

Secretary of State **AUDIT REPORT**

Report No. 2003-01 • January 22, 2003

Department of Education: Trust Fund Review



Bill Bradbury, Secretary of State
Cathy Pollino, Director, Audits Division

Summary

PURPOSE

The objective of our audit was to review and evaluate internal controls over the processing of administrative and student trust fund transactions at the Oregon School for the Blind and the Oregon School for the Deaf.

BACKGROUND

The Oregon Department of Education (department) operates the Oregon School for the Blind and the Oregon School for the Deaf. Both schools accept donations and are responsible for funds generated through fund-raising events and student businesses. In addition, some students have limited amounts of funds held by the department.

RESULTS IN BRIEF

We found that opportunities to improve controls exist in several areas. We found that segregation of duties, physical controls over cash and important documentation, independent monitoring, and documentation of authorization for certain transactions could be improved. We also found that improvements could be made to the disbursement forms used by the schools. Finally, the department could improve how it tracks donations and allocates interest on donated funds.

Additional issues that we believe warranted the attention of the department were conveyed to the department in Management Letter 581-2002-11-01. Additional details for the conditions noted in this report and detailed recommendations also can be found in the management letter, which is available upon request.

RECOMMENDATIONS

Department management has been responsive and expressed their intent to implement recommendations to address the concerns set forth in this report and in the management letter referred to above.

Overall, we recommend that the department take the necessary actions to ensure compliance with state laws and rules, and to ensure that trust funds are appropriately safeguarded and accounted for.

AGENCY'S RESPONSE

The Department of Education generally agrees with the recommendations.

Introduction

The Oregon Department of Education (department) operates the Oregon School for the Blind and the Oregon School for the Deaf. These schools provide an intensive education to students with impairments who require a higher level of service than can be provided through regular public schools. Both schools are funded through legislative appropriation. In addition, both schools accept donations and are responsible for funds generated through fund raising events and student businesses.

Donated funds and funds generated through events and student businesses are accounted for by the department as administrative trust funds. In addition to

administrative trust funds, some students have limited amounts of funds held by the department.

As of March 28, 2002, the schools had a combined balance of approximately \$801,000 in their administrative and student trust fund accounts, of which approximately \$1,300 was in individual student trust accounts. During the audit period from April 1, 2001 to March 31, 2002, transactions flowing through the accounts totaled approximately \$252,000 in cash revenues and \$224,000 in cash expenditures.

Audit Results

We identified opportunities to improve controls in several areas. Overall, we recommend that the

department take the necessary actions to ensure compliance with state laws and rules, and to ensure that trust funds are appropriately safeguarded and accounted for. Detailed recommendations were conveyed to the department in Management Letter 581-2002-11-01, which is available upon request.

Segregation of Duties

The Oregon Accounting Manual (OAM) requires agencies to appropriately segregate cash handling duties. During our audit, we found that appropriate segregation of cash handling duties did not always occur.

For example, the Oregon School for the Blind had one individual who received cash for student trust accounts, prepared student trust

account petty cash disbursement requests, disbursed cash, and provided manually prepared trust account balance information to students.

Physical Controls Over Cash and Important Documentation

The OAM requires agencies to establish immediate control over cash receipts, maintain control over cash receipt forms, and physically secure cash at all times. We found that opportunities exist to improve controls over cash and important documentation. For example:

- Neither school nor the department's central mailroom immediately restrictively endorsed checks received.
- School personnel did not always prepare or date receipt forms the day cash or checks were received.
- Both schools' cash receipts were kept at the department's central office in a safe that was unlocked during the day until deposit. This safe also contained important documents, such as vehicle titles.

Independent Monitoring

Independent monitoring of accounting functions, required by the OAM, are important to ensure the reliability of accounting information and to safeguard assets. During our audit, we found that certain monitoring functions important for the detection of theft were not in place.

For example, we found that the department did not ensure that all consecutively numbered receipts for both schools were accounted for, including original voided receipts. We also found that, for petty cash funds maintained at the schools, the department did not perform any surprise counts.

Documentation of Certain Transaction Authorization

The OAM requires that all approval of disbursements be made by agency heads or by delegated employees. Both schools have procedures in place that identify personnel with disbursement approval authority. During our audit, we found that persons signing disbursement requests did not always comply with these procedures.

For example, Oregon School for the Deaf procedures require two signatures for administrative or student trust fund disbursements. One of the persons signing was required to be a member of the Leadership Team. These requirements were not always followed. We also found an instance in which the director did not sign an administrative trust fund disbursement as required by Oregon School of the Blind procedures.

Disbursement Forms

A well-designed disbursement request form documents responsibility for a transaction and requires information be entered into the form in a manner that will reduce the opportunity for alteration and theft of funds.

The disbursement form used by the Oregon School for the Deaf did not require a signature from the person disbursing funds. Also, neither school's petty cash disbursement form required non-numeric written dollar amounts as well as numeric dollar amounts. Forms with only numeric amounts are easier to alter than forms requiring non-numeric written dollar amounts as well.

Donation Tracking and Interest Allocation

The OAM does not provide agencies with specific guidance on tracking donations designated for a specific purpose or on allocating

interest earned on designated donations. State law, however, requires all private donations or contributions deposited into the State Treasurer be kept in a separate trust fund *for the use and benefit for which the donation or contribution was made (emphasis added)* and requires all interest, if any, earned by a trust fund to inure to the benefit of the trust fund.

We found that opportunities exist for the department to improve its procedures for tracking donations designated for a specific project and for allocating interest earned on these donations.

Donations given for a specific project were sometimes recorded in the accounting records with donations that did not have a specific project identified. We also found that most of the interest earned on donations given for a specific project was not necessarily allocated to that project. Instead, interest was more likely allocated to projects based on need as determined by the schools' directors.

Agency's Response:

We appreciate the opportunity to respond to your draft audit findings and recommendations for the trust funds administered by the department.

We have fully assisted the auditor's efforts and have utilized this opportunity to present the unique challenges faced by our Special Schools operations in complying with accounting mandates designed for state agencies.

The Department has reviewed the findings involving segregation of duties, physical controls over cash/documentation, transaction monitoring/documentation, forms management and tracking of donations and allocation of interest. The Department generally agrees with the recommendations of the audit.

We have moved immediately to improve the segregation of duties and physical controls over cash as recommended by the audit. The Department anticipates implementing the cyclic process recommendations over the next biennium.

Your audit efforts have been valuable in providing a framework for improvement.

Objectives, Scope and Methodology

The objective of our audit was to review and evaluate internal controls

over the processing of the Oregon School of the Blind and the Oregon School for the Deaf administrative and student trust fund transactions.

Specifically, we reviewed the controls over the trust fund receipting and disbursement processes. This review included a review of controls over petty cash funds maintained at both schools, since some trust fund transactions are processed through these funds. We also reviewed transfers of funds between individual trust fund accounts for appropriateness.

Our work included inquiries of department personnel, examination of state rules and laws, and a review of policies and documents relating to our objective.

Fieldwork was conducted from May 2002 through August 2002.

We conducted our audit according to generally accepted government auditing standards.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.

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The courtesies and cooperation extended by the officials and staff of the Department of Education were commendable and much appreciated.

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