



Boston Public Schools

**Student Activity Account
Audit**

August 2018

Draft and Confidential



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working world**

Report made to	Date	Report made by
The honorable Mayor Martin J. Walsh Laura Perille, Interim Superintendent of Boston Public Schools	August 2018	Boston Public Schools (BPS) - Ernst & Young (EY) Audit Team

Introduction

As part of the Independent Audit of Student Activity Accounts at the request of the City of Boston, we have completed our audit procedures at the schools identified in scope within the Boston Public Schools (BPS) system. See Attachment I for the complete list of schools.

Objective and scope

The objective of the independent audit was to understand fund activity and use related to student activity accounts, assess key internal controls and identify gaps, as well as review historical transactions for irregular activities. The audit was operational; not forensic in nature, focusing on controls, processes, and procedures in the following scope areas:

- Obtained and reviewed all available information collected at the BPS Central Office for student activity funds including policies and procedures, school account information, and prior audit documentation (if applicable)
- Interviewed key personnel to understand current and historical policies and procedures, flow of transactions, and key internal controls
- Executed audit procedures including, but not limited to, the following:
 - Reviewed cash journals and supporting documentation (e.g., receipts, deposit slips, etc.)
 - Reviewed bank accounts and statements and identified sources of funds
 - Gained an understanding of fund flows related to donations / grants / scholarships / fundraisers
 - Reviewed petty cash / check made out to cash and supporting documentation
 - Conducted sample testing to validate the appropriateness of transactions

Our audit period was School Year 13-14 through School Year 17-18 (5 years). Per discussion with City of Boston and BPS management, 118 schools were determined in-scope across the BPS system, excluding six Horace Mann Charter schools due to their autonomy nature.

Approach

We deployed a phased approach to complete the independent audit of student activity accounts for the 118 in-scope schools, as described below:

Pilot Phase (December 2017 to February 2018):

The objective of this Pilot phase was to understand the governance structure and overall control environment at BPS related to management of student activity accounts / funds. During this phase, we performed the procedures identified in the objective and scope section above at seven schools (refer to Attachment I for a list of pilot schools reviewed), which were collectively selected by EY and BPS management based on a risk and other demographics (i.e., student population, history of having student activity accounts, etc.).

Fieldwork Phase (March 2018 to June 2018):

Based on the procedures performed and key themes identified during the pilot phase, we developed a detailed plan, approach, and timeline to complete the audit of the remaining in-scope schools during the Fieldwork Phase. This standardized audit approach was developed to assess the current state, summarize themes, and analyze root causes of findings and exceptions. Our audit approach included the following:

- **Inquiry and documentation review:** For each school reviewed during both phases of fieldwork, we obtained an inventory of bank accounts managed by Principals, Headmasters, and/or delegates (i.e., budgetary accounts managed by BPS Central Office were not considered) based on inquiry and available documentation. For each bank account in scope, EY obtained and reviewed all available supporting documentation, including bank statements, account ledgers/journals, check stubs, receipts and other related documentation. EY performed inquiry-based walkthroughs of processes and procedures related to sources of funds, cash management, record-keeping, and disbursements / reimbursements.
- **Transactional testing:** EY also performed a detailed transaction-level review of high-risk accounts and transactions. For accounts that were associated with student activities, maintained by school officials, or associated to the City of Boston's tax identification number (TIN), EY reviewed a sample of disbursements / expenditures made since SY13. Sample sizes and selections were judgmentally determined using a risk-based approach, based on inspection of a combination of bank statements, check images, receipts, ledgers, and other documentation provided by school officials. EY obtained supporting documentation and discussed these expenditures with the applicable school Principal, Headmaster, and/or delegate to evaluate the purpose and appropriateness of transactions.
- **Communication and validation:** At the conclusion of fieldwork for each school, we conducted a closing discussion to verbally communicate and validate our findings with the applicable school Principals or Headmasters. In addition, we provided progress updates and escalated high risk findings to City of Boston and BPS management periodically throughout the duration of our fieldwork.

Background

The creation and use of student activity accounts by Massachusetts public schools is authorized by Massachusetts General Law (MGL) Chapter 71 Section 47, which provides schools with the ability to collect, maintain, and disburse for student activities through interest-bearing bank accounts. These accounts are required to be established through the treasury of the municipal or regional school district, and as such, are linked to the TIN of the sponsoring municipality.

In the fall of 2017, the Internal Revenue Service (IRS) released the results of a review of a sample of Boston Public School student activity accounts. The scope of the IRS review included 16 BPS schools and focused on student activity accounts use during the calendar year 2014. For 12 of the 16 schools reviewed, the IRS cited non-compliance with various tax regulations, including the issuance of forms 1099, worker classifications, and tax withholding. As a result of the IRS review, the City of Boston engaged EY to perform an independent audit of student activity accounts in December 2017. Additionally, to enhance the overall management of student activity accounts, the City of Boston and Boston Public School District kicked off the implementation of an Agency Account system to replace existing student activity accounts and to standardize student activity account processes across the District in fall 2017.

Summary of Project Results

Below is a summary of key themes and high risk observations identified during the audit for immediate attention of management. These observations have been summarized into two categories: 1) Policy and procedure observations, focusing on overarching policy and procedural gaps and key consistent themes observed across BPS system, and 2) Other operational observations, summarizing relatively anecdotal exceptions in other operational areas.

Details of all observations are provided in **Attachment A - G** of this report. **Attachments H - I** are provided for management information purposes.

Att.	Observation Category	Summary Description	Page
Policy and procedure observations: Overarching policy gaps and key consistent themes across BPS system			
A	Policy Compliance Observations	To gain an understanding of BPS's overall control environment of student activity account management and evaluate compliance with applicable laws and regulations, EY assessed BPS's current practice against applicable Massachusetts General Laws, as well as procedural guidelines published by the Massachusetts Association of School Business Officials (MASBO) ¹ and audit guidelines issued by Department of Elementary and Secondary Education (DESE) ² . A policy gap analysis, procedural guidelines and recommendations is illustrated in Attachment A .	p. 5
B	Procedural Observations and Process Maturity Ratings	Per evaluation of school's processes and procedures, we identified consistent themes across BPS system in 10 key internal control areas. For each of these themes, EY assessed each school's processes and assigned a 'priority rating' based on priority and urgency for remediation. At the conclusion of fieldwork, we aggregated and summarized priority ratings across all schools and assigned overarching ratings to each of the 10 themes. Refer to Attachment B for risks, detailed observations, priority rating, and recommendations for these 10 areas.	p. 10
Other operational observations: Anecdotal exceptions in other operational areas			
C	Boston Educational Development Foundation (BEDF)	EY's audit procedures included a high-level review of all school accounts used for student activity and general school operational purposes, including accounts and funds managed by the BEDF. Through these account inventory procedures and limited testing performed, EY compiled a listing of key risks and observations related to the use of BEDF for the management of student activity funds, including processing of payroll, account consolidation / co-mingling of funds, overdrawn accounts, errors in record keeping, and inappropriate charging of fees. Refer to Attachment C for additional details.	p. 16
D	All Cash Operations	While the majority of schools utilize at least one bank account to deposit, maintain, and disburse student activity-related and general school operational funds, EY identified seven schools that fund student activities primarily through cash funds held on-hand at the school with no bank account. Additionally, controls and procedures to manage on-hand cash / petty cash were not in place, with a lack of audit trail, segregation of duties, and oversight procedures, increasing risk of misappropriation of funds. This also demonstrated potential non-compliance with MGL c.71§ 47 which requires all monies collected through student activities to be deposited into a "student activity agency account" with the municipal or regional school district treasurer. Refer to Attachment D for additional details.	p. 19
E	Debit Card Use	EY determined through process walkthrough procedures performed and review of bank statements that schools have disbursed funds from student activity accounts using debit/ATM cards or other high-risk transaction types, including: electronic checks, wire transfers, Paypal transactions, cash withdrawals, purchases of checks, bank fees, etc. Due to easy access to cash with a lack of approval process, segregation of duties, and oversight procedures, debit card usage at these schools demonstrated high-risk of inappropriate / personal transactions. Refer to Attachment E for additional details.	p. 20
F	No Student Activity Account	EY identified 10 schools that did not deposit student activity funds into a separate interest bearing bank account with the municipal or regional school district treasurer. Instead, these funds were completely managed by BEDF and / or their own 501(c)(3) accounts, or have not collected student activity funds during the audit period. Deposit, maintenance, and disbursement of student activity-related funds in an account other than a separately managed student-activity account with the municipal or regional school district treasurer may lead to non-compliance with applicable laws and policies. MGL c.71§ 47. Refer to Attachment F for additional details.	p. 21
G	Third Party Vendor	EY identified a number of 3 rd party organizations that provide services to Boston Public Schools, ranging from curriculum development to fully outsourced school administration. In addition to organizational support, these organizations provide financial services to schools, including	p. 23

¹ The Massachusetts Association of School Business Officials (MASBO) is a non-profit professional organization associated with International Association of School Business Officials (ASBO). MASBO issued the "Student Activity Accounts Guidelines for Massachusetts School District" to assist and educate school committees and school officials relative to the establishment, operation and management of student activity agency accounts under the provisions of MGL c.71 § 47, first issued in May 1997, updated in May 2016.

² Department of Elementary and Secondary Education (DESE) developed audit guidelines to provide school business officials and outside independent auditors with tools and resources to evaluate internal control system in place used to administer student activity accounts as well as the annual transactions and activities of those accounts.

Att.	Observation Category	Summary Description	Page
	Management of Student Activity Accounts	management of BPS budgetary funds, grant management, and collection / management of funds designated for student activity use. Deposit, maintenance, and disbursement of student activity-related funds through a third party organization may lead to potential non-compliance with MGL c.71§ 47 which requires all monies collected through student activities to be deposited into a “student activity agency account” with the municipal or regional school district treasurer. Additionally, controls, procedures, and management oversight required enhancement to validate the effectiveness, accuracy, and completeness of student activity funds. Refer to Attachment G for additional details.	
For management’s information			
H	Additional Funding Sources and Collection Methods	EY determined that most student activity accounts are funded by fundraisers, donations, and funds raised for specific student activities (i.e. Prom). For management’s information purposes, EY also summarized a number of unique or unconventional funding sources or collection methods that were used by schools to generate funds for student activities as well as general school purposes. While these funding sources, such as GoFundMe pages, raffles, commissions from vendors, and school stores, presented new opportunities to efficiently generate funds for student activities, management should consider implementing additional controls and procedures to safeguard school assets. Refer to Attachment H for additional details.	p. 25
I	List of schools visited	The Boston Public School District is an organization of 124 public schools, with a total enrollment of over 55,000 students. The scope of EY’s audit included all Boston Public Schools with the exception of the 6 Horace Mann Charter Schools due to their autonomy status. Refer to Attachment I for a complete list of all schools reviewed during this audit.	p. 27

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Attachment A: Policy Compliance Observations

The creation, use, and management of student activity accounts by Massachusetts public schools is authorized and governed by Massachusetts General Law Chapter 71 Section 47 (MGL c.71 § 47), which states, “*The School Committee of a city, town or district may authorize a school Principal to receive money in connection with the conduct of certain student activities and to deposit such money with the municipal or regional school district treasurer into an interest bearing bank account.*” Additionally, MGL c.71 § 47 established overarching requirements around roles and responsibilities, school committee policy, establishment of student activity agency account and checking account, etc.

To gain an understanding of BPS’s overall control environment of student activity account management and evaluate compliance with applicable laws and regulations, EY assessed BPS’s current practice against applicable Massachusetts General Laws, as well as procedural guidelines published by the Massachusetts Association of School Business Officials (MASBO)³ and audit guidelines issued by Department of Elementary and Secondary Education (DESE)⁴. We performed a policy gap analysis to identify potential gaps in BPS’s policy and risks of non-compliance with MGL regulations. While the MGL does not specify internal controls and procedures related to student activity funds, we reviewed and summarized procedural guidelines and recommendations issued by MASBO to address potential policy gaps identified, as illustrated in the table below.

#	MGL c.71 § 47	MASBO Guidelines	EY Observations (based on scope SY13 – SY18)
1	Policy Development		
	While MGL c.71§ 47 does not specify the adoption of specific policies or procedures, it does require adherence to administrative procedures that may be set forth by each school committee.	MASBO recommends that the School Committee adopt a Policy that includes procedures for the creation, operation, control, and public reporting of all student activity accounts. The Policy should include the process that must be followed for a student activity to be recognized and the steps needed to have the student activity be approved by the School Committee. The Policy should also provide for adequate checks and balances to insure the protection of student monies. The Policy and all procedures should incorporate and reflect the concept of segregation of duties. The Policy and embedded procedures should be reviewed periodically and amended by the School Committee, when necessary.	A comprehensive policy did not exist at BPS to govern the end-to-end process from creation, operation, control, to financial reporting, as well as other financial aspects of student activity accounts. During fieldwork (December 2017 through June 2018), we reviewed the following existing BPS policies, determined in-scope as they related to management of student activity funds: <ol style="list-style-type: none"> 1. FIN-4: School Funds and Proceeds from Student Activities (July 2016) 2. FIN-9: Private Contribution Management Guidelines (August 2017) 3. August Leadership Institute Finance Summary (August 2017) 4. Student activity account migration process guideline (February 2018)
2	Recognizing a Student Activity		
	“ . . . Student Activity Checking Account to be operated and controlled by a school Principal and from which funds may be expended exclusively for	“Student activities come into existence in several ways. The School Committee Policy relative to student activities should specify how such different types of student activities would be recognized by the School Committee.”	Per the August Leadership Institute Finance Summary (August 2017), student activities are defined as “Co-curricular in nature, contingent on a

³ The Massachusetts Association of School Business Officials (MASBO) (<https://www.masbo.org/>) issued the “Student Activity Accounts Guidelines for Massachusetts School District” to assist and educate school committees and school officials relative to the establishment, operation and management of student activity agency accounts under the provisions of MGL c.71 § 47, first issued in May 1997, updated in May 2016.

⁴ Department of Elementary and Secondary Education (DESE) developed audit guidelines to provide school business officials and outside independent auditors with tools and resources to evaluate internal control system in place used to administer student activity accounts as well as the annual transactions and activities of those accounts.

#	MGL c.71 § 47	MASBO Guidelines	EY Observations (based on scope SY13 - SY18)
	student activity purposes for the student activities authorized by the School Committee.”	“A student activity account may be used for monies raised by student organizations and expended to benefit those students. MGL c.71 § 47 governs monies deposited to a student activity account. Monies governed by any other laws which specify other ways in which the money must be handled cannot be deposited to a student activity account.”	fee or external fundraising, and for the benefit of students”. Comprehensive guidelines and operational manual around different types of student activities, recognized by BPS School Committee, have not been established at the time of fieldwork.
3	Student Activity Agency Accounts		
	“The School Committee of a city, town or district may authorize a school Principal to receive money in connection with the conduct of certain student activities and to deposit such money with the municipal or regional school district treasurer into an interest bearing bank account, hereinafter referred to as the Student Activity Agency Account...”.	“All monies collected through student activities must be deposited into a student activity agency account. The student activity agency account acts as a “control account” for all recognized student activities throughout the entire district.”	BPS and City of Boston established the Student Activity Agency Account and initiated the Agency account migration process (to transfer individual school bank accounts to the Agency account) in November 2017. At the close of our fieldwork in June 2018, BPS was in process of completing the account migration process and implementing relevant policies and procedures related to Agency account.
4	Checking Accounts		
	“The School Committee may authorize the municipal or regional treasurer to establish a checking account, herein referred to as the student activity checking account, to be operated and controlled by the school Principal.”	“The checking account under the control of the school Principal should have a maximum balance approved by the School Committee. The funds to establish or replenish the checking account must be supported by appropriate documentation and must come from the student activity agency account specified above. The Principal has the direct responsibility to insure that the statute, School Committee Policies, and administrative procedures are fully adhered to in all aspects of operating the student activity checking account.”	Maximum balance for student activity checking account has not been established and approved by the School Committee at the close of fieldwork. Additionally, supporting documentation to use and replenish the checking account was not maintained consistently across the BPS system.
5	Segregation of Duties		
	MGL does not define specific requirements around responsibility of staff and segregation of duties; however, MASBO provides detailed guidelines on internal controls to establish appropriate segregation of duties.	“Good internal controls require segregation of duties, so that one person cannot control an entire process from deposit to payment to reconciling. The School Committee policy should specify a level of segregation that is appropriate for the size of the district. For example: The reconciling of the checking and agency accounts could be assigned to an individual who is not involved in depositing funds or making payments from either account.”	While policy of dual signatories for each account was issued and communicated in August 2017 (at August Leadership Institute), a policy outlining segregation of duties for financial management of student activity funds (e.g., cash collection, reconciliation, recording) did not exist at the time of this audit.

#	MGL c.71 § 47	MASBO Guidelines	EY Observations (based on scope SY13 - SY18)
6	Bonding		
	<p>“The Principal designated to operate and control such Student Activity Checking Account should give bond to the municipality or district in such amount as the treasurer should determine to secure the Principal’s faithful performance of his duties in connection with such account.”</p>	<p>“School systems should review their insurance coverage to be sure that all employees who handle student activity monies are covered; either by an endorsement to a liability policy or through a separate bond issued by an insurance company.</p> <p>The options available for coverage include the following:</p> <ul style="list-style-type: none"> • a specific position(s) bond; • a blanket employee dishonesty bond; or • public employee honesty coverage through a general liability insurance policy (this is usually what covers food service employees). <p>A school system should review the options and work with its treasurer to determine which is best suited to its needs.”</p>	<p>A formal policy requiring insurance coverage for student activity accounts did not exist at the time of this audit.</p>
7	Audits		
	<p>“There should be an annual audit of the student activity funds which should be conducted in accordance with procedures as agreed upon between the School Committee and the auditor based upon guidelines issued by the department of education.”</p>	<p>“The Superintendent or the School Business Administrator should arrange for the annual audit, not the bookkeeper or the Principal involved with the student activity account. The audit may be an internal audit performed internally by someone completely independent of the process or an independent third party if so approved by the School Committee; the internal audit must be documented. At least one time every three years, however, an independent audit firm must perform the audit. The School Committee may elect to have all annual audits done by an independent audit firm.”</p> <p>“In addition to the annual audit, there should be on-going internal reviews by the School Business Administrator or another designee of the Superintendent. These internal reviews should involve reviewing the monthly reports prepared by the individuals having daily oversight over the accounts.”</p>	<p>A formal policy requiring annual independent audit of student activity accounts did not exist at the time of this audit. There has not been a process to periodically review the internal controls and management of BPS student activity funds.</p>
8	Training and Education		
	<p>MGL does not define specific requirements around training and education; however, MASBO provides detailed guidelines related to this topic.</p>	<p>“An annual meeting should be conducted for advisors and student officers/treasurers in early September to review these principles of the student activity accounts system. Training should be made available on the necessary procedures, forms, and authorizations needed, and the books and records to be kept to accurately systematize an audit trail and prepare the proper reports.”</p>	<p>A formal policy or process did not exist at the time of this review to train and educate school officials on internal controls and management of student activity funds on a periodic basis. Additionally, there was no formal process to onboard new school officials or handoff knowledge / documentation from outgoing school officials in case of turnover.</p>

#	MGL c.71 § 47	MASBO Guidelines	EY Observations (based on scope SY13 - SY18)
9	Tax Exempt Status		
	MGL does not define specific requirements around tax exempt status; however, MASBO provides detailed guidelines related to this topic.	<p>"All student activity account purchases will be under the tax exempt number of the regional school district treasurer's office, or the city/town tax exempt number through the city/town treasurer's office, in the case of a city/town school department.</p> <p>Monies not under the control of the school system (ex. PTO, Booster Clubs, staff monies, etc.) are not considered student activity monies and are not eligible to use the tax-exempt number."</p>	A formal policy governing tax exempt status and usage of the City of Boston's TIN number did not exist at the time of this audit. During our fieldwork, we identified instances of inappropriate use of City of Boston tax exempt status, and student activity accounts not using the City of Boston TIN appropriately.
10	Staff Funds		
	". . . the Student Activity Agency Account, duly established by vote of the School Committee, to be used for the express purpose of conducting student activities."	<p>"The Student Activity Accounts authorized by MGL c.71 §47 are for student monies only.</p> <p>Any monies belonging to staff (ex. Sunshine funds, staff vending machines) cannot be maintained in such accounts. Should staff wish to maintain such an account(s), they must establish a bank account in their own name, and cannot use the municipal/district tax exempt number for such accounts."</p>	A formal policy requiring segregation of funding sources between student activity and other sources (e.g., staff fund) did not exist at the time of this audit. Our audit noted instances of co-mingling of funds including staff funds and non-student related expenditures.
11	Grants, Donations, and Scholarships		
	". . . the School Committee . . . may authorize a school Principal to receive money in connection with the conduct of certain student activities and to deposit such money with the municipal or regional school district treasurer, into an interest bearing account, hereinafter referred to as the Student Activity Agency Account . . ."	<p>Grants and Donation:</p> <p>"It is MASBO's opinion that gifts to recognized student activities can be deposited into the student activity account and expended in accordance with the local School Committee's Policy for expenditures from such student activity account.</p> <p>A recommended Policy is to have gifts under a specific amount accepted by the Superintendent, while gifts exceeding the specific amount should be accepted by the School Committee."</p> <p>Scholarship:</p> <p>"Under the provisions of MGL c.44 §53A and c.71 §37A all grants and gifts for educational purposes should be deposited with the treasurer and held as a separate account. It would seem that scholarships would be considered a gift for educational purposes and therefore be governed by either of these two laws."</p>	<p>While policy "Private Contribution Management Guidelines (FIN-9)" exists, dollar thresholds defining acceptance by Superintendent or School Committee did not exist at the time of this audit.</p> <p>Currently, BPS uses Boston Educational Development Foundation (BEDF) as its fiscal agent to maintain funds related to grants and donation, as well as review, approve, and process related expenditures. However, we identified control gaps and findings related to BEDF, as outlined in Attachment C.</p>
12	Class Accounts at Graduation		
	MGL does not define specific requirements around class account at graduation; however, MASBO provides detailed guidelines related to this topic.	"It is MASBO's opinion that, because graduates are no longer students, monies for classes that have graduated cannot legally be kept in student activity accounts.	A formal policy did not exist at the time of this audit requiring establishment of class accounts and governing management of monies related to graduates. Our audit noted instances where student

#	MGL c.71 § 47	MASBO Guidelines	EY Observations (based on scope SY13 - SY18)
		<p>The School Committee should approve a Policy that specifies how these monies should be disposed of upon a class' graduation. Such a Policy should specify how long the class account should remain active after graduation, e.g., ninety days, to allow time for outstanding bills to be received and paid. After this waiting period, the Policy should specify if and how the remaining monies will be transferred to the graduates and include whether the monies will revert to the incoming senior class, or other specific disposition instructions. In addition, class officers should be informed of this Policy upon establishment of the class account."</p>	<p>activity accounts included legacy funds that may be related to graduates and / or prior administration.</p>

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Attachment B: Procedural Observations and Priority Ratings

Per evaluation of school’s processes and procedures, we identified consistent themes across BPS in-scope schools in 10 key control areas. These themes are procedural and operational in nature, describing a lack of controls, standard processes, and / or inconsistent procedures, which can be due to a lack of formal policies and monitoring oversight around student activities funds (refer to **Attachment A** for Policy Compliance Observations). For each of these themes, EY assessed each school’s processes and assigned a “priority rating” based on priority and urgency for remediation. At the conclusion of fieldwork, we aggregated priority ratings across all schools reviewed and summarized overarching ratings to each of the 10 themes. Definition for priority rating is demonstrated in the table below.

Legend	Priority 1	Priority 2	Priority 3
Remediation priority Rating	Controls and procedures are non-existent. Immediate remediation is required to establish appropriate control environment.	Controls exist but not clearly defined leading to largely inconsistent procedures. Remediation should be implemented within 30 days.	Controls exist and are clearly defined. Exceptions were identified due to inconsistent procedures. Remediation should be implemented within 60-90 days.

To address these control / procedural gaps identified, we also provided recommended next steps based on our understanding of BPS current state control environment, and per our audit of MASBO guidelines, as well as relevant policies and procedures at other Massachusetts public school systems.

#	Detailed Observations	Remediation Priority Rating	EY Recommended Next Steps (aligned with MASBO Guidelines)
1	<p>Segregation of funding sources and expenditures</p> <p>Risk description: Student activity account funding and expenditures were not appropriately segregated, at the time of this audit, in accordance with BPS policies and applicable regulations (e.g., MGL Chapter 71, Section 47).</p> <p>EY Observations: Funds deposited into student activity accounts consist of various sources and typically include student/parent fees (e.g. fieldtrip and after school program fees), fundraising money, scholarships, commission from photography vendors, and donations. In some instances, grants, proceeds from school store sales, and staff funds (e.g. sunshine fund) were also deposited into the accounts. All these types of funds were comingled in the student activity account with limited documentation (i.e. general ledger) to track the funding source and associated purpose where applicable. Additionally, expenditures from the student activity accounts include for both student and non-student related activities. This includes expenditures for staff, parents, and general school purposes.</p>	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> The School Committee should develop and implement a policy that specifies different types of “student activities”, and how any other undesignated earnings will be distributed for student benefit. Such earnings related to student activities will be deposited into the student activity account. Such monies should be expended in accordance with School Committee Policy for the benefit of students and should not be used for other purposes The Principal should maintain subsidiary accounts within the student activity control account, in order to match receipts and expenditures to the appropriate recognized student activity organization. Subsidiary accounts should be balanced each month to the control account Management should conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above

#	Detailed Observations	Remediation Priority Rating	EY Recommended Next Steps (aligned with MASBO Guidelines)
2	Tax reporting process		
	<p>Risk description: There was a lack of control and standard process for schools to collect and report tax information related to personnel, vendor, and contractor expenses (e.g., 1099, wages, etc.) that were expensed from student activity accounts, leading to potential non-compliance with IRS requirements and applicable tax regulations.</p> <p>EY Observations: Based on our inquiry with administrations and review of transactions procedures performed, EY identified that the majority of schools have historically paid vendor(s) in excess of \$600 annually through the student activity account. However, there is no process to collect tax information, obtain W-9's, and determine if 1099's are required to be completed and distributed to these vendors. The responsibility was decentralized at the school level because these expenditures are occurring outside of the BPS Central Office budgeting and procurement process. Additionally, EY identified instances of the student activity accounts being used to compensate BPS personnel and/or independent contractor for services (e.g. managing after school programs) without applicable tax withholding or payroll reporting.</p>	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> • Establish a formal policy and operational manual outlining controls and procedures related to tax reporting as it relates to BPS employees, vendors, and independent contractors. Detailed guidelines should be provided to inform school officials on IRS requirements and consequences of non-compliance. • Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above • Perform periodic audit or review to validate the procedures outlined in policy above are consistently followed and evaluate compliance with IRS requirements
3	Appropriateness of fund usage		
	<p>Risk description: Risk-based sample testing for transactions occurred during in-scope years identified potentially inappropriate transactions, indicating risk of non-compliance with BPS policies and applicable regulations.</p> <p>EY Observations: EY identified non-student related expenditures from student activity accounts resulting in potential non-compliance with BPS policies and applicable regulations. EY performed risk-based sample testing for transactions that occurred from student activity accounts during in-scope years based on the testing approach described earlier in this report. At the majority of schools, non-student related expenditures typically occurred within the following categories:</p> <ul style="list-style-type: none"> • School supplies: General purpose purchases such as printer ink, books, etc. that should be purchased through the budgeting process • Staff: Food / beverage purchases for staff events as well as gifts for staff appreciation • Wages: Payments to staff and independent contractors outside of the payroll or procurement process for services provided to the school • Parents: Typically food / beverage purchases for parent events or parent council meetings 	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> • Develop and implement an expense approval policy to govern student activity funds. No purchases should be made without prior approval of the Principal. • All purchases must be for purposes related to a specific student activity for which funds have been raised or other purpose approved by school committee policy (Refer to Observation #1) • All purchases must be recorded and assigned to the appropriate subsidiary account, with appropriate supporting documentation (e.g., ledger and receipts) • Periodic audit or review should be performed to validate the appropriateness of student activity fund usage

#	Detailed Observations	Remediation Priority Rating	EY Recommended Next Steps (aligned with MASBO Guidelines)
4	Cash collection and deposit procedures, and documentation		
	<p>Risk description: There was a lack of control and standard process for schools to collect cash, deposit funds, and maintain appropriate documentation increasing risk of misappropriation of cash.</p> <p>EY Observations: Student activity funds were primarily collected through cash or check from various sources including fundraisers, store sales, student fee collection. Collection of these funds typically originate at various points of receipts (e.g., teachers) without documentation and ultimately get aggregated by the school Secretary and/or Principal for deposit. Although some schools had a process for two individuals to count cash prior to deposit, this count was usually undocumented and was not reconciled back to an independent source to verify completeness due to lack of cash collection documentation at the point of receipt.</p> <p>Additionally, bank deposits were typically made on an ad-hoc basis only once the administration determines the balance of cash maintained onsite is considered too large. When deposits were performed, the deposits were lump-sum, inclusive of multiple funding sources, and the bank deposit receipts did not segregate the deposits by funding source (if they were retained at all). Additionally, reconciliation procedures did not exist to validate cash collected agreed to deposits due to a lack of consistent, detailed cash collection and deposit documentation.</p>	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> • Establish timeliness requirement for cash deposits, including the following: <ul style="list-style-type: none"> ○ For any student organizations receiving funds from any source (fund-raisers, donations, etc.) to turn over such funds to the Principal or the Principal's designee (e.g., MASBO recommends 24 hours) ○ Complete deposits to appropriate student activity accounts Principal or Principal's designee should deposit into the student activity account (e.g., MASBO recommends no later than 48 hours of receipt by the Principal's office) • Documentation requirements should be established to include the following: <ul style="list-style-type: none"> ○ Cash collection documentation indicating source, date, amount, and person(s) responsible for the cash receipt ○ School deposit slip, completed by the student organizations receiving funds, indicating the source of the monies, the amount of money being deposited, and the signature of the person turning over the money to the office ○ A copy of bank deposit slip indicating deposits have been completed. All bank deposit slips should require a school deposit slip stating source of the monies, total amount being deposited, and signature of the person making the deposit.
5	Accuracy and completeness of documentation (e.g., ledgers, receipts, bank statement)		
	<p>Risk description: Incomplete cash journals detailing cash deposit and disbursement transactions (Form A & B) as well as supporting documentation (e.g., missing receipts, bank statements, etc.) limited management's ability to validate completeness and appropriateness of transactions.</p> <p>EY Observations: Ledgers detailing cash deposit and disbursement transactions (Form A & B) as well as supporting documentation (e.g., receipts, bank statements, etc.) during the scope period were maintained inconsistently across schools which limits management's ability to validate completeness and appropriateness of transactions.</p>	<p>Priority 2 - Remediation should be implemented within 30 days.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> • Establish a formal documentation policy including the following: <ul style="list-style-type: none"> ○ Documentation retention requirement (e.g., six years) ○ Bank account statements should be filed and maintained (physically or electronically) for a period of time designated by the school committee ○ Ledgers of all account transactions (including deposits, checks, other debits, etc.) should be maintained

#	Detailed Observations	Remediation Priority Rating	EY Recommended Next Steps (aligned with MASBO Guidelines)
	<ul style="list-style-type: none"> Ledgers: Details of cash collection, deposit, and disbursement transactions were not independently tracked by the administration because they rely on the monthly bank statements received from the bank. Although a history of annual transactions (i.e. Form A & B) is required to be submitted to BPS Central Office, these forms are typically completed at the end of the year based on bank statements which limits management's ability to verify the appropriateness of transactions that occurred that year. Bank Statements: Monthly bank statements received by the school administration were inconsistently maintained. EY requested all bank statements during the scope period (August 2013 - February 2018) and noted that retention of statements ranged from 0 statements retained to 100% retention during the scope period. Per inquiry with school administrators, missing bank statements were primarily due to a lack of a transition process from administration to administration and/or lack of clarity for how long these statements should be retained by the current administration Receipts: Supporting documentation such as receipts, invoices, etc. were inconsistently maintained. The extent of missing documentation varied by school, and created challenges for the administration to explain the purpose and appropriateness of some transactions, especially for transactions that occurred during a prior administration. 		<p>(physically or electronically) for a period of time designated by the school committee</p> <ul style="list-style-type: none"> All disbursements should require an accompanying invoice, receipt, or other documentation including, at a minimum: amount disbursed, date, and purpose of transaction Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above
6	Petty cash / on-hand cash management		
	<p>Risk description: There was a lack of recording and documentation related to petty cash / cash on hand which increased the risk of misappropriation of cash from the point of collection to deposit.</p> <p>EY Observations: Schools typically did not have a formalized petty cash program in which funds collected were stored onsite and were used directly for purchases instead of being deposited into the student activity bank account. However, instances were identified where petty cash was used for ad-hoc purchases or reimbursements as well as schools that only used cash and did not have a bank account associated with student activities. Refer to Attachment D for a list of schools that only use cash for student activity purposes.</p> <p>Despite the lack of a petty cash program, the majority of schools did maintain cash on hand due to funds recently collected through fundraisers, store sales, student fee collection, etc. However, deposits were not consistently made timely which can result in large balances of funds being store onsite prior to deposit without a process or mechanism to track and document the balance of on-hand cash to verify completeness. While physical safeguards typically existed for cash-on-hand (e.g. lockboxes, locked closets or offices), EY identified instances of personnel with inappropriate access to cash (e.g. custodians with keys to lockboxes).</p>	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> Establish a formal petty cash / on-hand cash management policy including the following: <ul style="list-style-type: none"> Any funds collected that are not deposited on the same day as receipt should be kept overnight in a safe or other secure, locked area. A cash box may be needed during the year to make change during fund-raising activities. At no time should a cash box be used as a petty cash fund. Consideration should be given to establishing a policy regarding maintenance of a cash box for the purpose of having a change fund, with a specified dollar limit. <ul style="list-style-type: none"> Funds maintained in a cash box should be tracked through a ledger of transactions and should be reconciled on a periodic basis (e.g., quarterly) Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above

#	Detailed Observations	Remediation Priority Rating	EY Recommended Next Steps (aligned with MASBO Guidelines)
7	Cash reconciliation (e.g., on-hand cash and bank reconciliation)		
	<p>Risk description: Bank reconciliations (e.g., journals vs. bank statement) and reconciliations between accounts / cash on hand were not performed or were completed inadequately without documentation which increased the risk of misappropriation of cash due to lack of oversight.</p> <p>EY Observations: The majority of schools have never had a process to perform bank reconciliations, partially due a lack of an independent ledger and incomplete bank statements for the reconciliation (refer to observation #5), as well as limited knowledge for the value of periodic reconciliations. In some cases, the administration did perform a monthly high level review between bank statements and ledgers to identify any potential discrepancies for investigation, but the review is typically undocumented and performed at an inadequate level of detail. When sufficient ledger and bank statement documentation was available at schools, EY performed monthly bank reconciliations on a sample basis and typically identified unexplained discrepancies between ledgers and bank statements.</p> <p>Additionally, processes did not exist for schools to reconcile cash on hand / petty cash due to the lack of cash collection and cash storage tracking and documentation (refer to observations #4 and #6).</p>	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> • Establish a formal cash reconciliation policy including the following: <ul style="list-style-type: none"> ○ Bank account reconciliations and subsidiary account reconciliations should be completed periodically (e.g., at least quarterly) and reviewed by school officials ○ Any funds maintained in a cash box (refer to observation #6) should be tracked through a ledger of transactions and should be reconciled periodically ○ Discrepancies identified through reconciliation processes should be investigated; the results of investigations and any related adjustments to ledgers should be recorded and communicated to school officials and BPS Central Office as appropriate • Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above
8	Segregation of duties		
	<p>Risk description: Incomplete segregation of duties (e.g., single signatory, one owner managing end-to-end process) existed which increased fraud risk and inappropriate use of fund due to lack of oversight.</p> <p>EY Observations: End-to-end financial management processes were typically performed by one individual (e.g. Principal). This individual was responsible for cash collection, maintaining cash on hand, depositing funds, approving reimbursements, and purchasing procedures around the account and limited documentation was maintained through the process to verify the completeness and appropriateness of funds.</p> <p>The majority of schools also did not have multiple individuals as authorized signatories on the student activity account or require dual signatories on checks, as required per BPS policy, in order to provide a secondary oversight for the appropriateness of transactions. Additionally, EY identified instances of inappropriate personnel (e.g. no longer BPS employees) with signatory authority for the student activity account.</p>	<p>Priority 1 - Immediate remediation is required to establish appropriate control environment.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> • Establish a formal policy outlining roles and responsibilities for student activity fund management, as well as requirements for appropriate segregation of duties. This should include the following: <ul style="list-style-type: none"> ○ Check signature authority should be in accordance with a pre-established delegation of authority matrix, which should be reviewed and updated periodically (e.g., annually) to validate appropriateness of authorized signers. Consideration should be given to requiring two signatures on checks issued over a certain dollar threshold. ○ A single school employee should not own the end-to-end account management process; specifically, the reconciler of accounts should not have access to the bank account • Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above

#	Detailed Observations	Remediation Priority Rating	EY Recommended Next Steps (aligned with MASBO Guidelines)
9	<p>Payment method and reimbursement processes</p> <p>Risk description: Inconsistent payment methods (e.g., cash and debit card usage) and reimbursement processes was in place without a lack of standard review and approval process, which may lead to non-compliance with BPS policies and applicable tax regulations.</p> <p>EY Observations: As required by BPS policy, all student activity expenditures should be performed through check in order to maintain transparency and audit trail of the purchase. However, EY identified schools that utilized cash-on-hand to perform purchases as well as expenditures via a debit card and cash withdrawals from the bank (refer to observation #6).</p> <p>The majority of schools lacked a process to obtain and/or document pre-approval for purchases that would be reimbursable (e.g. reimbursement request form). Per inquiry, most administrations would provide verbal approval before a purchase was made, require receipts for the purchase, and would not reimbursement if the purchase was inappropriate. However, this approval was typically undocumented except for the check that was written to the individual seeking reimbursement and signed by the signatory.</p>	<p>Priority 2 - Remediation should be implemented within 30 days.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> Establish a formal policy governing payment methods and reimbursement process as it relates to student activity funds, including the following: <ul style="list-style-type: none"> No purchases will be made without prior approval of the Principal All expenditures/disbursements from student activity accounts should be made by check A standardized form should accompany all requests for check issuance. This form should accompany the invoice and/or receipt and/or all supporting documents and must state to whom the check should be payable, the reason for the payment, the amount of the check, the account to be charged, and the approval signature of the student officer/treasurer and/or advisor. No checks should be issued without bills or receipts to document the disbursement. Vendor statements alone (i.e., without any supporting documents) should not be used for the issuance of checks. Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above
10	<p>Debit card / ATM card usage</p> <p>Risk description: Debit card / cash withdrawal transactions led to non-compliance with Boston Public Schools policy and increased risk of misappropriation of assets due to lack of oversight.</p> <p>EY Observations: Per policy, ATM and / or debit cards were not allowed to be used with student activity accounts and all expenditures should be performed through check. However, EY identified schools that had an active debit card at the time of fieldwork and schools that historically had a debit card during the scope period. These transactions include debit card purchases (both in-person and online), cash withdrawals (both from an ATM and physical bank location), as well as deposited checks returned. Refer to Attachment E for additional details.</p>	<p>Priority 2 - Remediation should be implemented within 30 days.</p>	<p>Management should consider the following:</p> <ul style="list-style-type: none"> Establish a formal policy governing requirements and monitoring procedures regarding debit card and ATM card usage, including the following: <ul style="list-style-type: none"> All expenditures/disbursements from student activity accounts should be made by check Disbursements from the student activity account via debit card, wire transfer, Paypal, or other methods should be prohibited without prior approval from the school committee Conduct formal and periodic training and education to implement and operationalize the policy and procedures outlined above

Attachment C: Boston Educational Development Fund (BEDF)

The Boston Educational Development Fund⁵ (BEDF) is a K-12 education foundation and fiscal partner of Boston Public Schools. Within its responsibilities as a fiscal sponsor, BEDF provides general management, financial, administrative, staffing and fundraising services to BPS. In delivering upon these responsibilities, BEDF creates accounts for schools to deposit, maintain, and expend grant funds, public and private donations, before and after school program funds, as well as general school operational and student activity-related funds.

EY's account inventory procedures performed at each school included a high-level review of all school accounts used for student activity and general school operational purposes, including accounts managed by BEDF. EY obtained and inspected each school's statements directly from BEDF. Through review of available documentation, we noted the following:

- 91 schools with at least one active BEDF account (non-zero balances);
- 399 active accounts in total;
 - These 399 accounts currently have a combined balance in excess of \$3.18 million. The average balance per school was approximately \$35,000, though eight schools have balances over \$100,000, and one as high as \$650,000.

EY performed inquiry with the school's administration to understand the sources of funds and types of expenditures for which each school uses BEDF; additionally, transactional testing was performed if BEDF was used as the school's primary student activity account, or that student activity funds had been transferred into the BEDF account during the in-scope period. Through these account inventory procedures and limited testing performed, EY compiled a listing of key risks and observations related to the use of BEDF for the management of student activity funds, as illustrated in the table below.

#	Detailed Observations
1	<p>Payroll processing</p> <p>Instances were identified where BEDF is utilized for processing payroll expenses for BPS employees in return for services related to before/after school and other programs. There is a lack of oversight or involvement by BPS Payroll department, which may result in challenges in tax reporting and non-compliance with IRS regulations.</p> <p>EY identified schools that run an before and/or after school program for students. Program fees are collected from students and/or parents by program organizers (BPS staff) and are often deposited into student activity account prior to being transferred to the school's applicable BEDF account. In some cases, BEDF is responsible for providing payroll and fringe benefit expenses to BPS staff members that run the program. However, there is no communication to BPS as to the amount of payments to their employees through this extracurricular work in order to determine whether tax withholdings require alteration.</p>
2	<p>Account consolidation / co-mingling of funds</p> <p>Instances were identified where BEDF accounts were consolidated without controls or documentation maintained to verify appropriate segregation of funds based on source and expenditure purpose.</p> <p>In accordance with BPS policies and applicable regulations (e.g., MGL Chapter 71, Section 47), student activity funds must be segregated from other funding sources (e.g. specific-use grants) and expenditure types (e.g. general schools expenses). However, EY identified instances of various BEDF accounts with funds that were designated for a specific use being consolidated into an account with funds for non-specific use. This includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> • Murphy School has had six BEDF funds during the audit period. One account maintained funds specific for Health and Wellness (\$5,500 as of August 2017), one account was maintained grant funds from Mathematica Policy for testing (\$750 in January 2015), and four accounts maintained general use funds for discretionary spending. On August 4, 2017, all funds from accounts funded by special-purpose grants were moved into a general-use BEDF fund (\$6,250). • Jackson/Mann School has had four BEDF funds during the audit period. Two accounts are general use for operations / discretionary spending, one account is

⁵ <http://www.bedf.org/>

#	Detailed Observations
	<p>funded by a Horace Mann residency grant (\$5,000 in January 2014) and a Big Yellow Bus Grant for field trip transportation (\$200 in October 2014), and one account is funded by a grant from Mathematica Policy for testing (\$750 in January 2015). On May 31, 2017, all funds from accounts funded by special-purpose grants were moved into a general-use BEDF fund (\$1,293).</p> <ul style="list-style-type: none"> • Timilty School has had four BEDF funds during the audit period. One account maintained funds specific to Project Promise (\$3,582 as of March 2018), one account maintained funds specific to Extended Learning (\$173 as of June 2016), one account maintained funds specific to Healthy Schools (\$206 as of June 2016), and one account maintained grant funds received from The Boston Foundation for schoolyard improvements (\$5,835 received and used during Fall 2013). During June 2016, all funds from BEDF funds #2 & #3 were moved into the Project Promise fund to partially cover an overdraft of \$887 (\$379 deposited from other funds to reduce overdraft to \$508).
3	Overdrawn accounts
	<p>There were no controls in place to safeguard student activity related funds at BEDF from being overdrawn at the time of this audit. It was unclear how BEDF replenishes funds and maintains overall balances once overdrawing occurred.</p> <p>During fieldwork procedures, EY obtained and reviewed all available BEDF statements and identified 162 individual accounts at 69 schools that were overdrawn at some point during the scope period, 2013 through present. EY determined through analysis of BEDF accounts that overdrawn accounts are often left with negative balances for extended periods of time. The average duration of overdrawn status was 282 days; however, EY noted multiple accounts that maintained negative balances for the entirety of the scope period, 2013 through present. At the time of EY's audit procedures, 14 accounts at 12 schools were currently overdrawn with negative account balances, totaling \$(126,823).</p>
4	Accuracy and completeness of financial records
	<p>Concerns existed regarding BEDF's record keeping and controls to validate accuracy and completeness of school financial information. Exceptions were identified where BEDF statements did not report accurate information of applicable accounts and balances to schools.</p> <p>BEDF is responsible for maintaining all records of deposits and transactions that occur for BEDF accounts for each school. Per inquiry with BEDF administration, reports of accounts and associated balances were provided to each school on a periodic basis. However, EY determined through inquiry with school leaders that BEDF statements were not provided on a timely or consistent basis. Further, we identified discrepancies in timeliness and accuracy of BEDF record keeping and statement reporting including the following:</p> <ul style="list-style-type: none"> • For Charlestown School, EY identified significant discrepancies between the BEDF Salesforce "cover page," which highlights the total sum of each BEDF account and is able to be viewed by the Principal in the Salesforce system (a financial system used by BEDF), the amounts within the BEDF Salesforce sub-ledger, and the amounts recorded in BEDF monthly statements (provided by BEDF). Discrepancies between these three data sources ranged from \$119,584 to \$381,808. Per BEDF's explanation, these discrepancies were due to "system glitch" that were later resolved. EY did not validate the accuracy of this information or obtain evidence it was resolved during this audit. • For English School, EY determined that the BEDF statements had been updated as of 4/27/2018 but the statement did not yet reflect a \$57,754 check that was deposited to BEDF from The English High School Account, which was written on 3/12/2018 and processed on 3/27/2018. • For Winthrop School, BEDF mistakenly included an account that was not associated with the Winthrop school on the BEDF statements for the school.
5	Charging of fees
	<p>Instances were identified where BEDF inappropriately charged schools fees for deposits of parent fees that are maintained within BEDF accounts, which was not consistent with BPS policy.</p> <p>Per BPS policy FIN-9, BPS and BEDF agreed to establish a one-time service fee of 2% on all deposits of grants, donations, sponsorships and contributions to sustain BEDF operations⁶. Program fees paid by BPS families or any BPS student scholarships were explicitly excluded from the 2% fee. However, through review of BEDF</p>

⁶ BEDF Report to the BPS School Committee - December 3, 2014 (see page 13)

Detailed Observations

statements EY identified instances of fees being charged on funds from parents for before and after school programs including the following:

- At Condon School, BEDF charged \$538 throughout the scope period for before and after school program which are funded by parent deposits
- At Mendell School, BEDF charged \$1,620 throughout the scope period for before and after school program which are funded by parent deposits

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Attachment D: All Cash Operations

EY determined that the large majority of schools utilize at least one bank account to deposit, maintain, and disburse student activity-related and general school operational funds. Such accounts could include the City of Boston Agency Account, standalone bank accounts under the school's name, BEDF accounts, etc. However, EY identified schools, listed below, that fund student activities primarily through cash funds held on-hand at the school. Additionally, controls and procedures to manage on-hand cash / petty cash were not in place, with a lack of audit trail, segregation of duties, and oversight procedures, increasing risk of misappropriation of funds. This also demonstrated potential non-compliance with MGL c.71§ 47 which requires all monies collected through student activities to be deposited into a "student activity agency account" with the municipal or regional school district treasurer. Additional details are outlined in the table below.

School Name	Observation
Higginson-Lewis	<p>Throughout the audit period (SY13-SY18), student funds were collected and managed through cash on-hand as the school did not have a separately maintained bank account. Fund sources included fundraisers and field trip fees. Based on a school managed cash ledger, total cash on-hand varied from \$10 - \$3,500 during SY16 - 17; however, we were not able to validate the cash flow and transactions due to a lack of audit trail (e.g., incomplete ledgers, lack of deposit documentation and receipts).</p> <p>As of April 2018, cash on-hand (approximately \$500) was moved to the City of Boston Agency Account.</p>
Quincy Upper	<p>The Quincy Upper School currently maintained a checking account at Tremont Credit Union, which served as the school's primary student activity account until the Fall of 2017. At this time, the administration of Quincy Upper School stopped depositing cash collected into the bank account and began holding all collections as cash. EY inquired of the school's co-Headmasters and determined cash was held on-hand rather than deposited in anticipation of cash management policy changes.</p> <p>EY performed a count of cash on hand as part of their on-site audit procedures and determined that the cash box contained \$10,282 at the time of the audit (5/3/18).</p>
BATA	<p>Since fall 2014, BATA has not deposited cash collections into a separately managed school account. Funds maintained on-hand were collected from various fundraisers; however, records were not maintained to document cash collections. Receipts for expenses made with cash on-hand were not maintained consistently; therefore, EY was unable to review cash uses for all expense transactions during the period. Per inquiry, EY determined cash on-hand typically does not exceed \$1,500.</p> <p>EY performed a cash count during our audit procedures and determined \$621 was stored in the cash box.</p>
Umana	<p>Since the current Principal joined Umana in fall 2016, bank accounts were not used for maintaining cash collections. Instead, any cash collected was collected directly by school staff and deposited and expensed from personal bank accounts. However, due to the population of homeless students in the school, cash collections from students were rare and were typically in the form of small dollar collections for field trip subsidies or bracelet creation and sales.</p> <p>As of our audit procedures, there was \$0 in cash maintained at the school.</p>
Dearborn STEM	<p>As of fall 2017, the school has not used bank accounts for student activity fund collections. All collections were maintained in cash for events such as field trips to a movie theater and a Canobie Lake Park trip. The school did not maintain collection records, ledgers, or receipts, and as a result EY was unable to determine the cash inflows and outflows during the period.</p> <p>As of our audit procedures, EY determined approximately \$200 was maintained in cash on-hand.</p>

Attachment E: Use of debit cards and other non-check transactions

At the Boston Public School District's August Leadership Institute, a professional development event in August 2017, guidance was released to school administrators regarding the use of student activity accounts, which included the following: "One student activity account per school ... cannot have an ATM or debit card linked to the account."

EY determined through process walkthrough procedures performed and review of bank statements that schools have disbursed funds from student activity accounts using debit/ATM cards or other high-risk transaction types. Due to easy access to cash without an approval process, debit card usage could be high-risk of inappropriate / personal transactions. On bank statements, non-check transactions were typically referred to as 'Other Debit' transactions, and may include:

- Debit card purchases
- Electronic checks
- Wire transfers
- Paypal transactions
- Cash withdrawals
- Purchases of checks, bank fees

EY identified a number of root causes that contributed to schools' failure to comply with account migration guidelines:

- Lack of knowledge of BPS policy regarding debit card use for student activity accounts
- Debit cards linked to accounts that schools did not consider 'student activity accounts;' rather, accounts were seen as general school operations or parent council accounts, though they often include funds related to student activities

Additionally, based on available documentation, our sample review included the following for the period under review (SY13-SY18):

- Schools had debit cards linked to their primary student activities accounts or engaged in other non-check transactions;
- At least \$887,229 was disbursed from these school accounts through non-check transactions

Attachment F: No student activity account

Per MGL c.71§ 47, 'the School Committee of a city, town or district may authorize a school Principal to receive money in connection with the conduct of certain student activities and to deposit such money with the municipal or regional school district treasurer into an interest bearing bank account, hereinafter referred to as the Student Activity Agency Account.' However, EY identified 10 schools, listed below, that did not deposit student activity funds into a separate interest bearing bank account with the municipal or regional school district treasurer. Deposit, maintenance, and disbursement of student activity-related funds in an account other than a separately managed student-activity account with the municipal or regional school district treasurer may lead to non-compliance with MGL c.71§ 47.

The following schools were identified for not maintaining a student activity account with "municipal or regional school district treasurer", per MGL requirement, at the time of our audit these schools fund student activities through BEDF and / or their own 501(c)(3) accounts or have not collected student activity funds during the audit period.

School Name	Observations
Per inquiry, the following schools maintained and managed student activity related funds through BEDF:	
1. Channing	Channing Elementary did not have any bank accounts that were managed by the school. All student activity funds, general fundraising funds, and overall cash inflows and outflows managed by the school were deposited into BEDF funds. For these BEDF funds, school staff, including the Principal, oversees all collections, BEDF deposits, and expense requests from BEDF for student activity purposes.
2. Mildred	Mildred did not have any school-managed bank accounts. All student activity funds, general fundraising funds, and overall cash inflows and outflows managed by the school were deposited into BEDF funds. For these BEDF funds, the Principal oversees all collections, BEDF deposits, BEDF expenditure requests that take place at the school.
Per inquiry, the following schools maintained and managed student activity related funds through 501(c)(3) organization(s):	
3. Young Achievers	EY determined all funds collected and used for student activities were managed by an independent 501(c)(3) corporation 'The Friends of Young Achievers, Inc.' The non-profit corporation was organized in 1999 and has been responsible for all cash management activities throughout the audit period. Although the Friends of Young Achievers (FOYA) is formed as an independent organization, the current school Principal is a sitting Member on the Board of Directors. However, all other Officers and Directors, including President, Treasurer, and Clerk, are not current BPS employees. In addition, school staff are not responsible for any cash management activities, including cash collections, expense approvals, or check writing, and the school has not had any school managed account linked to the City of Boston's TIN during the audit period.
4. Fenway	Seven bank accounts were maintained at Fenway High School, all of which are associated to the EIN of 501(c)(3) 'Fenway High School Corporation.' These account included six investment accounts (low-risk investments) maintained with Fidelity, and one checking account maintained with Citizens Bank. School officials did not consider these accounts to be specifically for student activities, rather, these accounts were considered necessary for the general operation of the 501(c)(3) (i.e., the school as a whole, including student activities). The checking account was used to make all disbursements, while most money collected was deposited into the six Fidelity accounts, with money for immediate expenditures being deposited into the checking account. Money was moved from the Fidelity accounts to the Citizens Bank checking account on an as-needed basis.
5. Hernandez	The Rafael Hernandez school did not maintain a school managed Student Activity account associated with the City's TIN. Instead, the managing of all funds related to the school is the responsibility of the 'Friends of the Hernandez' 501(c)(3) organization. EY determined the primary source of funding for the 501(c)(3) is after school program dues and general use donations.
6. Blackstone	Since the current Principal's tenure beginning in fall 2017, all student activity related activities have been managed by an independent 501(c)(3), Friends of the Blackstone. EY determined the school has two active Citizens Bank checking accounts, associated to the City's TIN, as of our audit procedures; however, the current administration has not used either account during the period and is unaware of each account's source of funding.
Per inquiry, the following schools did not collect or maintain student activity related funds at the school:	
7. Carter	Carter is registered with DESE as a special Education day school and is specialized in providing care and education to students exhibiting severe cognitive delay, physical handicaps, and complex medical conditions. Currently 25 students ages 12-21 are attending the school. At the time of the audit, there was no

School Name	Observations
	<p>student activity account in place. Instead all student related expenditures (education, care, and activities) are incorporated in the school's yearly budget. Additional educationally based supplies are purchased through BPS office of Special Education while Medically Based Supplies such as wheelchairs, electronic monitors, etc. are usually bought through the family's insurance company.</p> <p>Additionally, a 501(c)(3) organization called Friends of Carter School was founded in 2001 with the intention of building a sensory garden for the students. The garden was completed over 15 years ago and the 501(c)(3) organization now funds the continuous maintenance of the garden.</p>
<p>8. Community Academy</p>	<p>EY determined Community Academy has not collected funds from students, maintained school managed bank accounts, had an active Parent Council, or other 501(c)(3) community organization that may collect or fund student activities at any point during the audit period. In addition, the school does not engage in any revenue generating activities such as fundraising or uniform sales as all funding and expenditures are processed through the BPS budget. The school has one active account at BEDF that was funded by the Mass Cultural Council - Community Residency grant in the amount of \$5,000 that was used exclusively to pay a resident artist to assist students in making a mural on school grounds.</p> <p>Community Academy is a small alternative high school for students who have not succeeded in the traditional school setting and the student body is very small, averaging only about 60 students throughout grades 9-12. Due to the demographics of the student body, the school does not organize many of the traditional student activities such as fundraisers, picture day, student clubs, or a before/after school program.</p>
<p>9. Up Holland</p>	<p>UP Academy Holland is a K1-5 school that is managed by the UP Education Network. EY determined through inquiry that the school does not raise money from students or parents, but that all student activities and other general school expenditures are funded through the school's BPS budget, UP Education Network funding, or donations to the school. All of these funds are managed through the UP Education Network's own bank accounts. The school does not maintain any bank accounts under the City's TIN or any BEDF accounts.</p>
<p>10. Boston Collaborative High</p>	<p>EY determined through inquiry with Principal that Boston Collaborative High School has not collected funds from students, maintained school managed bank accounts, had an active Parent Council or other 501(c)(3) community organization that may collect or fund student activities, engaged in other revenue generating activities such as fundraising or uniform sales, nor utilized BEDF for school fund management during the audit period of 2013 - 2018. Boston Collaborative High School opened in September 2016 and the student body primarily consists of 19 - 21 year old pregnant women or mothers. Due to the demographics of the student body, most students are employed while attending school and do not have free time out of school to participate in typical student activities, such as clubs or student councils. In addition, Boston Collaborative High School receives sponsorships from community organizations, such as ABCD, which will sponsor any student activities or events. However, in each of these instances, the sponsoring organization will handle all finances and not provide funds to school personnel.</p>



Attachment G: Third party vendor management of student activity accounts

Through this independent audit of BPS student activity accounts, we encountered a number of 3rd party organizations that provide services to Boston Public Schools, ranging from curriculum development to fully outsourced school administration. These organizations often provide financial services to schools, including management of BPS budgetary funds, grant management, and management of funds designated for student activity use. Deposit, maintenance, and disbursement of student activity-related funds through a third party organization may lead to potential non-compliance with MGL c.71§ 47 which requires all monies collected through student activities to be deposited into a “student activity agency account” with the municipal or regional school district treasurer. Additionally, controls, procedures, and management oversight required enhancement to validate the effectiveness, accuracy, and completeness of student activity funds. Additional details are outlined in the table below.

Third Party	Organization Overview/Background	Relationship to BPS / Audit Procedures Performed
<p>Action for Boston Community Development (ABCD)</p> <p>Link: ABCD Website</p>	<p>ABCD is a nonprofit human services organization that each year provides more than 100,000 low income residents in the Greater Boston region with the tools and resources needed to transition from poverty to stability and from stability to success.</p> <p>To fulfill this purpose, ABCD uses a comprehensive approach that systematically addresses the range of barriers faced by households in poverty, from day-to-day crises to long-term needs for jobs and education.</p>	<p>Dorchester Academy - Beginning in SY2015, ABCD entered into an agreement with COB to fully manage the day-to-day operations of Dorchester Academy. This relationship included installing an ABCD employee as Headmaster of Dorchester Academy, providing grant writing and management services, and employing various ABCD employees in support and staff roles at Dorchester Academy. Until the end of this agreement in SY17 - 18, the ABCD appointed Headmaster was responsible for overseeing all student activity cash activities in the same manner as a BPS employed Headmaster.</p> <p>Audit Procedures Performed - Audit procedures performed were consistent with our standard procedures for other schools, as we determined ABCD's relationship with Dorchester Academy did not have an impact on the collection, use, or management of student funds.</p>
<p>Center for Collaborative Education (CCE)</p> <p>Link: CCE Website</p>	<p>Since its founding in 1994, CCE has worked in partnership with schools, districts, government agencies, and education organizations to develop and deliver unique strategies, processes, and tools to improve educational systems and work towards better outcomes for all students.</p> <p>CCE primarily advocates for in-district schools to have maximum autonomy over their resources. Examples include CCE's work with the BPS and Los Angeles Unified School District (LAUSD) on the Pilot school model and with the Massachusetts Executive Office of Education on the Innovation Schools model.</p>	<p>External Fiscal Agent for all BPS Autonomous Schools - In April 2017, CCE was awarded a 3 year contract to serve as the external fiscal agent for all 37 BPS autonomous schools. The agreement provides CCE with total deposits not to exceed \$6.5m over 3 years, with CCE to receive 3% of total deposits (fees not to exceed \$195,000 over 3 years). This agreement was a renewal of CCE's services as the organization served in this capacity prior to April 2017.</p> <p>As external fiscal agent, CCE is responsible for managing discretionary spending of autonomous schools, which includes cost of supplies, professional development, educational programs, educational technology, travel, licensing, and student support. Funds are primarily provided to CCE directly from BPS through the annual budget process but can also be provided to CCE directly from individual schools. Each school has a segregated interest-bearing account that is on demand accessible and is required to be audited annually. CCE is also responsible for any relevant tax reporting from payments made directly by CCE which can include payroll withholdings / reporting (Form W-2), verifying W-9s for vendors, completing Forms 1099 and 1096 as applicable, and auditing the appropriateness of transaction requests from schools. CCE may also provide funds directly to school personnel per request.</p> <p>Audit Procedures Performed - EY included school managed bank accounts with fund sources directly from CCE in our sample transaction procedures. In addition, EY performed procedures to determine if student activity funds were maintained in CCE accounts.</p>

Third Party	Organization Overview/Background	Relationship to BPS / Audit Procedures Performed
<p>Boston Plan for Excellence (BPE)</p> <p>Link: BPE Website</p>	<p>BPE is an education organization that operates a Pre K-12 pathway of neighborhood based Teaching Academies and a city-wide network of teacher support.</p> <p>BPE currently has partnerships with two BPS schools - Dearborn STEM Academy and Dudley Street Neighborhood Charter School. Through these partnerships, BPE provides services such as training for teachers, operational support for schools, and grant management.</p>	<p>Dearborn STEM Academy - Beginning in 2015, BPE began partnering with Dearborn STEM Academy through the implementation of Teaching Academies, which is an alternative staffing model that includes preparing new educators through a residency program. BPE's services also include providing operational support and fiscal support through grant management and general supply purchasing services. General supply purchasing services consists of BPE purchasing general school supplies for later reimbursement from BPS through invoicing. During BPE's time with Dearborn STEM, the Headmaster has been a BPS employee and is primarily responsible for cash management activities. However, BPE staff that provide operational support have been involved with student activity cash management activities, including cash collection and expense management.</p> <p>Audit Procedures Performed - Audit procedures performed were consistent with our standard procedures for other schools, as we determined BPE's relationship with Dearborn STEM Academy did not have an effect on the collection, use, or management of student funds.</p>
<p>UP Education Network</p> <p>Link: Up Website</p>	<p>UP Education Network is a Massachusetts-based nonprofit school management organization whose mission is to rapidly transform chronically underperforming district schools into extraordinary schools that sustain high achievement over time. UP Education Network offers services by fully managing school operations, finances, and curriculum.</p>	<p>UP Academy Holland - UP Education Network fully manages operations, finances, and curriculum for UP Academy Holland. Due to this operational structure, UP Academy Holland does not have a separate school managed account as all funds are managed by the UP Education Network finance team and their associated bank accounts. In addition, funds are not collected by from students as all funds are received directly from BPS or through UP Education Network funding sources.</p> <p>Audit Procedures Performed - We modified our audit procedures to not perform transaction testing at UP Academy Holland as we determined UP Education Network's relationship with the school did not include any separately maintained school bank accounts or instances of student fund collections during the audit period.</p>



Attachment H: Additional Funding Sources and Collection Methods

EY determined that student activity accounts are typically funded by fees collected from students/parents (i.e. senior dues, field trip fees), general-use donations from private citizens and local businesses, and proceeds from fundraisers (i.e. Scholastic Book Fairs, World's Finest Chocolate sales). For management's information purpose, EY also summarized a number of unconventional funding sources or fund collection methods that schools use to generate and collect funds for student activities as well as general school uses. While these funding sources, such as GoFundMe pages, raffles, commissions from vendors, and school stores, present new opportunities to efficiently generate funds for student activities, management should consider implementing additional controls and procedures to address risks associated with these methods and safeguard school assets. Refer to table below for additional details.

Funding Sources	Description
CCE	CCE provides fiscal agent services for autonomous schools, providing management of discretionary funding allocated through the annual BPS budget process. One of the methods the school receives these funds is in the form of checks / transfers from the school's CCE managed account to a school managed bank account upon request from the school.
Bank account consolidation / legacy funds	Turnover at schools, lack of documentation, and lack of a transition process to transfer account ownership can result in bank accounts under a school's name that the current administration does not have any information about (i.e. sources of funding, intended uses of funds, etc.). If the school can gain access to such accounts, remaining funds are typically withdrawn and deposited into the school's primary account used by the current administration.
Photo commissions	Photography vendors (i.e. Lifetouch, O'Connors, Gekus) often offer schools commissions in return for use of their photography services. Schools enter agreements with a vendor of their choice, who will then return a portion of all photography sales (typically 20%) back to the school as a donation.
Prom fees	At some schools, a fundraiser is held every year for the school's prom. However, prom is primarily funded through the school's BPS budget. Cash collected from this fundraiser is deposited into the school's student activity account and used throughout the year for general school expenses.
Raffles	Raffles are a common fundraising method that raise funds through the sale of raffle tickets, giving the buyer a chance to win a prize item (i.e. iPad, tickets to an event, gift cards).
School store	School stores are a common fundraising method that sell items such as spirit wear, snacks/food items, school supplies, etc. to the student bodies at schools. Stores are often run by students and overseen by a teacher, advisor, or parent volunteer. Depending on the types of items sold and the size of the school store operation, stores may or may not produce profit. Typically, funds raised are used to replenish inventory, while profits are saved as general-use funds.
Sidewalk space rentals to vendors	One school is located in a high-traffic area of the Back Bay neighborhood; adjacent to the school's Newbury Street location is a large sidewalk area. On an annual basis, the school applies for and is granted a permit for 'seasonal outdoor sale and display of products.' The school then rents the sidewalk space to vendors selling various crafts. The school administration collects funds from these vendors via check and deposits the funds into the school's accounts.
Uniform Sales	School uniform and apparel sales are a common source of funds deposited into student activity accounts. Such sales are not typically intended to create profit for the school.
Vocational program services	One school is a technical vocational high school that offers students opportunities to participate in vocational programs. These programs are run as small businesses that serve the local community. Proceeds from all programs are deposited into the school's primary bank account and are used for program-related, other student activity, and general school expenditures.

Collection methods	Description
CheddarUp, GoFundMe, EventBrite	Online services such as GoFundMe are often used to raise funds from groups of people. Schools use such services for general fundraising purposes as well as collecting funds for specific school activities or initiatives (i.e. purchase of technology).
Square	Square is a company that sells mobile credit card readers and provides payment processing services for mobile commerce. EY determined that multiple schools use Square devices and payment processing to collect funds at student fundraisers, such as book fairs or sporting events. Payments received through Square are deposited directly into the bank account with which the Square account is linked.
Paypal	Paypal is a payment service that facilitates online transfer of funds between two parties. EY observed that schools use Paypal both as a method of fund collection at fundraisers as well as a payment method for transacting with vendors. Paypal withdraws funds from and deposits funds directly into the bank account with which the Paypal account is linked.

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Attachment I: List of schools visited

The Boston Public School District is an organization of 124 public schools, with a total enrollment of over 55,000 students. The scope of EY's audit included all Boston Public Schools with the exception of the Horace Mann Charter Schools (Boston Day and Evening Academy, Boston Green Academy, Dudley Street Neighborhood Charter, Edward M Kennedy Academy for Health Careers, UP Boston Academy, and UP Dorchester Academy), as these schools have increased autonomy due to their charter school status.

As discussed in the approach section in the body of the memo above, EY initiated audit fieldwork with a pilot phase, during which we performed audit procedures at the following seven schools which were selected based on a risk based approach (i.e., student population, history of having student activity accounts, etc.):

Boston Latin Academy	Dr. William W. Henderson Inclusion School	Kenny Elementary School	William H. Ohrenberger School
Fenway High School	Horace Mann School for the Deaf and Hard of Hearing	John D. O'Bryant School of Mathematics and Science	

After completing the pilot phase of the audit, EY performed audit procedures at the 111 schools listed below.

ACC	Channing	Everett	Jackson Mann	Mildred	Sumner
Adams	Charlestown	Excel	JF Kennedy	Mission Hill	Taylor
Alighieri	Chittick	Frederick	Kilmer	Mozart	Tech Boston
Baldwin	Clap	Gardner	King	Murphy	Timilty
BATA	Community Academy	Greater Egleston	Lee Academy	New Mission	Tobin
Bates	Condon	Greenwood	Lee School	O'Donnell	Trotter
BCLA	Conley	Grew	Lyndon	Orchard Gardens	Tynan
Beethoven	Curley	Guild	Madison Park	Ostiguy	Umana
BiNCA	Dearborn	Hale	Manning	Otis	Up Holland
Blackstone	Dever	Haley	Margarita Muniz	Perkins	Urban Science
Boston Arts Acad	Dorchester Academy	Harvard-Kent	Mary Lyon High	Perry	Warren Prescott
Boston Collab.	East Boston EEC	Haynes	Mary Lyons K-8	Philbrick	West Roxbury Academy
Boston Latin School	East Boston High	Hennigan	Mason	PJ Kennedy	West Zone EEC
Bradley	Edison	Hernandez	Mather	Quincy Lower	Winship
Brighton	Edwards	Higginson	Mattapan EES	Quincy Upper	Winthrop
BTU	Eliot	Higginson Lewis	McCormack	Roosevelt	Young Achievers
Burke	Ellis	Holmes	McKay	Russell	
Carter	Ellison Parks	Hurley	McKinley	Shaw	
CASH	English	Irving	Mendell	Snowden	