



September 2016

## Risk Advisory Student Activity Funds

*The Office of the State Auditor (“OSA”) has issued this Risk Advisory to alert schools of certain risks related to the handling of student activity funds. The OSA strongly advises school districts and schools (“schools”) to review their internal controls for activity funds to prevent and detect fraud, waste and abuse and ensure that applicable legal requirements are met and funds are properly accounted for.*

Public schools in New Mexico handle millions of dollars in student activity funds. These funds provide additional support to student organizations for co-curricular and extra-curricular activities, and may be generated through various ways, including fundraisers or proceeds from athletic events.

Student fundraisers and other activities may involve significant sums of money, often collected in cash, which are particularly susceptible to theft, misuse, or errors. These funds are often handled by students and employees who may not have an accounting background, familiarity with appropriate internal controls or compliance requirements. In addition, there is a widespread misperception that these monies do not need to be safeguarded in the same way as other public funds.

The OSA’s review of recent audits and special investigations cases identified a wide range of compliance issues involving activity funds, ranging from innocent mistakes to probable criminal theft. These include a coach seeking reimbursement for an athletic competition that was not actually attended by the team, a principal who allegedly embezzled money from a candy fundraiser, and the use of personal bank accounts by coaches.

Student activity funds should generally be treated in the same manner as other public funds. NMSA 1978, Section 6-10-2 requires public schools to maintain accurate records of all monies collected and dispersed. Schools are responsible for ensuring the funds are accounted for and handled consistent with applicable laws, rules, regulations and policies and procedures. Sound accounting practices and strong internal controls safeguard public resources but also help protect employees and students from being wrongfully accused of misusing or stealing activity funds.

*Activity Funds  
in a Nutshell*  
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In public school finance, there are two types of activity funds: student activity funds and district activity funds.

“Student activity funds” account for monies collected by students, typically under the supervision of a staff member or sponsor, for educational, recreational or cultural purposes. Students participate in directing the use of the monies; however, the school holds the organization’s funds in a fiduciary capacity. These funds may be used to support student clubs, honorary societies or athletics, and are classified as fiduciary “Agency Funds.”

“District activity funds” belong to the district or charter school and the school board or governing body specifies how the monies are spent. These funds include fees for special field trips, plays, etc. and are classified as “Special Revenue Funds.”

All activity funds must be reported in financial statements and are subject to audit.

## Risks

The failure to maintain appropriate internal controls over activity funds can result in a number of risks, including, but not limited to:

- *Loss or theft.* Failure to protect against intentional wrongdoing or identify unintentional errors may result in significant losses of public funds intended to support students.
- *Misstatements in financial reporting.* Accurate financial reporting is important in determining the appropriate allocation of resources, identifying financial irregularities and providing public accountability and transparency with regard to governmental activities.
- *Liability and disciplinary action.* Student activity funds are often handled by personnel without a financial background who may not be aware of proper accounting safeguards. However, the mismanagement of these funds or the failure to follow required procedures may result in significant repercussions, including schools requiring unaccounted for funds to be repaid by employees, employee reimbursements being denied, unfounded accusations of theft, and disciplinary actions.

The OSA's review of recent audits and special investigations cases identified a wide range of compliance issues involving activity funds, ranging from innocent mistakes to probable criminal theft. These include:

- A coach seeking reimbursement for an athletic competition that was not actually attended by the team;
- A principal who allegedly embezzled money from a candy fundraiser;
- The potential embezzlement of school funds, including activity funds, by a school bookkeeper;
- The use of personal bank accounts by coaches;
- Personnel not following appropriate cash handling procedures, such as a single person handling funds and no dual verification of receipted monies;
- Expenditures without prior authorization and purchases without receipts and supporting documentation that goods and/or services were received;
- The use of activity funds for an unrelated purpose;
- Activity funds with a deficit balance;
- No policies and procedures in place for collecting cash receipts at sporting events (no pre-numbered tickets); and
- Unsecured monies and untimely bank deposits.

### **Activity Funds v. Booster Clubs**

Activity funds and booster clubs may involve similar activities, such as conducting fundraisers and supporting student athletics and clubs. However, unlike activity funds, which are an integral part of a school's financials and are subject to state accounting controls, booster clubs are generally outside entities that maintain separate bank accounts and accounting mechanisms.

## Internal Controls

Strong internal controls help ensure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws, rules and regulations. The OSA has identified various recommendations that schools may want to consider when assessing their internal controls. These include:

- Implement written policies and procedures that clearly define roles and responsibilities. Personnel should sign an acknowledgement form indicating that they understand the policies and procedures governing activity funds and the consequences of failing to comply, including disciplinary action. Policies may also prohibit those who do not comply with rules from conducting fundraisers and handling activity funds, require the repayment of unaccounted funds, and allow the administration to deny payments made in violation of the policies and procedures.
- Provide training to all personnel responsible for handling activity funds regarding state laws, regulations and policies and procedures. Trainings should be conducted on an ongoing basis to ensure new employees are adequately apprised of the rules prior to assuming their duties and that existing staff receive an opportunity to refresh their knowledge.
- Centralize the oversight of activity funds and appropriately segregate approval, cash handling and recording functions.
- Monitor and routinely assess compliance at each school site.
- Ensure that the actual use of monies is consistent with the stated purpose of the fundraiser or other club/activity objective and that funds are not diverted for non-related uses.
- Hold funds in a secure location until timely bank deposits are made. Cross-train employees so that more than one individual is able to make deposits within the statutorily mandated 24 hours of receipt.
- Reconcile activity funds on a monthly basis with appropriate reviews.
- Properly document revenue, purchases, and goods and services received. Purchases should be supported by documented prior-authorization, receipts, and recorded deposits.
- Never use personal bank accounts in lieu of official school accounts.
- Document and track sporting event tickets (pre-numbered) and reconcile the amount of cash collected with the number of tickets sold at the conclusion of the event. Cash collected and tickets sold should be reviewed by at least two individuals.

### Resources

[Manual of Procedures, PSAB Supplement 18 \(Student Activity and Athletics\)](http://www.ped.state.nm.us/div/fin/school.budget/PSAB/Supplements%2012%20thru%2021.pdf)

<http://www.ped.state.nm.us/div/fin/school.budget/PSAB/Supplements%2012%20thru%2021.pdf>

[NMAC 6.20.2.1 \(Budgeting and Accounting for New Mexico Public Schools and School Districts\)](http://164.64.110.239/nmac/_titles.htm)

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