

Memorandum

To: Dr. Bruce Law
Hinsdale Township High School District 86

From: Mary O'Connor, ASA, CFE

Date: June 5, 2014

Re: Review of Internal Controls

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 separately provided our full report to the District. The following is a summary of recommendations referenced within that report.

Payroll 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.
3. Institute supervisory responsibility for payroll change report with monthly review procedures to be performed by the Director of HR.
4. Establish system capabilities to track the employee who makes each change. The District’s software vendor, Data Control & Research, Ltd. (DCR), said this capability was available but not utilized in the implementation for the District.
5. 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.
6. 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.
7. Additional system checks could be implemented on time reporting such as determining if a pay activity and date had already been submitted. Current manual forms allow too many opportunities for error.
8. Time reporting portal would also allow staff to see when amounts were paid.
9. Improve communication and controls related to employee terminations/resignations.

Failure to timely notify the Coordinator of Payroll could result is payments being made after an employee has left the District.

10. 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.
11. 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.
12. Job descriptions should be adjusted to reflect the skills and responsibilities of changes implemented.
13. The control system should be comprehensively reviewed on a periodic basis, approximately every three to five years.
14. 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.
15. The standard payroll should be reconciled for new employees on at least a monthly basis.
16. The standard payroll should be reconciled for terminations on at least a monthly basis.
17. 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.

Purchasing/Accounts Payable Recommendations

1. The District should maintain a list of all store purchasing accounts.
2. The District should maintain a list of all employees authorized to use store accounts and institute procedures to keep the list up-to-date.
3. The District could improve segregation of duties due in the accounts payable and payroll functions with additional staff.
4. The District's move to centralize purchasing through the position of the Purchasing Supervisor provides additional control over purchasing and should also provide savings.
5. Metrics should be established to quantify the effect of centralizing purchasing.
6. A competitive bidding process should be instituted for routine and non-routine purchases.
7. The approved vendor list should be purged.
8. The departments throughout both schools should not have discretion within their budgets to adjust spending of allocated resources between technology and other assets.
9. Within the capital budgeting process, IT spending should be considered as an independent category that can be measured and controlled.

10. Technology requisitions should be routed to the Director of IT for approval.
11. The IT Director should ensure that new technology assets will be compatible with current systems and can be properly supported by IT.
12. Outside IT support costs should be minimized by maintaining compatibility of technology assets with support training of IT staff.
13. The Director of IT position should have the above ordering duties specified in the job description.
14. Performance measurements should be established for the IT Director's purchasing and support duties to provide accountability.
15. 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.
16. 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.
17. 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.
18. 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.
19. 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.
20. Expense reimbursements should be reviewed for those individuals who may also make purchases directly on a District account to prevent redundant expenditures.
21. Written policies should be created and maintained.
22. An Accounts Receivable system should be included in the District's software implementation to accommodate the tracking and collection of facilities rentals.
23. 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.
24. Alternatives such as additional manpower should be considered rather than allowing receiving personnel to disregard normal procedures.
25. 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 fall within the responsibilities of the Director of Financial Controls position.

Student Accounts Recommendations

1. 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.

2. 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, is not consistent with our understanding of stated policy and should not continue.
3. 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 during only a portion of the year and the monthly reports may only be considered relevant for certain months, yet sponsors should be trained to review the reports and possibly return an initialed copy.
4. When an expenditure request is received, there should be a control to indicate that a corresponding deposit has been made. For activity accounts that incur costs before ticket sales are received, this deposit could be from the previous year.
5. 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.
6. Cash collected for all events, including lunch time ticket sales for homecoming and prom should be reconciled and deposited daily.
7. Cash drawers for ticket sales can be created without holding undeposited cash.
8. 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. Strengthen policies for activity sponsors collecting any funds. Sponsors should be depositing funds to the bookstore daily.
9. Enforcement of daily deposits 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.
10. 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.
11. For each play and musical, use pre-numbered tickets to track the number of tickets sold or issued.
12. Perform a reconciliation of ticket sales to cash collections similar to the procedure used by the Athletic Directors.
13. The bookstore operations are primarily manual and do not lend themselves to timely oversight or reporting. Reduce the lag between cash handling and subsequent reporting and reconciliation performed by the G Fund Bookkeeper.

14. Consider daily online reporting of deposits by the bookstores as monthly reporting is inadequate from a control perspective.
15. 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.
16. 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.
17. 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.
18. 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.
19. Develop policies and procedures manuals for student activities, the bookstores, and reporting.
20. 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.
21. Training events should be held each year by the accounting department to communicate policies and expectations.
22. A lack of documentation makes it difficult for employees to fully understand their job responsibilities and creates inefficiencies in training new staff.
23. Policies should also be accessible in online format for staff to review.
24. The District should review the rationale for the allocation of parking fees at each school, which currently have different policies.