



Investigation: Unapproved Cash Fundraiser

ASSURANCE • INSIGHT • OBJECTIVITY

Audit Plan Code: 17-00.10

Campus staff, including former principal, circumvented District policies to conduct an unapproved fundraiser with an unauthorized vendor.



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Abbreviations

AYPYN	Army Youth Program in your Neighborhood
CAP	Corrective Action Plan
CIT	Campus Improvement Team
FY	Fiscal Year
TEAMS	Total Education Administrative Management Solution



Executive Summary

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According to the Institute of Internal Auditors' professional standards and related recommended guidance, Internal Audit should maintain an active role that relates to both promoting and assessing ethics throughout the District. Internal Audit's responsibilities, outlined in Board Policy CFC (Exhibit), include investigating reported alleged occurrences of fraud, theft, waste, and the like, and recommending controls to prevent and/or detect such occurrences (for example, hotline reports).

The Executive Summary provides, on a summarized basis, the results discussed throughout the body of the investigation report that follows. The Investigation Report includes background information, results, recommendations, and management's corrective action plan.

This project was approved by the Board of Trustees as part of the FY 2017 Internal Audit Plan under the "Contingency" category.

Summary of Allegations

An anonymous source alleged an unapproved fundraiser was conducted at a middle school which included using an unauthorized vendor, making cash payments to the unauthorized vendor, and hourly employees conducting activities related to the unapproved fundraiser before/after business hours. We determined there was sufficient basis and reason to commence this investigation after performing preliminary work which included speaking with the unauthorized vendor and comparing documentation provided by the vendor to District fundraising records and campus transactions.

Summary of Results

We validated all the allegations based on evidence reviewed, information collected, and interviews held with District personnel involved in the unapproved fundraiser. Results of our investigation are summarized below:

- Finding 1:** An unapproved fundraiser was conducted since the required approvals were not obtained from the District's Financial Services Department. All fundraising activities must be approved to ensure they are accounted for in a consistent and comparable manner.
- Finding 2:** We confirmed the campus used an unauthorized vendor. Engaging with unauthorized vendors increases the risk campuses/departments receive substandard goods/services or incur financial losses due to undelivered goods/ services.
- Finding 3:** Two cash payments totaling at least \$1,685 were made to the unauthorized vendor from funds collected directly from parents. Cash is susceptible to misappropriation if not adequately safeguarded. If cash is collected and not recorded in the District's accounting system, the risk of fraud or theft increases. In addition, little or no assurance that funds were properly accounted for can be provided to administration, parents, and students.
- Finding 4:** Two former hourly employees stated they spent time conducting activities related to the unapproved fundraiser on and off-the-clock. According to the hourly employees, the majority of the time spent on

this unapproved fundraiser was on-the-clock and compensated as part of their normal workday.

Ancillary Finding 1: Cash payments made to the unauthorized vendor totaling at least \$1,685 have not been returned to the campus. If funds are not returned, the expense could be considered a gift of public funds since the unauthorized vendor did not deliver the sweatshirts.

Ancillary Finding 2: The former principal attempted to inappropriately use federal monies from the Army Youth Program in your Neighborhood (AYPYN) project to pay for a second order of sweatshirts placed from an authorized District vendor.

Management's Corrective Action Plan

A Corrective Action Plan (CAP) was provided outlining the activities to be implemented. The three (3) recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings in this report. Internal Audit will conduct follow-up reviews to validate CAP activities have been implemented.

Conclusion

Our investigation validated all the allegations. The campus staff, including former principal, circumvented the District's fundraising guidelines when they conducted an unapproved fundraiser with an unauthorized vendor.

If the unauthorized vendor does not refund the cash payments made by the campus, potential effects include:

- A loss of at least \$1,685, and
- Violation of Board Policy related to gift of public funds.

As such, the former principal violated Board Policy CFD (Local), which states principals are "responsible for the proper administration of District and campus activity funds and student activity funds in accordance with state law, local policy, District-approved accounting practices and procedures as outlined in the campus accounting manual, and the TEA Financial Accountability System Resource Guide (FASRG)."

Recommendations have been made in this report (i) to improve the effectiveness of current processes among departments impacted and school staff, and (ii) prevent/reduce the risk of future occurrences.



Investigation Report

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Allegations

An anonymous source reported allegations related to a fundraiser at a middle school. The allegations were as follows:

- Allegation 1:** An unapproved campus fundraiser was conducted,
- Allegation 2:** An unauthorized vendor was used,
- Allegation 3:** Cash payments were made to the vendor, and
- Allegation 4:** Hourly employees conducted activities related to the unapproved fundraiser before/after business hours.

We determined there was sufficient basis and reason to commence this investigation after performing preliminary work which included speaking with the unauthorized vendor and comparing documentation provided by the vendor to District fundraising records and campus transactions.

Background

- The District's Campus Accounting Manual outlines the guidelines and procedures campuses must follow to conduct fundraisers.
- Campus Accounting staff in the Financial Services Department are responsible for reviewing and approving fundraising applications received from campuses.
- Vendors who want to do business with the District must follow a Procurement process of screening before they become authorized vendors.
- The Army Youth Program in your Neighborhood (AYPN) project is designed to locate and support the development of high quality and high interest after school activities in the communities where high concentrations of Army families reside.

The fundraiser in question started during the 2016-2017 fall semester. According to the former middle school principal, the weather was getting cold and a lot of the students did not have jackets. The former principal proposed to the Campus Improvement Team (CIT) the campus sell sweatshirts to the students. To gauge interest, the former principal stated they sent survey forms to the parents to determine the number of sweatshirts to order. The campus also sent order forms (initialed by the former principal) directing students to give the sweatshirt payments to their teachers.

According to the former principal, campus staff proceeded to obtain quotes to purchase the sweatshirts at the lowest price possible so a large number of students could purchase them. The former secretary to the principal told the former principal s/he knew a vendor who could provide the sweatshirts at a low price. After the secretary inquired with the Procurement Department, s/he realized the vendor was not setup as an authorized vendor with the District. Because of this, although the vendor had offered the lowest price, the vendor could not be used.

According to the former principal, s/he consulted with his/her master principal for advice. It was determined they could go forward with the sale of sweatshirts if parents would be the ones to contact and do all business directly with the vendor while leaving the campus out of any involvement with this activity. However, the former principal and campus staff proceeded with the unapproved fundraiser using

the unauthorized vendor. The unauthorized vendor was paid \$1,685, but did not deliver the sweatshirts. Subsequently, the campus placed a second order for sweatshirts from an authorized District vendor and paid \$2,535. The authorized vendor fulfilled the second order and the sweatshirts were distributed to the students/parents.

Objective and Scope

The objective of our investigation was to determine the validity of the allegations. The scope was limited to the unapproved fundraiser for the period December 1, 2016 to February 21, 2017.

Methodology

To meet the objective of our investigation, we:

- Researched relevant federal/state laws and regulations, Board policies, and department manuals/guidelines,
- Communicated with the unauthorized vendor in question,
- Interviewed District personnel who were involved in the unapproved fundraiser, and
- Obtained and reviewed the following for the scope of the investigation:
 - Emails related to the allegations,
 - Employee training logs for training related to fundraising activities,
 - Campus guest logs,
 - Campus activity fund and budgeted transactions,
 - Order forms for sweatshirts,
 - Supporting documentation for disbursements from campus activity funds,
 - Cash receipts,
 - Public social media posts related to the middle school's unapproved fundraiser, and
 - Volunteer information from the District's Total Education Administrative Management Solution (TEAMS).

Inherent Limitations

The Institute of Internal Auditors Performance Standard 1220 - Due Professional Care states internal auditors, "must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives,
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied,
- Adequacy and effectiveness of governance, risk management, and control procedures,
- Probability of significant errors, fraud, or noncompliance, and
- Cost of assurance in relation to potential benefits."

"Due professional care" implies reasonable care and competence, not infallibility, or extraordinary performance. As such, due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, internal auditors cannot give absolute assurance that noncompliance or irregularities do not exist.

Results

We validated all four (4) allegations based on evidence reviewed, information collected, and interviews held with District personnel involved in the unapproved fundraiser. The detailed findings of our investigation are listed under this section.

Finding 1

Did the investigation determine an unapproved campus fundraiser had been conducted by the campus?

Yes. The campus did not complete the required fundraising application form. As such, the fundraiser was conducted without the required approvals from the District's Financial Services Department. According to the Campus Accounting Manual (CAM), "All fund raising activities must be approved prior to ordering or receiving products/services..." to ensure that all fundraising activities are accounted for in a consistent and comparable manner. The fundraising guidelines in the CAM are intended to provide administration, parents, and students reasonable assurance all fundraising activities are properly accounted for.

We confirmed campus staff, including the former principal, former secretary to the principal, and former military liaison were involved in the unapproved fundraiser in different capacities. Some of the activities included:

- Getting quotes from vendors,
- Making/receiving calls to/from the unauthorized vendor,
- Developing surveys to gauge parents' interest in sweatshirt,
- Collecting cash payments from students/parents,
- Delivering cash payments to the unauthorized vendor at the campus and at a Walmart, and
- Visiting the unauthorized vendor at his/her place of business to attempt to pick-up sweatshirts.

Finding 2

Did the investigation determine an unauthorized vendor was used?

Yes. We confirmed the vendor was not on the District's authorized vendor list. Engaging with unauthorized vendors increases the risk campuses/departments receive substandard goods/services or incur financial losses due to undelivered goods/ services. According to the CAM, vendors must successfully complete an application process with the Procurement Services Department in order to be placed on the "List of Approved Fund Raising Vendors." Vendors are required to complete a conflict of interest form, IRS form W-9, and the Vendor Information Form during the application process.

The former principal and secretary to the principal confirmed they knew the vendor was not on the District's authorized vendor list prior to starting the fundraiser.

Finding 3

Did the investigation determine cash payments were made to the vendor?

Yes. According to the CAM, employees of the District are not authorized to use cash collected to make purchases. Yet, two cash payments were made to the vendor from funds collected directly from parents. We obtained evidence the first cash payment of \$985 to the vendor was made on school premises. According to the vendor, the second cash payment was delivered to him/her by the former military liaison during the school winter break at a Walmart in the amount of \$700.

Cash is susceptible to misappropriation if not adequately safeguarded. The CAM guidelines for cash and disbursements are intended to (i) ensure the accounting system captures accurate data and (ii) provide administration, parents, and students reasonable assurance cash deposits and disbursements are properly accounted for.

Finding 4

Did the investigation determine hourly employees conducted activities related to the unapproved fundraiser before/after business hours?

Yes. Two former hourly employees (military liaison and secretary to the principal), stated they spent time conducting activities related to the unapproved fundraiser on and off-the-clock. According to the hourly employees, the majority of the time spent on this unapproved fundraiser was on-the-clock and compensated as part of their normal workday. The total time spent off-the-clock could not be determined since the employees separated (for unrelated reasons) from the District before the investigation could be completed. Some of those activities are listed in Finding 1.

Ancillary Findings

While conducting our investigation, to determine the validity of the allegations, we identified the following ancillary findings:

Ancillary Finding 1

Cash payments made to the unauthorized vendor totaling at least \$1,685 have not been returned to the campus although none of the sweatshirts were delivered. If funds are not returned, the campus will be in violation of Board Policy CE(LEGAL), which states, "A district shall not lend its credit or gratuitously grant public money or things of value in aid of any individual, association, or corporation."

Ancillary Finding 2

The former principal attempted to inappropriately use federal monies from the AYPYN project to pay for the second order of sweatshirts placed from the authorized District vendor. The former principal was not able to use the AYPYN funds since Internal Audit notified administration of all the details of the expense before the reimbursement could be processed. According to the employee overseeing the AYPYN project, if the former principal had presented them with all the details, it would have not been a reimbursable expense using AYPYN funds. The expense for the second order of sweatshirts was classified to the campus general fund account (District funds).

Recommendations and Management Response

Our recommendations are focused on the recovery of funds paid out from the campus general fund since key individuals (principal, military liaison, and secretary to the principal) involved in the purchase/sale of the sweatshirts no longer work for the District for unrelated reasons. See recommendations and related management response below.

A Corrective Action Plan (CAP) outlining the activities to be implemented and signed by District management and administration was submitted to Internal Audit. The three (3) recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings in this report.

1

If funds have not already been recovered, the current middle school principal should contact the unauthorized vendor, who did not deliver the sweatshirts, to try to recover funds paid to him/her. If funds are recovered from the unauthorized vendor, they should be deposited to the campus' general fund.

Management Response: Agreed with recommendation and incorporated into the CAP as activity 6.

Person Responsible: Principal

Implementation Date: March 30, 2018

2

As a preventative measure, the current middle school principal should be briefed on the results of this investigation to prevent re-occurrence in the future. The principal and the secretary to the principal should ensure they follow District guidelines regarding fundraising activities as outlined in the Campus Accounting Manual. The principal should also consult with the Procurement Department to ensure vendors are approved before any services/items are provided.

Management Response: Agreed with recommendation and incorporated into the CAP as activities 1 through 5.

Persons Responsible: Principal and Secretary to Principal

Implementation Date: June 30, 2018

3

Human Resources should file a copy of this report in the appropriate Employee Relations' files for the former principal, former secretary to the principal, and former military liaison as part of their work history with the District.

Management Response: Agreed with recommendation and implemented.

Person(s) Responsible: Executive Director of Employee Relations

Implementation Date: January 8, 2018

Exhibit A – Criteria

Criteria No.	Criteria Source	Criteria Details	Relevant Findings
1.	CAM – Section 13 Fund Raising Activities	<ul style="list-style-type: none"> Section 13.1.4 – All fundraising activities must be approved prior to ordering or receiving products/services. Section 13.3.1d – Properly completes the Fund Raising Application (FRA). This application must be approved before entering into any agreement and/or receiving product from a vendor. The sponsor, not the District, will be liable for product delivered and amount due if sponsor fails to obtain prior approval. Section 13.5.1 – The fund raising activity approval process is initiated by submitting the Fund Raising Application to Campus Accounting. The FRA must be approved before the product or services are ordered or received. Section 13.5.3h – The FRA must be properly completed and signed before an activity can start. 	01
2.	Board Policy CFD (Local)	<ul style="list-style-type: none"> The Superintendent, principal, and sponsor, as applicable, shall be responsible for the proper administration of District and campus activity funds and student activity funds in accordance with state law, local policy, District-approved accounting practices and procedures as outlined in the campus accounting manual, and the TEA Financial Accountability System Resource Guide (FASRG). 	01
3.	EPISD – Procurement Manual – Purchasing Authority	<ul style="list-style-type: none"> The Procurement Services Department shall develop appropriate procedures to assure: Purchases are made in accordance with appropriate statutes, regulations, and Board policy. The existence of a list of approved vendors who have a record of quality products, services, and prices. 	02
4.	EPISD – Procurement Manual – Vendor Selection	<ul style="list-style-type: none"> If the warehouse is unable to supply the items required, the end user must seek a “TEAMS” vendor. A TEAMS vendor is a vendor that is established in the TEAMS System... If the goods or services are unavailable from a TEAMS vendor, then the end user must find the goods or service elsewhere and complete a new vendor request. 	02
5.	Board Policy CHE(Regulation)	<p>Purchasing and Acquisition Vendor Relations</p> <p>Only school personnel and/or authorized salespersons may conduct any sales on school campuses.</p>	02
6.	CAM – Section 13 Fund Raising Activities	<ul style="list-style-type: none"> Section 13.5.4 – “The Campus Accounting Department [Financial Services] determines whether the activity should be processed. Considerations include: if the provider is a District approved vendor...” Section 13.22 – Campus Accounting will provide all schools with a list of approved fund raising vendors. 	02

Criteria No.	Criteria Source	Criteria Details	Relevant Findings
		<ul style="list-style-type: none"> Section 13.25.4 – Sponsors [employees] approached by individuals without a permit should contact Campus Accounting for vendor verification status and for advice. Section 13.27.1 - Vendors who provide fund raising services must obtain a vendor pass by attending a summer seminar and providing the required documents. Fund raising vendors must also complete the Purchasing Department's Vendor Information Form, Conflict of Interest Questionnaire, and IRS Form W-9 as part of the application process. Vendors listed in the "List of Approved Fund Raising Vendors" will be informed of the summer meeting via mail. Interested vendors not on the aforementioned list should contact the Purchasing Department.... 	
7.	CAM – Section 13 Fund Raising Activities	<ul style="list-style-type: none"> Section 13.27.7 – The vendor, under all circumstances, should never accept cash payment for El Paso Independent School District activities. Section 13.13.8 – The sponsor is not authorized to use cash collected to make purchases. If additional supplies are needed for the fund raising activity, then the sponsor should obtain a check from the campus financial clerk. 	03
8.	Board Policy CE(LEGAL)	<p>Authorized Expenditures</p> <p>A district shall not lend its credit or gratuitously grant public money or things of value in aid of any individual, association, or corporation.</p>	Ancillary Finding 02



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