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A PRACTITIONERS BULLETIN

Student Activity Funds — Principals Beware!!

By Dr. Becky C. Blount

WARNING: Use of poor procedures in the management of student activity funds can be hazardous to your professional health. Take all recommended precautions. Great diligence and care are imperative to ensure that safe and proper methods are followed. Common sense is the leading precautionary measure.

Does this warning seem a bit strong? Yes, it does. But when you are accountable for student activity funds, you must understand the importance of following specific rules. Your duties and responsibilities as principal can be overwhelming with the daily management of your school building. Ordinary events, like facilitating, mediating, negotiating, disciplining, and directing students, faculty, staff, parents, and community members, can be complicated by those dreaded fiscal responsibilities that make

an already busy and often stressful workday worse. One such financial responsibility is the management of student activity funds — those funds that are related to functions of your school

monies make to the educational program regulate the need for sound practices. Thousands of dollars may be generated each year even in a small school. Therefore, special consideration is nec-

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other than the educational program. A few basic facts about activity funds and the importance of common sense in managing these types of financial activities can ease the pressures regarding these funds and the consequences that can result from their mismanagement or non-management.

Student Activity Funds

Student activity funds or extracurricular funds are owned, operated, and managed by clubs or groups within the student body and are directed by faculty or staff members with students taking part in the decision-making. Examples of these groups can include Student Council, Yearbook, and German Club. Even though they are not part of the regular accounting system of your school, the contributions that these

essary because activity funds are often neglected and poorly managed.

Activity funds must be established according to regulations and guidelines of the State Board of Education in [The Illinois Program Accounting Manual](#) and by your Board of Education. Because of the possibility of unauthorized influence over these funds, proper administrative controls must be maintained. Here are several simple, but necessary, rules to follow:

1. Utilize the same fiscal accounting year for the student activity funds as the school district does for its regular operations.
2. Use one checking account for all organizations and maintain properly detailed records for the individual groups.

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3. Place funds in an interest bearing checking account at an approved depository. Interest earned is apportioned among all individual accounts within the larger checking account.
4. Proper documentation for all transactions must be maintained. These include pre-numbered checks, vouchers, receipts, and invoices verifying collections and expenditures.
5. Two (2) signatures are required on checks.
6. Monthly reports are generated detailing the receipts and disbursements of each organization. The monthly schedule of cash receipts, disbursements, and balances are provided to your local Board of Education.
7. Bank reconciliations must be completed each month.
8. All funds shall be expended to benefit students.
9. No overdrafts are permitted.
10. All new accounts and closing of other accounts must be approved by your local Board of Education.

Activity funds need to be monitored very closely with, not only monthly reporting, but also other internal checks and balances of procedures practiced. The activity funds are included in the annual audit of your district by an independent auditor.

An effective way to maintain records on activity accounts is to utilize one of several software packages available. These programs, such as 'Quicken', 'MSMoney', and others, can be effective tools in providing informative reports and keeping adequate records. Program capabilities include check writing, financial calendars, expenditure and account listings, various reports and graphs that can be customized, bank reconciliations, and other features to make accounting for activity funds manageable.

Internal Control Considerations

Internal control is a system that includes checks and balances of an accounting system. These checks and balances detect errors and irregularities so they can be eliminated in a timely fashion. The internal control system is an integral part of a school's accounting system, especially in its relationship to appropriate management of student activity funds.

Internal accounting controls are organized in two separate categories. The first is administrative controls. They concern the decision processes for authorization of transactions. An example of this within the normal operation of your district is the Board of Education's approval of bills payable before payments are made. The same is true if you, the principal, approves an invoice to be paid from the student activity fund.

The other category of internal controls is known as accounting controls. These controls safeguard assets or the items that are owned or owed to a school, district, or organization. These assets can be cash, as well as equipment and furniture that have been purchased by an organization. These controls provide assurance on the reliability of the financial statements. They also ensure that all transactions are properly authorized and recorded, that access to assets is controlled by and limited to authorized individuals only, and that periodic comparisons are made of records and actual assets.

An effective system of internal control emphasizes the need for segregation of certain duties and responsibilities. Segregation of duties means that no single employee should be responsible for authorizing a transaction, recording that transaction in the accounting records, and directly handling the related assets (cash, primarily) resulting from the transaction process (custody).

An example of improper segregation of duties is a bookkeeper that receives cash receipts (custody), prepares and signs the bank deposit slip (authoriza-

tion), enters the transaction into the accounting records (recording), and deposits the cash (custody). Proper segregation can be achieved only through a clear division of duties for the individuals performing the transactions.

Specific Procedures for Revenue Transactions

Student activity funds are often generated from numerous sources such as membership dues, athletics, fund-raising drives, and other club activities. Cash receipts are common. Adequate cash control procedures are imperative to decrease chances for fraudulent transactions. Prompt documentation of cash receipts are recorded on pre-numbered tickets or vouchers. Remember that the duties of receiving and documenting funds, preparing bank deposits, and posting records are separated as much as possible. One individual should not be responsible for all duties from the beginning to the end of the transaction. All funds should be deposited as soon as possible — even daily, if necessary. All checks need to be appropriately endorsed in a timely manner. Security measures (safes, locked cash boxes) are used to protect all student activity funds. Also, one needs to be aware of the policies and regulations regarding the purposes of the various organizations to ensure that the funds that are collected and deposited are in compliance.

Deposits are reconciled to bank statements and ledger entries. All receipt books and numbered forms are adequately maintained. All voided receipts are accounted for. Student activity funds are not used for cashing personal checks. Mathematical accuracy is checked and appropriate approvals are affixed to the documents. Great importance is placed on the periodic investigation of significant variances from prior accounting periods and items that appear unusual.

Specific Procedures for Expenditure Transactions

Within the expenditure cycle, there

are several basic areas that need to be monitored. First, rules concerning the purchase requisition and/or the purchase order need to be approved, implemented, and closely observed. All purchases need to follow these rules. The purchasing function is separated from the receiving and accounting func-

all discounts can be taken as allowed. Supporting documents should be properly stamped so that duplicate payments are not processed. Expenditures should be charged to correct funds in compliance with the purposes and conditions. Budget limitations are adhered to. All significant expenditures and variances

and conditions of the fund are allowed. Be cautious of expenditures marked 'miscellaneous' and 'other'.

Bank account balances need to be reconciled in a timely manner (once a month) with the book balances. Outstanding checks are properly investigated if they remain outstanding over a longer than usual period of time. A good rule to follow is if the check is outstanding for more than two reconciliations, follow-up on it and find out why it has not been processed through the bank.

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tions. A sequential pre-numbering system is utilized for purchase orders. When goods are received, proper verification is made.

Another area that must be monitored is check issuance and processing. All checks are pre-numbered. All voided checks are designated or marked as such so they cannot be reused or become available to unauthorized individuals. Checks should be made payable to a company instead of an individual. Avoid making a check payable to 'Cash'. Proper signatures should be affixed to the checks only after the payment is completely prepared. Do not sign blank checks. Canceled checks need to be reviewed for proper signatures and appropriate endorsements. Account for all checks including void ones. Unused checks need to be properly controlled by storing them in a location that has limited access.

Next, monitor the documents that support payments and checks. An itemized vendor invoice or a properly approved payment voucher must support each check. Payments are not to be made based on vendor statements. Invoices are checked for accurate calculations and proper pricing. Invoices should be paid on a timely basis so that

are to be investigated.

If a petty cash fund is part of the activity funds, all transactions must follow the same procedures as a cash account. The petty cash account is used to disburse relatively small amounts for various items, such as postage due, transportation charges, or for the purchase of urgently needed supplies at a nearby store. These amounts usually do not warrant being processed through the regular purchasing system. Payment by check in such cases would only result in delay and excessive expense of maintaining records. Close and careful control over such cash accounts must be maintained because of the ease with which they can be converted to personal use. Petty cash accounts can be established by resolution of your local Board of Education. The resolution states the dollar amount that is to be established and also designates an individual as custodian of the petty cash. Once again, petty cash vouchers are pre-numbered, properly prepared with the account number to be charged, and signed by the person receiving the payment. Receipts for the expenditures serve as documentation that the expenditures were actually made. Only expenditures that are in compliance with the purposes

Reporting Procedures

Procedures for reporting the financial status of student activity funds should be established in your district. Ordinarily, reporting is done monthly and annually. The principal and/or the individual that is responsible for these funds sign the report. The report is submitted to the appropriate officials (Superintendent, Board of Education).

Audits

As a safeguard, internal audits should be conducted periodically during the year by an appropriate individual (business manager, accountant) within the district. This allows any problems to be recognized and corrected before they become unmanageable.

In addition, all documentation is to be maintained in order to provide a sufficient audit trail for your district's independent auditor. Adequate records leave little room for suspicion and can only lead to increased creditability for the individuals and administrators involved.

Common Sense Rules

It may sound to you that I have repeated myself several times about the aspects of monitoring and controlling student activity funds. However, I cannot say enough times — ***Follow proper procedures. Remember the ABC's of student activity funds — A - Authorization, B - Bookkeeping, and C - Custody. Keep these duties separated.***

Illinois Principals Association

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(ABC does mean that you leave money in Apricot, Blue, and Canary colored envelopes on your desk to be accounted for sometime in the future and disbursed from as needed!)

Request proper training in student activity funds management for you, your secretary, and the other individuals that are held accountable for these transactions. This training can be in-house or workshops presented by accounting firms or organizations, such as IASBO (Illinois Association of School Business Officials). Also, the independent auditor hired by your district can be a valuable resource about the proper procedures to follow regarding student activity funds.

Last Warning!

BEWARE of student activity funds and BE AWARE of the consequences of improper fund management. Your creditability and future as a principal and your professional life as well as your personal life are at stake.

Resources

The Principal and Fiscal Management, Series #6, James K. Walter and George D. Marconnit, Phi Delta Kappa Educational Foundation, 1989.

A Guide To School Finance, 2nd Edition, Dr. R. E. Everett, Illinois Tax Foundation, 1995.

Internal Audit Guide for Student Activity Funds, Association of School Business Officials International, 1986.

A Principal's Guide to School Accounting, Becky C. Blount, 1996.

Illinois Program Accounting Manual for Local Education Agencies, Illinois State Board of Education, 1990.

Internal Control Handbook, Illinois State Board of Education, 1993.

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