpayments appear properly explained by other factors not accounted for in the approved salary schedules, such as pay for music paraprofessionals, extra duties including camps, summer curriculum development, and vacation payouts.

In addition to comparing approved salary schedules from DCR to actual payroll paid, we also verified the pay rates assigned to employees in DCR on a test basis. Based on the salary schedule, lane, and step information entered into DCR, it appears salary rates were consistent with approved salary schedules. No significant irregularities were noted in this review.

Overtime Compensation

A summary of overtime compensation by department (payroll cost center account 5) is presented in TABLE A. This summary reveals a significant amount of overtime paid to maintenance employees. TABLE B details the amount of overtime paid to each maintenance employee during fiscal years 2013 and 2014. Based on total overtime hours for fiscal year 2013 and projected overtime hours for fiscal year 2014, the District could have hired 3 additional full-time maintenance employees at a potential cost savings of approximately \$82,500 in fiscal year 2013 and \$89,000 in fiscal year 2014. Because this information includes salary information by name, we ask that District consider these Tables confidential and not for public distribution. Table B will be provided in a separate file to this report.

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Overtime needs are driven by athletic events. There currently is no systematic reporting or justification by any managerial personnel and no reporting to the Board. This could allow for the possibility of systematic overtime abuses.

Substitute Teacher Pay

Due to control weaknesses related to substitute pay, we obtained substitute data from Aesop to determine all persons receiving substitute pay had been processed through that system. Based on these procedures, we noted no person receiving substitute pay who did not have a record in Aesop or who was not otherwise identified as current District employees or long-term substitutes.

Payments After Termination

An analysis was performed to review employees who received payroll checks following their termination date as entered in DCR. Based on our review of this data, we noted no payments after termination which appeared irregular. The majority of payments appeared to relate to (1) continuation of contract installments through the summer (12 or 24 pays) for persons retiring at the end of a school year, (2) final vacation and comp time payouts, and (3) substitute or other extra duty activities.

Other Considerations

Employee social security numbers were reviewed to identify any duplicate numbers or irregular numerical sequences (e.g. 123456789, 111111111, etc.). No duplicate or unusual social security numbers were identified.

Where applicable, we reviewed lane and step advancements between June 30, 2013 and March 28, 2014 to determine if any employees advanced more than one lane or step between fiscal years 2013 and 2014. Based on our review, we noted one employee who advanced from MA, step 2 to MA+60, step 3, bypassing the MA+30 lane. No other unusual advancements were noted.

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Additional Supplementary Schedules

In addition to the tables referenced above, the following tables had been provided for purposes of additional information and analysis.

By location (cost center account 4):

- TABLE C: *Total Payroll – By Location* – Provides a summary of total payroll from 7/1/12 through 3/28/14, by fiscal year, for the various District operating locations.
- TABLE D: *Comparative Payroll – By Location* – Provides a comparison of total payroll paid, by location, through March of each fiscal year.
- TABLE E: *Comparative Payroll Fluctuation Analysis – By Location* – Provides an analysis of the changes in total payroll (\$ and %), by location, through March of each fiscal year.

By department (cost center account 5):

- TABLE F: *Total Payroll – By Department* - Provides a summary of total payroll from 7/1/12 through 3/28/14, by fiscal year, for the various departments as determined by cost center account 5. Table has been sorted in descending order by total departmental payroll over the two fiscal years combined.
- TABLE G: *Comparative Payroll – By Department* - Provides a comparison of total payroll paid, by department, through March of each fiscal year. Table has been sorted in descending order by total departmental payroll over the two fiscal years combined.
- TABLE H: *Comparative Payroll Fluctuation Analysis – By Location* - Provides an analysis of the changes in total payroll (\$ and %), by department, through March of each fiscal year. Table has been sorted in descending order by largest total dollar fluctuation between the two fiscal years.

By employee:

- TABLE I: *Total Payroll – By Employee* – Provides a summary of payroll by employee from 7/1/12 through 3/28/14, by fiscal year. Table has been sorted in descending order by total payroll over the two fiscal years combined.
- TABLE J: *Comparative Payroll – By Employee* - Provides a comparison of total payroll paid, by employee, through March of each fiscal year. Table has been sorted in descending order by total payroll over the two fiscal years combined.
- TABLE K: *Comparative Payroll Fluctuation Analysis – By Employee* - Provides an analysis of the changes in total payroll (\$ and %), by employee, through March of each fiscal year. Table has been sorted in descending order by largest total dollar fluctuation between the two fiscal years.

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OVERTIME COMPENSATION BY DEPARTMENT **TABLE A**
CONFIDENTIAL

DEPARTMENT	FY2013	FY2014	Total
MAINT	\$ 230,945.77	\$ 196,852.45	\$ 427,798.22
DATA PROC	14,020.08	8,362.47	22,382.55
ED SERVICES	14,086.41	5,719.68	19,806.09
H. RESOURCE	2,340.41	8,144.46	10,484.87
VOCAL MUSIC	5,694.37	4,256.36	9,950.73
BUS. OFFICE	3,620.20	4,455.88	8,076.08
PRINCIPAL	2,986.07	2,173.62	5,159.69
DEAN	785.39	1,063.42	1,848.81
BOOKSTORE	981.36	427.88	1,409.24
GUIDANCE	787.84	167.51	955.35
SUPT	48.24	881.05	929.29
ASST SUPT	545.50	297.38	842.88
AUDIO VISUAL	274.65	457.80	732.45
CUST	91.26	-	91.26
HEALTH	-	38.52	38.52
PHYSICAL ED	-	22.56	22.56
	<u>\$ 277,207.55</u>	<u>\$ 233,321.04</u>	<u>\$ 510,528.59</u>

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TOTAL PAYROLL - BY LOCATION (Cost Center Acct 4)

**TABLE C
 CONFIDENTIAL**

Acct 4		FY2013				FY2014 (through 3/28/14)			
		Base	Supplemental	Additional Pay	Total	Base	Supplemental	Additional Pay	Total
5	DIST WIDE	\$ 850,905	\$ 28,084	\$ 298,672	\$ 1,177,661	\$ 664,840	\$ 15,233	\$ 78,516	\$ 758,589
6	ADMIN	1,206,624	-	25,658	1,232,282	639,726	11,741	73,285	724,752
15	CENTRAL	21,592,682	270,319	3,146,498	25,009,499	17,042,534	299,141	2,292,489	19,634,165
16	SOUTH	16,167,342	261,353	2,551,920	18,980,615	12,524,950	247,098	1,699,234	14,471,283
18	TRANS CENTER	536,363	-	21,066	557,429	534,401	3,678	8,256	546,335
		<u>\$ 40,353,916</u>	<u>\$ 559,757</u>	<u>\$ 6,043,814</u>	<u>\$ 46,957,486</u>	<u>\$ 31,406,452</u>	<u>\$ 576,892</u>	<u>\$ 4,151,780</u>	<u>\$ 36,135,124</u>

COMPARATIVE PAYROLL - BY LOCATION (Cost Center Acct 4)

(Though March of Each Fiscal Year)

**TABLE D
 CONFIDENTIAL**

Acct 4		FY2013 (through 3/31/13)				FY2014 (through 3/28/14)			
		Base	Supplemental	Additional Pay	Total	Base	Supplemental	Additional Pay	Total
5	DIST WIDE	\$ 638,105	\$ 20,723	\$ 79,662	\$ 738,490	\$ 664,840	\$ 15,233	\$ 78,516	\$ 758,589
6	ADMIN	904,151	-	7,210	911,361	639,726	11,741	73,285	724,752
15	CENTRAL	14,922,875	188,647	2,188,599	17,300,121	17,042,534	299,141	2,292,489	19,634,165
16	SOUTH	11,121,524	167,406	1,745,275	13,034,205	12,524,950	247,098	1,699,234	14,471,283
18	TRANS CENTER	370,071	-	16,900	386,971	534,401	3,678	8,256	546,335
		<u>\$ 27,956,726</u>	<u>\$ 376,776</u>	<u>\$ 4,037,645</u>	<u>\$ 32,371,147</u>	<u>\$ 31,406,452</u>	<u>\$ 576,892</u>	<u>\$ 4,151,780</u>	<u>\$ 36,135,124</u>

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COMPARATIVE PAYROLL FLUCTUATION ANALYSIS - BY LOCATION

**TABLE E
 CONFIDENTIAL**

Acct 4		Year-to-Date Fluctuation									
		Base		Supplemental		Additional Pay		Total			
		\$	%	\$	%	\$	%	\$	%		
5	DIST WIDE	\$ 26,736	4.2%	\$ (5,490)	-26.5%	\$ (1,146)	-1.4%	\$ 20,100	2.7%		
6	ADMIN	(264,426)	-29.2%	11,741	100.0%	66,075	916.5%	(186,609)	-20.5%		
15	CENTRAL	2,119,659	14.2%	110,495	58.6%	103,890	4.7%	2,334,044	13.5%		
16	SOUTH	1,403,426	12.6%	79,692	47.6%	(46,041)	-2.6%	1,437,078	11.0%		
18	TRANS CENTER	164,329	44.4%	3,678	100.0%	(8,644)	-51.1%	159,364	41.2%		
		<u>\$ 3,449,725</u>	12.3%	<u>\$ 200,116</u>	53.1%	<u>\$ 114,135</u>	2.8%	<u>\$ 3,763,976</u>	11.6%		

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TOTAL PAYROLL - BY DEPARTMENT (Cost Center Acct 5)

TABLE F
 CONFIDENTIAL

Acct 5	Department	FY2013				FY2014 (through 3/28/14)			
		Base	Supplemental	Additional Pay	Total	Base	Supplemental	Additional Pay	Total
189	ED SERVICES	\$ 4,927,015	\$ 36,207	\$ 132,544	\$ 5,095,766	\$ 3,956,784	\$ 25,170	\$ 38,545	\$ 4,020,499
50	ENGLISH	4,184,341	24,068	90,059	4,298,469	3,214,126	17,745	577	3,232,448
860	PRINCIPAL	1,510,362	14,593	2,419,918	3,944,873	1,157,520	6,588	2,051,624	3,215,732
130	SCIENCE	3,831,034	24,068	60,490	3,915,592	3,019,915	17,745	3,065	3,040,725
110	MATH	3,758,031	23,068	66,476	3,847,575	2,975,679	24,177	1,736	3,001,592
150	SOC STUDIES	3,237,524	35,038	49,933	3,322,496	2,536,824	17,383	198	2,554,405
60	FOREIGN LANG	2,652,470	25,011	45,748	2,723,230	2,093,203	21,458	661	2,115,323
861	GUIDANCE	2,460,191	65,191	80,367	2,605,748	1,856,334	53,191	63,821	1,973,346
81	PHYSICAL ED	2,241,885	41,996	45,221	2,329,101	1,713,150	20,242	290	1,733,682
220	ATHLETICS	314,933	21,398	1,749,383	2,085,714	241,766	25,094	1,222,730	1,489,590
890	MAINT	1,596,871	23,020	297,817	1,917,707	1,224,813	18,518	225,667	1,468,998
862	DEAN	1,385,682	80,457	16,140	1,482,278	1,201,547	58,773	11,633	1,271,953
30	BUS ED	937,528	22,568	9,900	969,996	713,168	16,659	525	730,352
20	ART	801,141	21,068	5,868	828,077	568,213	15,572	8,805	592,590
750	DATA PROC	695,113	20,084	24,088	739,285	527,696	14,147	12,510	554,352
604	LIBRARY	601,391	21,068	13,426	635,886	454,535	15,572	2,504	472,611
90	FAM/CONS SCI	564,970	-	11,429	576,399	454,937	-	0	454,937
0		-	-	331,461	331,461	412,218	3,678	264,442	680,337
100	TECH ED	550,014	-	7,356	557,370	427,111	-	-	427,111
121	INSTR MUSIC	394,702	10,534	105,444	510,680	315,949	7,786	75,861	399,596
900	CUST	510,016	6,933	804	517,752	366,860	-	398	367,257
300	DRIVERS ED	464,299	5,094	7,624	477,016	339,347	3,692	1,255	344,294
730	BUS. OFFICE	398,228	-	3,620	401,848	222,910	5,923	21,744	250,577
745	H. RESOURCE	264,824	-	13,527	278,351	146,812	-	18,338	165,150
606	AUDIO VISUAL	233,783	-	15,657	249,440	189,664	-	2,745	192,409
700	SUPT	318,047	5,000	8,036	331,084	45,917	5,818	33,203	84,938
195	HRNG IMP	227,453	-	9,026	236,479	169,171	-	8,715	177,886
928	HEALTH	213,448	-	2,509	215,957	159,807	-	1,309	161,116
740	ASST SUPT	189,586	-	2,581	192,167	169,361	-	-	169,361
113		-	5,000	131,685	136,685	-	165,934	2,198	168,132
721	ASST SUPT	170,916	14,428	9,500	194,843	95,937	11,505	2,409	109,852
722	ASST SUPT	152,197	5,735	9,806	167,739	87,092	-	(2,044)	85,048
956	BOOKSTORE	129,943	5,129	9,037	144,109	89,145	3,434	11,261	103,840
122	VOCAL MUSIC	132,379	-	10,015	142,395	97,436	-	5,579	103,015
944	SUM SCH	-	3,000	211,958	214,958	-	1,087	8,874	9,961
863	PRINCIPAL	134,542	-	1,585	136,127	34,740	-	-	34,740
720	ASST SUPT	69,137	-	21,993	91,130	32,946	-	13,858	46,804
462	IDEA PART B	-	-	-	-	91,097	-	-	91,097
865	ACTIVITY DIR	60,060	-	433	60,493	-	-	-	-
710	BD OF ED	-	-	11,269	11,269	-	-	35,000	35,000
859	CURRIC/STAFF	29,993	-	106	30,099	1,897	-	-	1,897
724	CTEIGRANT	9,865	-	(27)	9,839	826	-	-	826
999	IDEA SUB GRA	-	-	-	-	-	-	1,745	1,745
		\$ 40,353,916	\$ 559,757	\$ 6,043,814	\$ 46,957,486	\$ 31,406,452	\$ 576,892	\$ 4,151,780	\$ 36,135,124

Hinsdale Township High School District 86
Report on Internal Controls

COMPARATIVE PAYROLL - BY DEPARTMENT (Cost Center Acct 5)
(Though March of Each Fiscal Year)

TABLE G
CONFIDENTIAL

Acct 5	Department	FY2013 (through 3/31/13)				FY2014 (through 3/28/14)			
		Base	Supplemental	Additional Pay	Total	Base	Supplemental	Additional Pay	Total
189	ED SERVICES	\$ 3,390,748	\$ 24,840	\$ 93,681	\$ 3,509,269	\$ 3,956,784	\$ 25,170	\$ 38,545	\$ 4,020,499
50	ENGLISH	2,877,867	16,045	75,422	2,969,334	3,214,126	17,745	577	3,232,448
860	PRINCIPAL	1,133,443	8,725	1,547,034	2,689,202	1,157,520	6,588	2,051,624	3,215,732
130	SCIENCE	2,608,352	16,045	58,361	2,682,758	3,019,915	17,745	3,065	3,040,725
110	MATH	2,554,315	15,379	53,034	2,622,727	2,975,679	24,177	1,736	3,001,592
150	SOC STUDIES	2,196,779	15,045	49,055	2,260,879	2,536,824	17,383	198	2,554,405
60	FOREIGN LANG	1,817,551	17,695	45,748	1,880,995	2,093,203	21,458	661	2,115,323
861	GUIDANCE	1,679,176	48,422	79,943	1,807,541	1,856,334	53,191	63,821	1,973,346
81	PHYSICAL ED	1,522,460	28,353	36,859	1,587,671	1,713,150	20,242	290	1,733,682
890	MAINT	1,197,627	17,265	246,331	1,461,223	1,224,813	18,518	225,667	1,468,998
220	ATHLETICS	236,199	14,265	1,097,309	1,347,773	241,766	25,094	1,222,730	1,489,590
862	DEAN	942,557	52,635	13,735	1,008,927	1,201,547	58,773	11,633	1,271,953
30	BUS ED	621,392	15,045	9,900	646,337	713,168	16,659	525	730,352
20	ART	547,490	14,045	5,868	567,403	568,213	15,572	8,805	592,590
750	DATA PROC	521,319	14,973	21,582	557,874	527,696	14,147	12,510	554,352
0		-	-	278,400	278,400	412,218	3,678	264,442	680,337
604	LIBRARY	410,329	14,045	9,789	434,163	454,535	15,572	2,504	472,611
90	FAM/CONS SCI	388,913	-	11,429	400,342	454,937	-	0	454,937
100	TECH ED	379,352	-	7,356	386,708	427,111	-	-	427,111
900	CUST	385,821	6,933	(401)	392,353	366,860	-	398	367,257
121	INSTR MUSIC	260,331	7,023	76,743	344,096	315,949	7,786	75,861	399,596
300	DRIVERS ED	309,312	3,396	7,164	319,872	339,347	3,692	1,255	344,294
730	BUS. OFFICE	298,671	-	1,018	299,689	222,910	5,923	21,744	250,577
606	AUDIO VISUAL	172,943	-	9,045	181,988	189,664	-	2,745	192,409
745	H. RESOURCE	198,618	-	3,232	201,851	146,812	-	18,338	165,150
195	HRNG IMP	151,415	-	9,026	160,441	169,171	-	8,715	177,886
700	SUPT	238,535	3,750	48	242,334	45,917	5,818	33,203	84,938
740	ASST SUPT	142,190	-	1,896	144,085	169,361	-	-	169,361
928	HEALTH	143,235	-	2,509	145,744	159,807	-	1,309	161,116
113		-	5,000	131,685	136,685	-	165,934	2,198	168,132
721	ASST SUPT	132,968	9,618	3,580	146,166	95,937	11,505	2,409	109,852
956	BOOKSTORE	98,744	1,843	9,037	109,623	89,145	3,434	11,261	103,840
122	VOCAL MUSIC	89,393	-	6,227	95,621	97,436	-	5,579	103,015
722	ASST SUPT	103,671	4,390	2,170	110,231	87,092	-	(2,044)	85,048
863	PRINCIPAL	89,166	-	1,585	90,751	34,740	-	-	34,740
720	ASST SUPT	46,092	-	20,463	66,555	32,946	-	13,858	46,804
462	IDEA PART B	-	-	-	-	91,097	-	-	91,097
710	BD OF ED	-	-	11,269	11,269	-	-	35,000	35,000
865	ACTIVITY DIR	39,930	-	433	40,363	-	-	-	-
859	CURRIC/STAFF	22,437	-	106	22,543	1,897	-	-	1,897
944	SUM SCH	-	2,000	-	2,000	-	1,087	8,874	9,961
724	CTEIGRANT	7,386	-	(27)	7,360	826	-	-	826
999	IDEA SUB GRA	-	-	-	-	-	-	1,745	1,745
		<u>\$ 27,956,726</u>	<u>\$ 376,776</u>	<u>\$ 4,037,645</u>	<u>\$ 32,371,147</u>	<u>\$ 31,406,452</u>	<u>\$ 576,892</u>	<u>\$ 4,151,780</u>	<u>\$ 36,135,124</u>

Hinsdale Township High School District 86
 Report on Internal Controls

COMPARATIVE PAYROLL FLUCTUATION ANALYSIS - BY LOCATION TABLE H
 (Sorted descending by total dollar fluctuation) CONFIDENTIAL

Acct 5	Department	Year-to-Date Fluctuation							
		Base		Supplemental		Additional Pay		Total	
		\$	%	\$	%	\$	%	\$	%
860	PRINCIPAL	\$ 24,078	2.1%	\$ (2,137)	-24.5%	\$ 504,589	32.6%	\$ 526,530	19.6%
189	ED SERVICES	566,036	16.7%	330	1.3%	(55,136)	-58.9%	511,230	14.6%
0		412,218	n/a	3,678	n/a	(13,958)	-5.0%	401,938	144.4%
110	MATH	421,364	16.5%	8,798	57.2%	(51,298)	-96.7%	378,864	14.4%
130	SCIENCE	411,563	15.8%	1,700	10.6%	(55,296)	-94.7%	357,967	13.3%
150	SOC STUDIES	340,046	15.5%	2,338	15.5%	(48,857)	-99.6%	293,526	13.0%
50	ENGLISH	336,259	11.7%	1,700	10.6%	(74,845)	-99.2%	263,114	8.9%
862	DEAN	258,990	27.5%	6,138	11.7%	(2,102)	-15.3%	263,026	26.1%
60	FOREIGN LANG	275,652	15.2%	3,764	21.3%	(45,087)	-98.6%	234,328	12.5%
861	GUIDANCE	177,157	10.6%	4,770	9.8%	(16,122)	-20.2%	165,805	9.2%
81	PHYSICAL ED	190,690	12.5%	(8,111)	-28.6%	(36,568)	-99.2%	146,010	9.2%
220	ATHLETICS	5,567	2.4%	10,828	75.9%	125,421	11.4%	141,817	10.5%
462	IDEA PART B	91,097	n/a	-	n/a	-	n/a	91,097	n/a
30	BUS ED	91,776	14.8%	1,614	10.7%	(9,374)	-94.7%	84,015	13.0%
121	INSTR MUSIC	55,618	21.4%	763	10.9%	(882)	-1.1%	55,500	16.1%
90	FAM/CONS SCI	66,023	17.0%	-	n/a	(11,429)	-100.0%	54,594	13.6%
100	TECH ED	47,760	12.6%	-	n/a	(7,356)	-100.0%	40,403	10.4%
604	LIBRARY	44,206	10.8%	1,527	10.9%	(7,285)	-74.4%	38,448	8.9%
113		-	n/a	160,934	3218.7%	(129,488)	-98.3%	31,446	23.0%
740	ASST SUPT	27,171	19.1%	-	n/a	(1,896)	-100.0%	25,275	17.5%
20	ART	20,723	3.8%	1,527	10.9%	2,937	50.0%	25,187	4.4%
300	DRIVERS ED	30,035	9.7%	296	8.7%	(5,909)	-82.5%	24,423	7.6%
710	BD OF ED	-	n/a	-	n/a	23,731	210.6%	23,731	210.6%
195	HRNG IMP	17,756	11.7%	-	n/a	(311)	-3.4%	17,445	10.9%
928	HEALTH	16,572	11.6%	-	n/a	(1,200)	-47.8%	15,372	10.5%
606	AUDIO VISUAL	16,721	9.7%	-	n/a	(6,300)	-69.7%	10,422	5.7%
944	SUM SCH	-	n/a	(913)	-45.7%	8,874	n/a	7,961	398.0%
890	MAINT	27,186	2.3%	1,253	7.3%	(20,664)	-8.4%	7,775	0.5%
122	VOCAL MUSIC	8,043	9.0%	-	n/a	(649)	-10.4%	7,394	7.7%
999	IDEA SUB GRA	-	n/a	-	n/a	1,745	n/a	1,745	n/a
750	DATA PROC	6,376	1.2%	(826)	-5.5%	(9,072)	-42.0%	(3,522)	-0.6%
956	BOOKSTORE	(9,599)	-9.7%	1,591	86.3%	2,224	24.6%	(5,783)	-5.3%
724	CTEIGRANT	(6,560)	-88.8%	-	n/a	27	-100.0%	(6,533)	-88.8%
720	ASST SUPT	(13,145)	-28.5%	-	n/a	(6,605)	-32.3%	(19,750)	-29.7%
859	CURRIC/STAFF	(20,540)	-91.5%	-	n/a	(106)	-100.0%	(20,646)	-91.6%
900	CUST	(18,961)	-4.9%	(6,933)	-100.0%	799	-199.1%	(25,095)	-6.4%
722	ASST SUPT	(16,579)	-16.0%	(4,390)	-100.0%	(4,214)	-194.2%	(25,183)	-22.8%
721	ASST SUPT	(37,031)	-27.8%	1,887	19.6%	(1,171)	-32.7%	(36,315)	-24.8%
745	H. RESOURCE	(51,806)	-26.1%	-	n/a	15,105	467.3%	(36,701)	-18.2%
865	ACTIVITY DIR	(39,930)	-100.0%	-	n/a	(433)	-100.0%	(40,363)	-100.0%
730	BUS. OFFICE	(75,761)	-25.4%	5,923	n/a	20,727	2036.5%	(49,112)	-16.4%
863	PRINCIPAL	(54,426)	-61.0%	-	n/a	(1,585)	-100.0%	(56,011)	-61.7%
700	SUPT	(192,619)	-80.8%	2,068	55.2%	33,155	68729.1%	(157,396)	-64.9%
		<u>\$ 3,449,725</u>	12.3%	<u>\$ 200,116</u>	53.1%	<u>\$ 114,135</u>	2.8%	<u>\$ 3,763,976</u>	11.6%

Hinsdale Township High School District 86
Report on Internal Controls

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SIKICH OBSERVATIONS

Internal Control Issues and Recommendations

1. Remove ability of Coordinator of Payroll to add or modify employee records and salary information. Coordinator of Payroll currently adds all new substitutes to the system for payroll and there is no review/verification of these persons.
2. Utilize a payroll change report and institute supervisory responsibility with monthly review procedures to be performed by the Director of HR.
3. Establish system capabilities to track the employee who makes each change. DCR said this capability was available but not utilized in the implementation for the District.
4. Develop a procedure to have payroll reports reviewed each pay cycle or monthly by an appropriate employee other than the Coordinator of Payroll. Currently there is no review of payroll, only timesheets submitted to payroll for processing.
5. Consider a system which would allow staff to report all overtime and extra duty pay online. The system would route for appropriate approvals and interface directly with the payroll system. Additional system checks could be implemented such as determining if a pay activity and date had already been submitted. Current manual forms allow too many opportunities for error. Portal would also allow staff to see when amounts were paid.
6. Improve communications of/controls related to employee terminations/resignations. Failure to timely notify the Coordinator of Payroll could result in payments being made after an employee has left the District. Failure to timely notify the Administrative functions could result in unauthorized access to DCR.
7. The Director of Fiscal Services (FS Director) is currently responsible for maintaining user access rights to DCR. This function should be moved to the IT department head.
8. Terminations are not communicated to FS Director in a timely manner in order to remove access rights. This is mainly an issue with the schools where the FS Director does not have first hand knowledge of who has terminated employment, however, that risk is mitigated by the fact the school employees only have access to the PO function in DCR. If someone from the Administrative Office were to leave, the FS Director is more likely to have that knowledge and be able to remove access more timely.
9. Job descriptions should be adjusted to reflect the skills and responsibilities of changes implemented.
10. The control system should be comprehensively reviewed on a periodic basis, approximately every three to five years.

Purchasing and Accounts Payable

CURRENT PROCESS OVERVIEW

The following information was obtained through interviews and observations with:

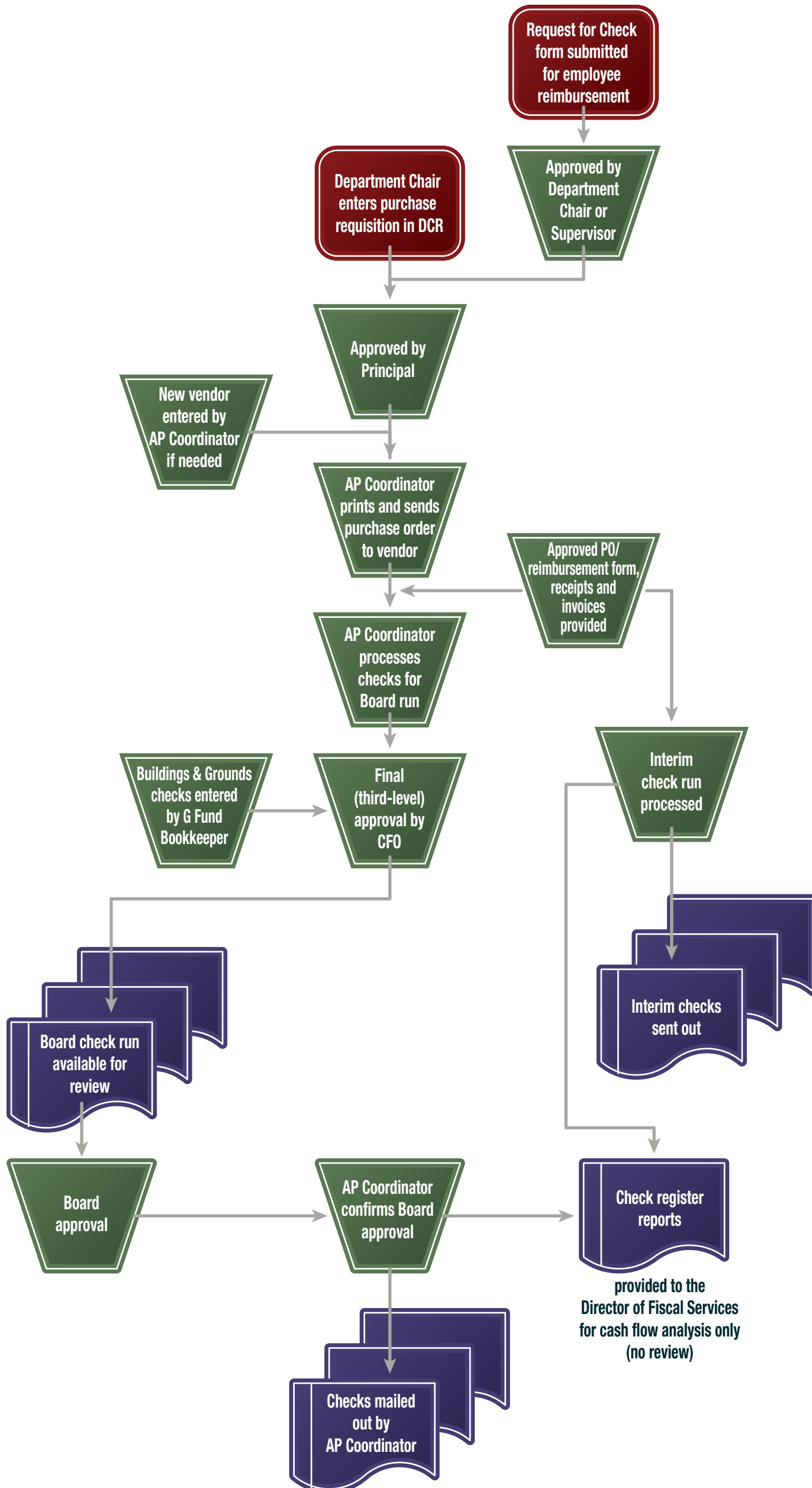
- Kathy Schmitt, Coordinator of Accounts Payable
- Bill Walsh, Assistant Principal of Operations, Central
- Brian Waterman, Principal, South
- Sue Skowronski, Head Custodial Worker, Central
- Kathy Churchill, Head Custodial Worker, South

A summary of the current procedures is included in the process map on the following page.

Hinsdale Township High School District #86

Purchasing

As of April 17, 2014



Ordering

Purchases are made from three sources of funds:

1. Department supply budgets
2. Building level capital projects funds
3. Student activities (“G fund”, general fund) accounts

Department supply budgets and capital projects funds are established at the beginning of the fiscal year by the Principal working with the Department Chairs. Purchasing from the supply budgets is limited to items that have an individual unit cost of \$500 or less. Teachers may request purchases through their Department Chair; however, purchasing authority actually starts with the Department Chair.

Purchases may be initiated through a DCR purchase requisition or through a manual “Request for Check” form. A Department Chair (or his/her assistant) enters a purchase requisition into DCR indicating the vendor, a description of the purchase, and budgetary account code to charge the purchase. The requisition is routed to the Principal for approval and then to the Administrative Office for final approval and processing. Once a requisition has received all necessary approvals and available funds are confirmed, the Coordinator of Accounts Payable prints a physical purchase order form and sends the purchase order to the vendor if not already done by the originator. When the originator prepares the requisition in DCR, a status code should be entered indicating that the order has been placed or, failing that, typing a note which notifies that Coordinator that the order has already been placed. If it is not clear, the Coordinator will call the originator to confirm if the order needs to be placed. The potential for double placement of orders is unacceptably high. Further, by giving the originator the ability to pick the vendor, the District loses buying power and there is the potential for vendor collusion and improper influence.

Vendors are preloaded in DCR and can be selected from a master list. If the vendor does not exist, the originator enters the vendor information and it will be flagged as a new vendor when transmitted to the Administrative Office for processing. Each time the Coordinator runs a “Requisitions Not Approved” report, the Coordinator also runs a “Requisition New Vendors” report to identify any new vendor requests. She will confirm that the vendor is not already set up in DCR and then create the vendor account based on the information provided on the requisition. The Coordinator does not perform any verification of the existence or business of the vendor. This system opens the District to the use of shell vendors or ghost vendors. These procedures should be completely revised and tightly controlled.

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Report on Internal Controls

The “Request for Check” forms are used for employee reimbursements, payments on store purchasing accounts, need for checks to be delivered to vendors upon performance/pickup (which should never happen), or immediate check needs. Request for check forms contain fields for the appropriate approval signatures (originator, Dept. Chair-Supervisor, Principal, and Business Manager). Requests for employee reimbursements must be accompanied by appropriate supporting documentation showing charges incurred and paid. Check requests for payments on store purchasing accounts are prepared by the employee who holds the store purchasing card. These requests are accompanied by an account statement from the store and receipts detailing individual transactions. Occasionally, a check will be needed in advance of an event or pick up of an order to make payment at the time of the event or pick up (hotel lodging for athletics trips, payment due at time of pickup for t-shirt orders, etc.). In these instances, a check request will be filled out with a bid or quote attached, the check will be printed and provided to the requestor, and then Request for Check form is held until a receipt or other proof of payment is provided. The Coordinator keeps a folder of check requests pending documentation and reviews outstanding items monthly. Documentation should be received prior to payment. Purchasing from building level capital projects funds operates in similar fashion to the Department supply budget accounts.

Receiving

The majority of receiving takes place at the loading dock of each high school. The loading docks are staffed by Buildings and Grounds (B&G) employees who will receive shipments in on an “as available” basis. When shipments arrive, B&G employee(s) will verify the addressee on the package and verify they are signing for the correct number of packages.

At Central, all packages received are manually logged by B&G. If it is evident from the address label who placed the order, B&G will deliver the package to the Department unopened. If it is not evident, B&G will open the package to locate a packing slip or other information to help identify the purchaser. This procedure would miss the receipt of items where no purchase order was issued. The goods should at minimum be inspected and findings noted on a copy of the purchase order. The packing list should be attached to this document and sent directly to the Administrative Center.

At South, packages are normally logged manually indicating carrier, date, time, and number of packages for each recipient. At certain times of the year, the volume of packages is considered too large to record each (such as when student books are delivered). In these cases, the recipient will be notified of the delivery and it is their responsibility to receive/verify the shipment. Alternatives such as additional manpower should be considered rather than allowing receiving personnel to disregard normal procedures. If identity is evident from the address label, the package will be delivered to the recipient. If it is not evident, the package will be logged with a

Hinsdale Township High School District 86
Report on Internal Controls

“?” in the recipient field and set aside. The dock waits for the recipient to contact them looking for the package. For the reasons indicated in the prior paragraph, this procedure is essentially no control at all.

Each Department/originator is responsible for verifying the contents of the shipment received. If the shipment is unsatisfactory, the Department will work with the vendor to get issues corrected. If the shipment is satisfactory, the Department will forward the packing slip and/or receiving copy document generated from DCR to the Coordinator of Accounts Payable, who then will match up approved purchase orders with receiving documentation and vendor invoices in order to process payment.

Payment Processing

Checks are typically created twice a week (Tuesdays and Thursdays). During the weeks of Board meetings, checks are only run once. For requisitions processed through DCR, the Coordinator runs the “Requisitions Not Approved” report to determine which requisitions are ready for third level (final) approval and payment. Third level approval has historically been provided by the Business Manager, now CFO. Before printing checks, the Coordinator of Accounts Payable ensures there is a properly approved purchase order, receiving documentation, and a vendor invoice. For “Request for Check” forms, the Coordinator of Accounts Payable ensures that she has a properly approved form and all supporting receipts/invoices.

Once all necessary documentation is in order, the Coordinator of Accounts Payable enters the invoice into DCR. She starts by entering the PO number and filling in the other necessary fields such as invoice number, invoice date, and invoice amount. DCR has a duplicate invoice number check but only for the vendor the invoice is entered under. DCR does not alert to duplicate invoice numbers under separate vendors. Some vendors will have multiple account numbers in DCR and it is possible the same invoice could be entered more than once if posted to the different vendor accounts.

The Coordinator of Accounts Payable selects which items are to be paid in each check run. All check stocks are kept in the vault. Two separate check stocks are used for AP checks: interim checks and Board checks. Each check stock has its own number series but both draw from the same bank account. The Coordinator of Accounts Payable retrieves the appropriate check stock from the vault and loads it in the printer. The Coordinator of Accounts Payable also obtains the signature key dongle from the vault and loads it on her computer for printing. For each check run, the system also generates a check register report. The Coordinator of Accounts Payable provides this report to the Director of Fiscal Services, who uses the information for cash flow analysis. There is no review of individual payments in current procedures; the FS director rather relies on the PO approval processes and the Board review of check listings. Formal review may

Hinsdale Township High School District 86
Report on Internal Controls

fall within the responsibilities of the Director of Financial Controls position. Interim checks are automatically mailed by the Coordinator of Accounts Payable with no further review/approval.

Board checks are held pending approval for payment at the Board meeting. A clerk enters B&G checks for the Board check run. Prior to each meeting, the Coordinator of Accounts Payable provides two check listings to the Executive Assistant, one listing the Board checks needing approval and one listing all interim checks written during the preceding calendar month. Following the Board meeting, the Coordinator of Accounts Payable will check with the FS Director or Executive Assistant to inquire if the Board had any questions or issues that need to be resolved before issuing payments. If ok to pay, the Coordinator of Accounts Payable mails the checks.

It is clear that there is a lack of separation of duties related to the Payables function. One person controls the system from vendor to check and all originators have the ability to qualify and establish vendors. At minimum, supervisory approvals and reviews should be included in the process to pay District bills.

There is no specific guidance for the Coordinator of Accounts Payable as to which checks require Board approval before payment. Generally, the Coordinator of Accounts Payable will do interim check runs for items which need to be paid before the next Board meeting (or result in interest charges) and are more routine in nature. Examples include credit card bills, requests for checks in advance, event registrations, utility bills, etc. Checks in advance would include situations where payment needs to be presented to the vendor at the time of the event or pick up of goods (hotels, presenters, etc.). The Coordinator of Accounts Payable stated there is no dollar threshold which requires Board approval and noted utility bills in particular can often represent high dollar values.

The Coordinator of Accounts Payable stated she does not process any manual checks. All checks are run through the system as described above, even if only one check is prepared at a time. In our opinion, there is no reason to create checks until the payments are reviewed and fully approved. Creation of checks should only happen once a week.

Other Items

Per the Coordinator of Accounts Payable, the miscellaneous vendor account (9999) is used only for employee payments. No other vendors are paid out of this account.

Voided checks are provided to the Director of Fiscal Services, who voids them in the ledger and keeps them in the monthly file. The FS Director stated there are no controls over check numbers in DCR which would allow them to void check numbers in the system to prevent future use. He

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Report on Internal Controls

also noted that DCR would not prevent using the same check number multiple times in the same day.

Employees who are able to fill in for the Coordinator of Accounts Payable in her absence include the General Fund Bookkeeper, Administrative Assistant for Finance, and the FS Director.

VENDOR AND PURCHASING ANALYSIS

Data Control & Research, Ltd. (“DCR”) provided data extractions from DCR for all District vendors and vendor payments during the period July 1, 2012 through March 27, 2014. In total, there are 8,451 unique vendor accounts in DCR as of March 27, 2014. Of these accounts, 3,950 (46.7%) had expenditure activity during the period reviewed.

At least one vendor account, “Miscellaneous Vendor” (#9999), is used to make payments to vendors where separate accounts have not been created. The account is primarily used in the reimbursement of employees and is also used for refunds for cancelled student activities and payments to some vendors that will not be used routinely. During the period reviewed, payments were made to 1,051 different payees through the Miscellaneous Vendor account. This is an unusually high number of discrete payees to be included as a miscellaneous item. We recommend that at a minimum the non-employee vendors be vetted and added individually to the vendor master once proper approvals are obtained.

TABLE 1 provides a summary of the total dollar amount and number of checks written from July 1, 2012 through March 27, 2014. TABLE 2 through TABLE 6 provide information on the top ten vendors based on total dollars and check counts in several categories.

Employee Address Match

Using the vendor data file and an employee data file provided by DCR, we performed a comparison of street addresses to identify any vendors and employees with the same address. We identified 272 matches, of which 110 received payments during the period reviewed. In most cases, the vendor account name was the same as the employee name or appeared to be the name of a family member of the employee. However, 40 of the matches showed either a business/organization name or an apparently unrelated individual’s name as the name for the vendor account. TABLE 7 summarizes the transactions with these vendor accounts during the period being reviewed as well as the date of the last transaction.

Miscellaneous Vendor Transactions

District personnel stated the Miscellaneous Vendor account (#9999) is used primarily for employee reimbursements or other non-routine payments to individuals where a separate vendor

Hinsdale Township High School District 86
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account is not considered needed. During the period July 1, 2012 through March 27, 2014, we noted 2,125 transactions with 1,051 different vendors totaling \$462,132.38 recorded to the Miscellaneous Vendor account. We reviewed the 1,051 vendor names noting that all but 3 appeared to be the names of individuals. The three non-individuals noted were Barnes & Noble Bookseller (3 transactions, \$927.64), Hinsdale Central High School (2 transactions, \$426.80), and Downers Grove North Athletic (1 transaction, \$159.00).

The top ten “miscellaneous” vendors in terms of total dollar amount and number of transactions are summarized in TABLE 5 and TABLE 6. One transaction was a significant outlier in this data set. The payment to this individual of \$23,000 had the description, “TUITION PRIVATE FAC DIST WIDE SPEC.” No employee record exists for the individual. Because this information is by name, it is included under separate cover to preserve confidentiality.

Purchasing Card Analysis

Based on documentation provided by District personnel, we developed a list of possible purchasing cards covering 9 vendors and 59 different employees. The documentation provided was not necessarily current and may have included persons who are no longer employed by the District or cards which have expired as of March 27, 2014. However, all possible cards were listed for our analysis and have been detailed in TABLE 8.

TABLE 9 summarizes transactions with vendors where purchasing cards are potentially being used. Home Depot shows a considerable amount of activity with 332 transactions totaling \$45,340.65 between July 1, 2012 and March 27, 2014.

TABLE 10 summarizes reimbursements to employees potentially holding purchasing cards. Descriptions for each transaction were reviewed to identify possible instances of employee reimbursements where District purchasing cards were used to make the purchases. These may potentially include instances of duplicate payment; conclusions cannot be reached without review of supporting documentation for individual transactions.

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CHECK DATA SUMMARY

**TABLE 1
 CONFIDENTIAL**

	Interim Checks			Board Checks		
	<u>Expenditures</u>	<u># of checks</u>	<u>Avg per check</u>	<u>Expenditures</u>	<u># of checks</u>	<u>Avg per check</u>
2012/2013	\$ 3,602,813	3,118	\$ 1,155	\$ 41,609,553	2,149	\$ 19,362
2013/2014*	2,270,892	2,261	1,004	20,042,103	1,599	12,534
	<u>\$ 5,873,705</u>	<u>5,379</u>	<u>\$ 1,092</u>	<u>\$ 61,651,656</u>	<u>3,748</u>	<u>\$ 16,449</u>

	Student Activities			Total		
	<u>Expenditures</u>	<u># of checks</u>	<u>Avg per check</u>	<u>Expenditures</u>	<u># of checks</u>	<u>Avg per check</u>
2012/2013	\$ 3,131,049	4,017	\$ 779	\$ 48,343,414	9,284	\$ 5,207
2013/2014*	2,253,342	2,875	784	24,566,337	6,735	3,648
	<u>\$ 5,384,391</u>	<u>6,892</u>	<u>\$ 781</u>	<u>\$ 72,909,751</u>	<u>16,019</u>	<u>\$ 4,551</u>

**Through 3/27/14*

Check data above excludes all "checks" of \$0 or less, which primarily consist of payroll related items.

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Top Vendors (\$) - Board Checks (7/1/12 - 3/27/14) **TABLE 2**
CONFIDENTIAL

	2012/2013			2013/2014			Total		
	\$	Count	Average	\$	Count	Average	\$	Count	Average
49349 GILBANE BUILDING COMPANY	\$ 18,087,823	8	\$ 2,260,978	\$ 1,543,277	7	\$ 220,468	\$ 19,631,100	15	\$ 1,308,740
13815 HINSDALE TWP H S DISTRICT 86	8,552,591	38	225,068	6,509,550	28	232,484	15,062,141	66	228,214
16600 LADSE	3,184,108	7	454,873	2,310,509	4	577,627	5,494,617	11	499,511
28465 FIRST STUDENT INC.	1,071,641	9	119,071	633,824	8	79,228	1,705,465	17	100,321
47725 GCA SERVICES GROUP	944,296	12	78,691	708,442	9	78,716	1,652,738	21	78,702
32341 GRAND PRAIRIE TRANSIT	697,091	10	69,709	550,014	8	68,752	1,247,104	18	69,284
46008 FIRST STUDENT	553,744	13	42,596	317,495	8	39,687	871,239	21	41,488
24697 SELF	353,879	1	353,879	375,811	1	375,811	729,690	2	364,845
49974 LENOVO, INC.	1,325	2	663	690,768	3	230,256	692,093	5	138,419
40960 ESIC	308,712	1	308,712	279,044	1	279,044	587,756	2	293,878
	<u>\$ 33,755,210</u>	<u>101</u>	<u>\$ 334,210</u>	<u>\$ 13,918,734</u>	<u>77</u>	<u>\$ 180,763</u>	<u>\$ 47,673,943</u>	<u>178</u>	<u>\$ 267,831</u>
Total all vendors	\$ 41,609,553	2,149	\$ 19,362	\$ 20,042,103	1,599	\$ 12,534	\$ 61,651,656	3,748	\$ 16,449
Percentage of total	81.1%	4.7%		69.4%	4.8%		77.3%	4.7%	

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Top Vendors (\$) - Interim Checks (7/1/12 - 3/27/14) **TABLE 3**
CONFIDENTIAL

	2012/2013			2013/2014			Total		
	\$	Count	Average	\$	Count	Average	\$	Count	Average
50040 HOMEFIELD ENERGY	\$ 164,411	7	\$ 23,487	\$ 331,964	10	\$ 33,196	\$ 496,375	17	\$ 29,199
28762 VILLAGE OF HINSDALE	202,494	25	8,100	171,592	17	10,094	374,086	42	8,907
43664 VANGUARD ENERGY SERVICES, LLC	185,028	12	15,419	144,744	8	18,093	329,772	20	16,489
9999 MISCELLANEOUS VENDOR	214,490	789	272	110,570	526	210	325,060	1,315	247
44900 MIDAMERICAN ENERGY COMPANY	290,492	16	18,156	-	-	-	290,492	16	18,156
47766 CHASE EQUIPMENT FINANCE, INC.	202,291	1	202,291	-	-	-	202,291	1	202,291
35080 XEROX FINANCIAL SERVICES	53,684	15	3,579	125,165	17	7,363	178,849	32	5,589
1881 AT&T	94,266	29	3,251	66,052	23	2,872	160,318	52	3,083
5560 CITY OF DARIEN	71,216	15	4,748	60,869	10	6,087	132,086	25	5,283
48163 JP MORGAN CHASE	128,421	1	128,421	-	-	-	128,421	1	128,421
	<u>\$ 1,606,793</u>	<u>910</u>	<u>\$ 1,766</u>	<u>\$ 1,010,956</u>	<u>611</u>	<u>\$ 1,655</u>	<u>\$ 2,617,749</u>	<u>1,521</u>	<u>\$ 1,721</u>
Total all vendors	\$ 3,602,813	3,118	\$ 1,155	\$ 2,270,892	2,261	\$ 1,004	\$ 5,873,705	5,379	\$ 1,092
Percentage of total	44.6%	29.2%		44.5%	27.0%		44.6%	28.3%	

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Top Vendors (#) (7/1/12 - 3/27/14)

**TABLE 4
 CONFIDENTIAL**

	2012/2013			2013/2014			Total		
	\$	Count	Average	\$	Count	Average	\$	Count	Average
9999 MISCELLANEOUS VENDOR	\$ 295,543	1,240	\$ 238	\$ 166,589	885	\$ 188	\$ 462,132	2,125	\$ 217
46219 QUEST FOOD MANAGEMENT SERVICES	95,634	104	920	63,179	65	972	158,813	169	940
13816 HINSDALE HIGH SCHOOL DISTRICT 86	464,004	75	6,187	370,388	52	7,123	834,392	127	6,570
27626 TROPHIES BY GEORGE	25,054	79	317	18,583	47	395	43,637	126	346
21784 PEAPOD	22,210	41	542	11,046	28	395	33,256	69	482
48621 BSN SPORTS INC	56,468	44	1,283	49,016	25	1,961	105,483	69	1,529
13815 HINSDALE TWP H S DISTRICT 86	8,552,591	38	225,068	6,509,550	28	232,484	15,062,141	66	228,214
20850 NICOR GAS	44,905	35	1,283	40,284	26	1,549	85,189	61	1,397
34640 OFFICE DEPOT	88,406	35	2,526	54,624	25	2,185	143,030	60	2,384
28790 VISOGRAPHIC	57,072	32	1,783	30,388	21	1,447	87,459	53	1,650
	<u>\$ 9,701,887</u>	<u>1,723</u>	<u>\$ 5,631</u>	<u>\$ 7,313,646</u>	<u>1,202</u>	<u>\$ 6,085</u>	<u>\$ 17,015,532</u>	<u>2,925</u>	<u>\$ 5,817</u>
Total all vendors	\$ 48,343,414	9,284	\$ 5,207	\$ 24,566,337	6,735	\$ 3,648	\$ 72,909,751	16,019	\$ 4,551
Percentage of total	20.1%	18.6%		29.8%	17.8%		23.3%	18.3%	

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SIKICH OBSERVATIONS

Internal Control Issues

The District's move to centralize purchasing through the position of the Purchasing Supervisor provides additional control over purchasing and should also provide savings. The process of transitioning duties to this position was ongoing at the time of this report making these benefits prospective in nature. We note that decentralized purchasing had been a historic weakness of the District at the time of our review. No competitive bidding process for small purchases was in use and decentralized purchasing precludes opportunities for measurements and savings.

IT purchasing is an area that does not currently have sufficient centralization or planning. We observed that computer equipment is purchased by departments at the school without the input of District IT staff, which could otherwise provide meaningful controls and standards. This results in the District receiving equipment that is incompatible with District systems and cannot be supported properly by IT. The equipment may then be returned or be operated until support issues arise, which cannot be resolved by the District without incurring additional expense.

In addition, the departments throughout both schools currently have discretion within their budgets to adjust spending of allocated resources between technology and other assets. This results in unplanned technology orders, which cause future maintenance issues and may distort spending allocations determined through the budgeting process.

We found that the District does not maintain a list of all store purchasing accounts and that employees authorized to use the accounts on behalf of the District are not controlled or authorized. This lack of controls could result in duplication of reimbursements to employees (e.g. mile reimbursements and fuel card reimbursements) or unauthorized purchases after termination.

The District does not have adequate segregation of duties due to a lack of staff particularly in the accounts payable and payroll functions. Notably, the District's Accounts Payable Coordinator has the ability to order and receive new goods, enter invoices into the system, create new vendors, and prepare and sign checks. In this situation, the Coordinator could create a shell vendor and phantom orders, enter a fictitious invoice into the system, create and mail a check.

Recommendations

1. Technology requisitions should be routed to the Director of IT for approval. This step is necessary to ensure that the new technology asset will be compatible with current systems and can be supported by IT.

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2. The Director of IT position should have the above ordering duties specified in the job description and measurements of performance should be established for accountability.
3. Within the capital budgeting process, IT spending should be considered as an independent category that can be measured and controlled.
4. Segregate the ability of adding new vendors to the system from the ability to print checks. Develop procedures to review new vendors added on a monthly basis.
5. A bank should be engaged which offers an enhanced positive pay system that verifies the check number, amount and vendor. This should be used for all checks. We further suggest that checks not be written in the District but disbursements be sent to a bank electronically, verified by the positive pay system with payments made electronically by the bank.
6. Develop a report to flag missing or duplicate check numbers and voided checks. This listing should be presented to the Board for review along with the check listings.
7. The District should consider opportunities to segregate the check printing and check signing functions. The employee who prints checks should not also have the ability to sign them and control their distribution.
8. Improve controls over store purchasing accounts. A complete list of store cards and employees authorized to purchase on account should be maintained. Expense reimbursements should be reviewed for those individuals who may also make purchases directly on a District account to prevent redundant expenditures.
9. Written policies should be created and maintained. This comment is true for payroll and student account functions as the District has a general lack of written policies and procedures over its business functions.
10. An Accounts Receivable system should be included in the District's software implementation to accommodate the tracking and collection of facilities rentals.
11. The centralized purchasing function should be developed to the extent possible utilizing best practices and involving re-training of employees previously performing purchasing on a decentralized basis.

Student Activities

CURRENT PROCESS OVERVIEW

The following information was obtained through interviews and walkthroughs with:

- Angela Wagner - Coordinator of General Ledger (G Fund Bookkeeper)
- Bill Walsh - Assistant Principal of Operations, Central
- Eric Martzolf - Assistant Principal of Operations, South
- Sally Phillip - Student Activities Director, Central
- Greg Gardner - Student Activities Director, South
- Dan Jones - Athletics Director, Central
- Kim Maloney - Athletics Director, South
- Chris Hicks - Drama Teacher/Play Director, Central
- Karen Ford - Bookstore Manager, Central
- Laura Sharp - Bookstore Manager, South
- Tracy McDonald – Homecoming Sponsor, South

Greg Gardner stated that he and Sally Phillip have been working together to identify similarities and differences between student activities at Central and South and to streamline processes. They have also discussed developing a sponsor handbook and more clearly communicating expectations to sponsors.

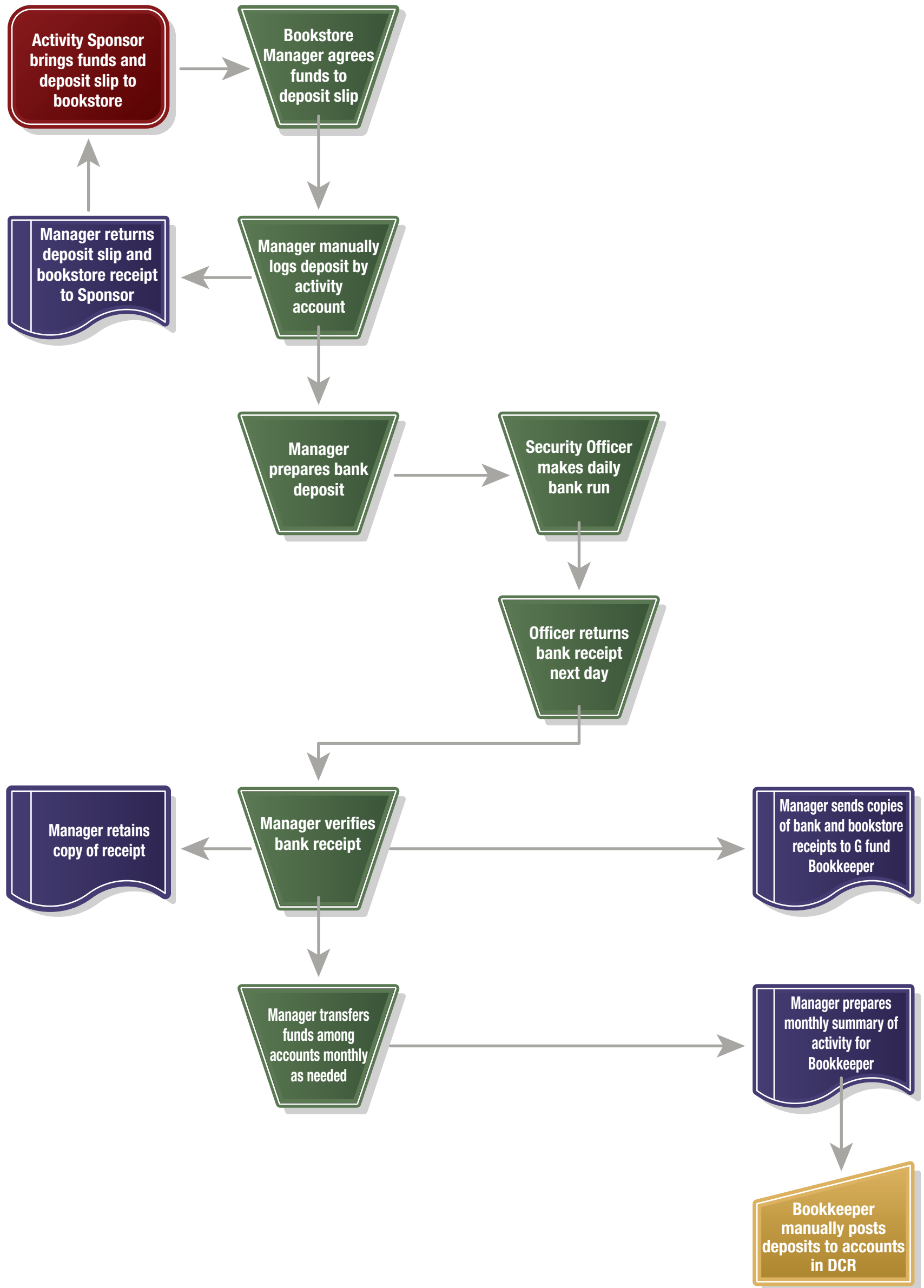
Student activities accounts are also referred to as general funds or “G funds”. Gate receipts from athletic events are deposited into the educational fund, but are also channeled through the bookstore. The procedures for cash collections at athletic events were included in our review.

A summary of the current procedures is included in the process map on the following page.

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Internal Controls Project Cash Handling for Student Accounts

As of April 17, 2014



Fund Raising

Student activities raise funds in a large variety of ways. Larger activities such as athletics, musical/drama, and student dances raise funds through ticket sales. Other groups raise money through sales of candy bars or other small items. Some groups do very little fundraising and may only collect money from students for t-shirts. For groups which take trips, students are often required to do additional fundraising outside of school to cover the cost of their trip.

A limited number of activities are supported by registration or parking fees imposed and collected by the schools. An activities G fund is funded through an activities fee that all students pay at the beginning of the year. This G fund is administered by the Activities Director and is available for general usage at the Activities Director's discretion, with approval of the Principal. At Central, Student Council is funded through parking fees charged to students. Also at Central, the yearbook and newspaper are funded through a yearbook fee paid by students. At South, parking fees are used to pay for prom busses, homecoming expenses, and speakers at the school. The District should review the rationale for the allocation of parking fees at each school, which currently have different policies. An activity pass is sold at South which allows students in to the majority of events with no additional cost and is used to support the newspaper and magazines.

Depositing of Funds

All student activities and athletic event collections are deposited through the school bookstores. Central's safe is kept in a separate room of the bookstore area where the door can be closed and locked. There is also a camera in the outer room where the Bookstore Manager sits which records who enters and leave the safe room, but cannot record their activities inside the safe room. The safe remains unlocked while the Bookstore Manager is present but will be locked any time the Manager leaves the room. South's safe is located in the bookstore which is one large room. The South safe also remains unlocked while the Bookstore Manager is present and is locked anytime the Manager leaves the room.

At Central, deposits are either given to the Bookstore Manager or placed in a basket on top of the safe. Occasionally, an activity sponsor will sit at a desk in the safe room and prepare their bookstore deposit slip. The safe room is unlocked during the day and sponsors may enter that room at any time to drop off deposits, regardless of whether the Bookstore Manager is present. For each deposit, the Bookstore Manager counts the cash/checks in each deposit, fills out a bookstore deposit receipt to be returned to the depositor (along with the original bookstore deposit slip), and logs the deposit under the appropriate G fund in an Access database. A bank deposit slip is then filled out for each deposit brought in to the bookstore (deposits are not batched for the bank), checks are restrictively endorsed with a stamp, and the deposit is placed in a lockable bank bag. Bank bags are kept in the safe but not locked until taken to the bank. Each

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morning, the same Student Security Officer picks up bank bags from the bookstore and delivers to the bank for deposit. The security officer also picks up the prior day's deposit receipts from the bank and returns these receipts to the bookstore. The Bookstore Manager verifies the account number and deposit amount on each bank deposit slip. The white and yellow copies of the bank deposit slip are attached to the yellow copy of the bookstore deposit slip and kept in the bookstore. The pink copies of the bookstore and bank deposit receipts are sent to the G Fund Bookkeeper.

At South, deposits can only be left with the Bookstore Manager personally. If the Manager is not present, there is no drop box where deposits can be left. The deposit process operates the same as Central with the exception of deposits being logged manually on paper, as opposed to in an Access database. A dedicated Student Security employee performs daily bank runs for South.

The Bookstore Managers send a report of deposits to the G Fund Bookkeeper each month. The G Fund Bookkeeper manually posts deposits to each G fund account in DCR as recorded by the bookstore. The Bookstore Manager also completes a "transfer of funds" each month. The purpose of this transfer is to move amounts collected directly by the bookstore to the appropriate G fund account – such as for student IDs. This transfer is based on an Excel spreadsheet maintained daily by the Bookstore Manager. Amounts collected for various activities are tracked by the cash register which is programmed for selected items. A register report/tape is run at the end of each day summarizing collections by type. The transfer report is also sent to the Bookkeeper for recording in DCR. There is clearly no independent check of the Bookstore Managers because the Bookkeeper merely records the information transmitted.

Expenditures

Expenditure requests are initiated by the activity sponsor (or coach) on a paper form. Request forms must be accompanied by receipts or invoices and will not be approved without them. Requests must be approved by the Activities Director (Athletics Director) and then typically by the Principal. At Central, items approved by the Activities Director (where she is not the activity sponsor) are not sent to the Principal for approval. The approval process includes reviewing requests to check that the requests appear reasonable based on the needs/activities of the group and total cost. The Activities Director/Principal does not have access to each G fund balance and therefore do not ensure appropriate amount of funds are available.

Approved requests are sent to the Bookkeeper at the Administrative Office for processing. It is at this point that the Bookkeeper checks that the activity's G fund has enough funds to cover the expenditure. If there is not enough money available to cover the expenditure, the Bookkeeper will contact the activity sponsor to make him/her aware. Depending on the reason for the deficiency and the nature of the expense, the Activities Director may give approval to have the

item paid from the activities G fund. Occasionally, the Bookkeeper may cover small shortages from other G funds out of the “miscellaneous exchange” account (see discussion of this account below). Clubs/organizations are required to reimburse the District for special activities and extra duty pay.

G Fund Reporting and Review

Each month, a “Detail Statement of Fund Accounts” is printed by the Bookkeeper and sent to each activity sponsor (only for the activities for which they are the sponsor) to review deposits and expenditures during the month. Reports are generated for all G funds, regardless of activity. On a quarterly basis, a “Summary of Fund Balance” report is printed for review and the Board Meeting. This report summarizes activity to show beginning balance, revenues to date, expenditures to date, and ending balance.

The District maintains a “miscellaneous exchange” account for each school (G fund acct #465 at Central and #975 at South) to be used for groups that have a limited number of transactions during the year. Per discussion with the Bookkeeper, the primary transactions running through this account are collections and expenses for student trips. This fund is also used to pay deposits/payments on trips which must be made before the start of the school year and is reimbursed by student payments when the school year starts. As of March 31, 2014, there were accumulated balances of \$7,401.96 in the Central account and \$950.82 in the South account. Per Angela, these balances have slowly accumulated over 18+ years. Angela stated that balances typically accumulate from amounts collected for trips in excess of actual expenditures (e.g. money collected for tips on meals but not fully utilized). She noted that the District does give reimbursements to students/families if amounts are significant but would not issue reimbursements of \$2 per student (for example).

REVIEW OF ACTIVITY ACCOUNTS

Certain activity sponsors we interviewed about procedures specific to their activities. Activities were selected for these interviews primarily based on the amount of revenue and expense running through the G funds.

Musical and Drama Shows, Central

There are 5 shows a year and 3 performances of each. The musical is the largest of these productions. Tickets are printed by the secretary in the English Department. They are numbered and the number printed for each show is recorded; however, ticket numbers are not used to track sold/unsold tickets. Ticket prices are \$7 for all drama shows and \$10 adult/\$7 student for the musical. Tickets are sold in advance of each show through several channels. Students sell tickets during the lunch hours. The Activities Secretary assists activity sponsors in handling and

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storage of the cash box used for ticket sales during lunch. Tickets for the musical may also be purchased at the front desk. Advance ticket orders are also handled by the Director or a parent coordinator. Cash/check collections for advance ticket sales are deposited daily with the bookstore. At the various performances, there are two ticket sellers who are generally teachers or support staff working special activities. There is also a will call table staffed by parents which allows for pick up of preordered tickets. Some will call tickets are paid for when picked up. Ticket stubs are torn off and kept as people enter. Box office collections are picked up each night by the Activities Director and locked in a safe in his/her office. Funds are deposited with the bookstore on the next school day (e.g. Friday night ticket sales are not deposited until Monday). Revenues are not reconciled to tickets sold. Rather, revenues are compared to estimated attendance for reasonableness.

Musical and Drama Shows, South

There are 4 productions each year with the fall play and spring musical being the larger events. All shows are \$8 per ticket. Each staff person receives two free tickets and the sponsor stated there are certain “lifetime” passes for people such as prior board members. Unlike Central, South will allow people to request specific seats when buying tickets. They have a map of the auditorium and mark off tickets as they are sold. During the week prior to a show, tickets will be sold during lunch. The sponsor may also sell tickets from his office at other times as needed (e.g. a parent comes in to buy tickets). At each performance, there two ticket sellers present. After ticket sales are complete at the show, sponsor takes the cash box to the safe in his office until it can be deposited on the next school day.

Homecoming, South

Tickets for the homecoming dance are sold at lunchtime during the week prior to the dance and at the dance. Parents from the Booster Club volunteer to come in at lunch and sell the tickets. Sponsor arranges for a cash box at the beginning of the week which is picked up from and returned to the bookstore each day by one of the parent volunteers (usually the president of the Booster Club). Cash receipts from ticket sales are not deposited on a daily basis; however, excess cash may be removed from the box and held in the bookstore safe until the end of the week. At the end of the week, all receipts from ticket sales are deposited at the same time. Persons selling tickets keep a list in Excel of the student name and ticket numbers purchased. Tracy stated she will compare the total deposit to ticket sales per the Excel spreadsheet but that this process is not documented.

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Athletic Events

We separately interviewed Central Athletic Director and South Athletic Director concerning the collection and deposit of gate receipts from athletic events. These funds are designated to the Educational Fund rather than the General Fund, but they flow through the bookstores for deposit in a similar fashion. The process was selected for review due to the cash handling element of ticket sales. South sells tickets to football games in the fall and boys' basketball games in the winter.

The procedures for ticket sales at each school are similar, as the athletic directors have worked together to improve processes and make them more consistent. Key features of the system are printed tickets and a reconciliation worksheet. Tickets are preprinted, numbered, and color coded specific to each event.

There are two ticket sellers at each event; at South these are typically the Athletics Secretary and the P.E. Secretary. Two alternates are available as needed. They obtain two cash boxes for each event starting with a change fund of \$200 to \$250. During the 3rd quarter, the Secretary is escorted by a police officer to take the cash boxes and lock them in a safe in her office. The Secretary is currently the only person with the code to that safe. The cash boxes are counted the next morning and compared to estimated revenues from ticket sales. The Secretary prepares the ticket reconciliation worksheet along with the bookstore deposit slip. The Athletics Secretary maintains a spreadsheet of deposit amounts.

SIKICH OBSERVATIONS

Internal Control Issues

There is no assurance of timely bank deposits by the bookstore. This opens the possibility for a lapping scheme, where cash received from an activity sponsor could be misappropriated and the deposit would be made later using funds from a subsequent activity deposit. The risk of such a scheme is mitigated by the use of checks rather than cash for certain activities.

For one activity, specifically the sale of homecoming tickets at South, we learned that cash is held in the bookstore safe until the end of the week and then deposited as a batch. This creates an unnecessary risk far exceeding any convenience and is not consistent with our understanding of stated policy.

We found it was common for activity sponsors to rely on the monthly reports provided by the G Fund Bookkeeper without independently verifying the fund activity or balance on a regular basis. Activity sponsors did typically retain bookstore deposit receipts so that reconciliation of deposits would be possible if necessary. For many student activities, deposits and expenditures take place

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during only a portion of the year and the monthly reports may only be considered relevant for certain months.

When an expenditure request is received, there is no review to ensure that a corresponding deposit has been made, only that there are funds in the account. Many of the activity accounts run balances throughout much of the year that would cover expenditures requested by the activity sponsor. This is necessary for certain events, such as the spring musical, which incurs costs before ticket sales are received. However, the lack of review could allow an activity sponsor to run down the balance in their account without fundraising or making the appropriate collections.

There is no assurance of the frequency of deposits made by activity sponsors during any period that they are collecting funds. It is possible that undeposited funds could be in a sponsor's possession for some period of time. As noted above, the balances held in certain accounts could provide cover for this behavior.

The bookstore operations are primarily manual and do not lend themselves to timely oversight or reporting. Control weaknesses result from the lag between cash handling and subsequent reporting and reconciliation performed by the G Fund Bookkeeper.

A lack of documentation makes it difficult for employees to fully understand their job responsibilities and creates inefficiencies in training new staff.

Recommendations

1. To improve the security of activity deposits, install safes with a drop box feature in each bookstore similar to that used in Central's Athletic Office.
2. Cash collected for all events, including lunch time ticket sales for homecoming and prom should be reconciled and deposited daily. Cash drawers for ticket sales can be created without holding undeposited cash.
3. Strengthen policies for activity sponsors collecting any funds. Sponsors should be depositing funds to the bookstore daily. Enforcement of this might require the Assistant Principal or Activity Director to check in with the Bookstore Manager on a spot-check basis for activities known to be collecting funds at a given time.
4. Move the function of collecting payments for certain student activities from the activity sponsors to the bookstore. Existing bookstore registers appear to be programmable to handle additional direct transactions. Students could be provided with the register receipt and possibly a carbon copy of a handwritten receipt (voucher) to provide to the sponsor when needed.

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5. For each play and musical, use pre-numbered tickets to track the number of tickets sold or issued. Perform a reconciliation of ticket sales to cash collections similar to the procedure used by the Athletic Directors.
6. Consider daily online reporting of deposits by the bookstores as monthly reporting is inadequate from a control perspective.
7. Consider implementing an online Student Activities portal for Sponsors where they can initiate purchase requisitions electronically, check monthly reports for deposits and disbursements, etc. The current requisition process is all manual and requires data entry at the Administration office. The portal could require sponsor signoff of monthly report to document their review/approval of activity.
8. The balance of the “miscellaneous exchange” account should regularly be transferred into the activities G fund to be administered by the Activities Director. Alternatively, this could remain a separate account but with the Activities Director as the owner of it to ensure activity is reviewed and approved.
9. For Athletic Department ticket reconciliations, separate the (a) ticket documentation and (b) cash count and reconciliation procedures. Require the ticket seller to document and signoff for the starting ticket #, ending ticket #, and number of tickets sold. Have the Athletic Director or secretary count the cash and reconcile to the number of tickets sold. Having two people involved and signing off will improve controls over this process.
10. For Athletic Department deposits, consider having the Department prepare its own bank deposits and locking them in bank bags before taking them to the book store. The book store count is an unnecessary, redundant process which provides an additional opportunity for misappropriation.
11. Develop policies and procedures manuals for student activities, the bookstores, and reporting. Develop a procedure to ensure manuals are reviewed and updated routinely. This should include a manual for Activity Sponsors to document expectations, policies, procedures for fundraising/depositing funds/expenditure requests, review of fund activity reports, document retention, etc.
12. Training events should be held each year by the accounting department to communicate policies and expectations. Policies should also be accessible in online format for staff to review.

APPENDIX A: Determination of Compensation

Employee Classification and Methods of Compensation

There are four classes of employees with varying compensation methods:

1. Teachers
2. Support staff
3. Contractual/Administration
4. Substitute teachers

All employees are paid on a fiscal year basis ending June 30th. This means annual salary amounts will agree to the salary expense recorded for July 1 through June 30. For teachers however, their first pay date of an annual cycle is August 31. Final paychecks for teachers on a 12 month pay cycle are processed on June 30 and are held until July 31.

Teachers

Teachers' compensation is defined by the contract between the District and the Hinsdale High School Teachers' Association. Under the contract, teachers are eligible for the following types of compensation:

1. Base salary (Section 10) – Base salary is determined from a negotiated salary scale which takes into consideration years of service and educational milestones.
 - a. Pay increases for years on service are based on full school years and are given only at the beginning of the fall semester. Length of service increases are not given in the middle of the school year.
 - b. Pay increases for education milestones can be awarded at the beginning of either the fall or spring semester, but not awarded until the beginning of the semester after the education milestone was achieved (Section 10.2).
2. Stipends (Section 10.8) – Teachers are eligible for 4 different \$1,000 stipends up to a maximum \$3,000 increase in base pay:
 - a. Ph. D.
 - b. 1st masters degree
 - c. 2nd masters degree
 - d. National Board Certification
3. Additional instructional periods (Section 10.6) – If a teacher is assigned more than 5 instructional periods per school day on a regular, continuing basis, they receive an additional 10% of base pay for each additional instructional period.

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- a. A teacher assigned 4 or less instructional periods per school day on a regular, ongoing basis is considered part-time. Part time teachers receive 10% of the applicable salary per instructional period (Section 10.7).
4. Internal substitution (Section 5.3) – Teachers are paid a negotiated rate per instructional period for which they sub. For 2012-2013, the rate was \$33.96 per period.
5. Special activities pay (Section 11.2) – Rates are set based on the number of hours attendance required at the special activities of groups and organizations.
6. Athletic events pay (Section 11.3) – Rates are set on a per event basis. This is applicable to ticket sellers/takers and related responsibilities.
7. Extra-curricular assignment stipend (Section 11.4) – Each assignment/position has its own index rate which is multiplied by the appropriate salary from the extra-curricular salary scale (different than the base salary scale) to determine the extra-curricular stipend amount. Index rates can be increased after 15 years of service in that activity.
8. Athletics coaching stipend (Section 11.5) – Determined similarly to extra-curricular stipends.
9. Intramurals sponsor stipend (Sections 11.6) – Paid at a rate of 6% of the base salary of the coaching salary schedule. The rate can be increased based on years in a particular activity.
10. Summer school (Section 12.2) – Summer school pay is based on a specified hourly rate assuming 170 work hours at 5 hours per work day (prorated as needed). Hourly rates are increased after the first year in the same activity.
11. Summer work (Section 12.4) – Summer work is paid at an hourly rate for drivers' ed. instruction, summer curriculum projects, and other approved professional work.
12. Supplemental Retirement (Article 16) – Teachers who meet eligibility requirements and elect to participate in the supplemental retirement program can receive a 6% increase in creditable earnings over prior year creditable earnings for a maximum of 4 years before their retirement date. This increase is in lieu of any other raise, step, or other creditable earnings increase the employee may have been entitled to.

Prior to the 2013-2014 school year, TRS payments were made in addition to the negotiated rates above. That rate was 9.8901% for 2012-2013 (Section 15.6). For the 2013-2014 school year, the teachers' associated negotiated an increase in salary and made each employee responsible for paying his or her own member TRS retirement contribution.

Support staff

Support staff are paid a salary which is based on an hourly rate schedule. Support staff receive a level paycheck for each period (not based on actual hours worked each pay period). Total salary is determined assuming either 37.5 or 40 hours per week and either 10 or 12 months, depending on the position.

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- 37.5 hours is a standard work week for student safety, student supervisors, teacher assistants, and clerical employees.
- 40 hours is a standard work week for Buildings and Grounds, technical support, and security employees.

Support staff are eligible for overtime of 1.5 times their normal rate, however the overtime rate is only applied for hours worked above 40 hours in a week. Paid time off (sick, vacation) does not count towards hours worked. Hours compensated with a stipend are also not considered hours worked for overtime pay. Overtime hours are supposed to be approved by an employee's supervisor prior to working those hours.

Support staff are also eligible to receive extra duty and extra curricular stipends. Extra duty stipends (special events, game worker, ticket taker, etc) are predetermined amounts based on the length on the event. Extra curricular stipends are calculated using the index rates from the teachers' contract but a separate base salary specific to support staff.

Support staff may also be eligible for retirement bonuses if they have worked for the District for at least 15 years. Section 9.6 of the Educational Support Personnel Handbook provides for a retirement bonus of one day's pay for each full year of service.

Administrators (type 75)

Administrators are paid in accordance with their individual contracts. Pay typically consists of contract salary, some payout of vacation time if not used, and stipends.

External Substitutes

External substitute teachers may be classified as regular or long term. Rates for substitute pay are published on the District's website at <http://hinsdale86.org/empt/substitutes/Pages/default.aspx>.

APPENDIX B: Employee Payroll Reports

[Appendix B included in confidential transmittal]