Internal accounts offer schools a faster, more convenient way to handle the income and expenses that result from student fees, school clubs and organizations, field trips, fund-raising, and similar activities. But this convenience also incurs the added risk of fraud.

Fortunately, there are proven ways to strengthen internal controls and reduce that risk. Moreover, contrary to many educators' impressions, such internal controls do not have to be cumbersome or time consuming. In fact, when properly structured and executed, strong internal controls can actually simplify the job of handling such accounts, freeing up teachers' and administrators' time to concentrate on education.

The Nature of the Risk
The practice of maintaining accounts outside the central business office—although often the most practical way to handle funds related to extracurricular events—presents some inherent risks:

• Decentralized control makes monitoring and tracking funds more difficult.
A Resume Says You Have Experience and Knowledge in School Business Management
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Learn how you can add this important designation to your credentials today.

www.asbointl.org/certification
Developed by school business management professionals and supported by ASBO International, SFO certification defines the essential skills and knowledge that every effective school business professional should possess. Tied to the ASBO International Certification Code of Conduct, SFO certification also validates a commitment to the highest ethical standards in the profession.

Certification is an opportunity to

- Measure your knowledge and skills against a professional standard.
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- Demonstrate initiative, professionalism, and dedication to school business management.
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David Bein, SFO
East Maine SD 63
Executive Director of Business Services
Des Plaines, IL
SFO® Certification is the Mark of a Dedicated Professional

The role of a school business official varies by district size and resources; however, the fundamental skills and knowledge needed to effectively safeguard school funds and maximize resources for students do not.

ASBO International's Certified Administrator of School Finance and Operations (SFO) program recognizes school business officials who demonstrate a combination of experience and education and who have a mastery of the knowledge and skills required to be an effective school business leader.

By earning an international credential, you'll instill confidence in those around you. Give your fellow administrators, board, and community even more reassurance that you have the know-how to support them.

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The SFO certification provided a personal challenge for me to measure my skill sets and knowledge against the profession.

Cody McClintock, SFO
Red Deer Public Schools
Associate Superintendent, Business Services
Red Deer, AB
Canada

EXAM CONTENT OUTLINE

Your job requires a unique set of knowledge and skills. And that's exactly what the SFO exam will cover.

Part 1: Accounting, 70 multiple-choice questions
- Manage Accounting Systems
- Manage Accounting Functions

Part 2: School Business Management, 100 multiple-choice questions
- Conduct Financial Planning and Analysis
- Conduct Budgeting and Reporting Activities
- Conduct Risk Management Activities
- Manage School Facilities
- Manage Information Systems
- Manage Human Resource Functions
- Manage Ancillary Services

Take the first step for yourself and the profession. Apply for SFO certification. Applications are accepted all year long. The SFO program has five parts: eligibility, code of conduct, exam, annual renewal, and recertification. Candidates take the exam at a computer-based testing center through the Pearson VUE network in the United States and parts of Canada.

Visit www.asbointl.org/certification for more information
• Many individuals—including teachers, volunteers, and parents—typically handle the funds.
• The transactions are often small and difficult to track.
• Those responsible for supervising the accounts might lack bookkeeping experience or training.

Even well-designed internal controls can fail in execution. For example, requiring duplicate prenumbered tickets for raffles or event admission is a common control. But without a master log of ticket numbers to account for all the tickets issued, fraud is still possible.

Even well-designed internal controls can fail in execution.

The breakdowns in internal control are not always so obvious, of course. And although the amounts involved in such frauds are often small in relation to the total district budget, the damage caused by internal control failure can be significant in lost reputation, damaged credibility, and diminished community support when fraud is discovered.

Internal Control Basics
What specifically do we mean by internal controls? The standard definition comes from the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a voluntary private-sector organization made up of leading accounting and auditing professional associations.

COSO (www.coso.org) defines internal control as "a process, effected by an entity's board of directors, management and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."

It's important to note that COSO defines internal control as a process. It is a means to an end, not an end in itself. Note also that internal controls are not just stand-alone practices, policy manuals, or forms. Rather, they are woven into the day-to-day responsibilities of the people involved.

Internal controls must make sense within each school's operating environment, should be cost-effective, and should actually benefit rather than encumber management.

One District's Challenge
Do systematic controls for internal accounts sound too difficult to develop and implement? Do you think the risk is not serious enough or the potential benefit is not worth the effort? Then consider the example of Chicago Public Schools (CPS), the nation's third-largest school district.

With 680 schools and an annual operating budget exceeding $5 billion, CPS's spending on internal accounts was growing at a compound rate of 7% annually. An investigation by the inspector general's office revealed a high risk of fraud and theft, citing ineffective policies and procedures in the way the district's internal accounts were handled, as well as a general lack of transparency, central control, and monitoring.

For example, throughout the district, the various individual schools were using 70 different banks to handle these internal accounts. Each school had stand-alone accounting systems with inconsistent recording of disbursements, receipts, and deposits and inexperienced clerical staff responsible for bookkeeping. The lack of transparency made audit coverage costly and infrequent.

This system had contributed to several unsettling situations. In one elementary school, the principal made uncontrolled purchases of more than $67,000 in photography equipment during a two-year period using a CPS credit card, purchase orders, and school funds. More than $41,000 in photography equipment and other technology purchases could not be located.

One principal was accused of stealing more than $22,000 in school funds by writing internal account checks to herself. Another employee had written 319 school checks to herself, totaling more than $400,000, over a five-year period.

Successfully Addressing the Issues
In response to such issues, CPS implemented new cash management controls, policies, and procedures that govern how funds flow into school accounts. It also set up institutional controls that restrict certain funds, which can only be used through the main purchasing system.

Internal controls are not just stand-alone practices, policy manuals, or forms.

After implementing the new controls, the number of checks written annually from such accounts was reduced by 35% from 2007 to 2010. Even more importantly, the total disbursements from these accounts were reduced from $78.3 million in 2007 to $57.2 million in 2010, a reduction of nearly 27%.

What's more, the new internal controls actually ease the bookkeeping and compliance burden for district employees and reduce the related costs. For example, instead of individual and complex stand-alone accounting systems at each school, the district now employs a custom-designed, easy-to-use, centralized system with full technical support.
Instead of each school being responsible for software licensing fees, maintenance, and upgrade costs, these expenditures are now centralized. The new system also provides centralized storage of seven years’ worth of financial records and customized training for employees using both instructor-led and online training sessions.

The number of banks used was reduced from 70 to 1, with shared fees and interest. Other new benefits include online account access, improved security of deposits, weekly armored car pickups, and 24-hour automated transfer of funds instead of the two- to three-week manual process that was in place at many schools.

Above all, where administrators formerly spent considerable time manually completing internal account management tasks, the customized system now reduces administrative costs and makes more resources available for educational purposes.

Implementing Stronger Internal Controls

How can you get started on the important task of implementing stronger controls over internal accounts in your district? In general terms, the process can be broken into five steps:

1. Know the exposures.
2. Know the symptoms of occurrence.
3. Be alert for symptoms.
4. Build control procedures and audit program steps to look for symptoms.
5. Follow through on all symptoms observed.

Such a plan can be used to implement recognized fraud prevention practices, such as the following:

- **Segregate duties.** Ensure that no one person has custody of assets and is also responsible for record keeping and documentation. Someone who is independent of the process should perform reconciliation of the accounts.

- **Rotate duties.** Regularly rotate responsibilities among qualified personnel, if adequate resources exist, to stay alert to any unusual patterns.

- **Document procedures.** Documentation helps ensure that processes are handled consistently and controls are not circumvented. The documentation process itself can reveal weaknesses.

- **Ensure independent review.** Establish a monitoring or internal audit program.

- **Provide training.** Bear in mind that some individuals involved in the process might lack an understanding of proper internal control processes.

Putting Theory into Practice

In addition to sound general fraud prevention practices, a number of specific internal control techniques are especially useful in managing student activity and extracurricular funds:

- Centralize accounts whenever practical to improve management control and efficiency.
- Make each student activity or convenience account self-sustaining. Account balances should not be allowed to go negative unless a loan between accounts has been approved to fund the deficit.
- Keep activity funds in approved depositories or invested in conformity with the district’s investment policy.
- Use prenumbered receipts that are reconciled to deposit information.
- Reconcile cash and investment balances to activity fund ledgers on a monthly basis.
- Identify any large invoices that are paid without a purchase order.
- Make sure activity fund checks generally are made out to companies rather than to individuals.
- Cross-check vendors to identify recurring addresses or phone numbers. Also cross-check addresses against employee addresses.
- Run certain payments made to district employees through payroll and include them on employees’ W-2s.
- Compare bids awarded with payments made, and look for price variances.
- Carefully review descriptions of services rendered.
- Use prenumbered tickets for events, with a corresponding prenumbered ticket log.
- Have two individuals sign checks and make sure these individuals work together to verify cash collection.
- Implement a documented credit or purchasing card policy. Maintain an inventory of all cards and identify dormant accounts or any use by terminated employees.
- Apply rationalization testing and monitoring of purchasing card expenditures. Ask if the purchase makes business sense given the cardholder’s duties. Review statements between months to see if credits were issued but not received.

So where do you start? To some extent the answer depends on the resources you have available. If resources are scarce, consider using members of the school board, finance committee, or other comparable group to provide expertise and support. Typically you want to start with the highest risk processes first, but if necessary start small.

The point is to get started.

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