

September 14, 2021

Disbursements of School-Generated Funds

I. EXECUTIVE SUMMARY

Schools maintain school-generated fund bank accounts to collect and disburse amounts for school activities not provided for via the school allocated budget. School generated funds are meant to complement the schools' budget and cannot be used to purchase items funded by the Ministry of Education. School generated funds are utilized to supplement materials, equipment, services or subsidies not funded through the schools allocated budget as well as school yard / sport facility improvements and fundraising for external charities.

School generated funds raised must be used for the intended purpose outlined in the schools annual *Plan for School Generated Funds* with any carry forward amounts being kept to a minimum. This implies that funds are disbursed in timely manner for which they were collected, resulting in a near break-even level with the exception of multi-year fundraising initiatives. However, balances in these accounts can accumulate for the following reasons:

- Fundraising & Donations (revenue may precede disbursement by a year or more)
- Failure to reimburse for non-board expenses paid via the school budget

The engagement found that the majority for disbursements appear to fall within the acceptable uses of school generated funds. Several exceptions were noted and have been presented to Management for their review and further follow-up, should it be necessary.

II. BACKGROUND

The TDSB School Generated Funds Guideline provides guidance on sources, inclusions, exclusions, reporting and management of school generated funds. School generated funds are used to enrich the experience of students while reflecting the values and expectations of the school community and are meant to complement, not replace, funding provided through the school operating budget.

School generated funds are received from various sources in the name of the school, or a school activity such as field trips, excursions, student activity fees, fundraising (e.g. band, AV, technology equipment, playscapes etc.) and external charities.

Ministry of Education guidelines¹ state that in addition to complying with Board policies and procedures, funds raised must be used for the intended purpose outlined in the schools annual School Generated Funds and School Needs Assessment Survey. Any carry forward amounts should be kept to a minimum unless it is part of a multi-year fundraising initiative (e.g. playscape).

¹ <http://www.edu.gov.on.ca/eng/parents/fund2012guideline.pdf>

As school generated funds are meant to complement the schools budget, funds raised cannot be used to purchase items funded by the Ministry of Education, such as classroom learning materials, textbooks as well as facility renewal, maintenance, or upgrades funded through provincial grants. Additional examples of unacceptable uses of school generated funds would include but are not limited to:

- Items that are to be purchased from the board's budget such as classroom learning materials, textbooks, etc.
- Goods or services from employees, where such purchase would contravene Section 217 of the Education Act (promotion or sale of goods/services by Board staff or EDU to school boards or pupils).
- Monetary payments to employees for services.
- Gifts to employees
- Staff professional development/travel, meal and hospitality
- Investments other than those permitted by the board and Regulation 471/97 of the Education Act (Eligible Investments).
- Capital infrastructure improvements, maintenance or upgrades
- Support for political/religious activities, groups or candidates

School generated funds are under the direction and control of the School Principal and/or school council Chair and are reported on annually for review and inclusion in TDSB financial statements. Funds recovered for expenses incurred through the school budget (petty cash, purchase card or through the SAP system) should be directed back to the school budget (i.e. school bus booked via SAP, entrance tickets acquired via purchase card). School generated funds can be utilized to:

- Supplement school materials, equipment or services not funded through the schools allocated budget,
- Offset costs for students who cannot financially afford to fully participate in school activities,
- Subsidize co-curricular activities (art, music, drama, sports or other activities organized outside school hours),
- Subsidize Student nutrition,
- School yard / sport facility improvements
- Fundraising for external charities.

There are other funds received at the school level outside of the school operating budget that are not considered to be school generated funds. These include:

- Staff social funds collected for purpose of special occasions and life events.
- Grant monies received for nutrition or other purposes through the Toronto Foundation for Student Success.
- Donations that are to be processed through the board and deposited into the school budget and require an official tax receipt from the board.
- Funds raised by independent agencies.

References Used:

TDSB School Generated Funds Guidelines

<http://tdsbweb/site/ViewItem.asp?siteid=10656&menuid=44523&pageid=37274>

TDSB School Council Financial Guide

<http://tdsbweb.tdsb.on.ca/businessservices/School-Council-Guide>

III. SCOPE, OBJECTIVES & POPULATION UNDER REVIEW

The scope of the engagement focused on disbursements of school generated funds and includes all schools (some school council disbursements are also being included as some school councils share a bank account with the school's school generated funds account).

A 12-month period from March 1, 2020 to February 28, 2021 was selected to coincide with the beginning of school closures. As Management was focused on addressing the pandemic, there is a potential increase in the risk related to lack of review during this period as access to schools and hardcopy documents was limited. Although we accessed data for all schools, it should be noted that 24 schools had not completed the reconciliation process for February 2021 at the time that audit samples were selected. As a result, the scope was limited to only those disbursements that had been recorded at the time of sample selection.

The main objective of this engagement was review select disbursements appropriateness, eligibility as well as those items which would benefit from further investigation or intervention. The engagement also presents an opportunity to communicate further recommendations to management relevant to their oversight of and training on school generated fund account usage.

All \$5.5M in disbursements were included in the population used for sample selection. It was noted that this disbursement total is approximately 85% lower than the standard pre-pandemic fiscal year (FY18/19).

In order to identify any potentially inappropriate disbursements, a judgmental sample was made based on transactions having characteristics deviating from expectation. These characteristics include, but were not limited to:

- High dollar amounts
- Even dollar amounts
- Unfamiliar or unexpected payees
- Unexpected descriptions

This sample selection method resulted in two sets of samples. high-dollar disbursements (>\$10k and not having any other apparent risk factor) were tested, having a total value of \$2.6M of which \$2.4M was tested as well as 59 disbursements featuring one or more risk factors indicated above, with a total value of \$42K.

III. CONTEXT, OBSERVATIONS, RISK, RECOMMENDATIONS & RESPONSES

Observation 1 – Eligibility of Disbursements

Context:

As indicated in the School Generated Funds guidelines, there are certain disbursements which should not be made from school generated funds. Also, disbursements must be used for the purpose articulated when collecting the funds.

Observation:

During the review of the samples selected, Internal Audit noted several larger dollar payments which may be ineligible. The transactions of greatest concern were:

- The commission (by a Principal) of a \$9,200 mural, paid from the Non-Board account despite no funds being specifically collected for that purpose.

- Various disbursements of School Council funds for staff hospitality (appreciation lunches, retirement gifts, etc.), including a \$3,800 cheque provided to a “parent representative” for subsequent purchases of hospitality for staff.

Risk:

As Non-Board funds are to be disbursed in a manner consistent with the purpose stated at the time of collection, there is a risk that student contributed funds are being used to support disbursements which are ineligible as well using vendors not approved by TDSB or who have not been properly vetted.

Recommendation 1:

To the extent that these payments exceed risk tolerance thresholds, management should request additional documentation and/or provide guidance regarding any necessary procedural changes.

Management might also consider a periodic review of transactions (on a board-wide basis) in order to identify transactions indicative of misuse and intervene accordingly (i.e. key word search or review of specific expense categories).

Management Response:

Management believes this is of low risk due to the isolated nature of individual school transactions and is not a system wide issue.

- *Management’s analysis of schools with large balances has found that many of these balances have been carried-forward for more than 10 years. We recommend Principals consult with their school councils and community to find appropriate ways to use the funds. We will follow up with the school to ensure the appropriate approvals have taken place.*
- *The Finance Support team regularly (monthly and annually) reviews the transactions recorded in School Cash Online and the items posted for Online collections. School staff also regularly contact our Finance Support team to clarify or seek guidance when expenditures may be outside of normal practice.*
- *Purchases of gifts, gift cards or monetary payments to staff and school council members are prohibited, Light refreshments, at a reasonable cost, are permitted when served at school council events, holiday school events or year-end celebrations that are attended by the school community. Management will follow up with school staff to ensure proper procedures were followed.*
- *Scheduled financial training sessions are made available to school staff, as well as ad hoc training during school visits from the Finance Support team.*
- *Management will review expenditures and follow up when necessary, on a quarterly basis to ensure procedures are being followed.*
- *Management is working with the IT department to implement a formal Issue Tracking Log (currently informal), via the Service Now platform.*

Position Responsible: *Comptroller and Assistant Comptroller, Finance*

Timelines: *Monthly, quarterly and annual transactional reviews have been implemented. Service Now implementation anticipated to begin September 2022.*

Desired Outcome: *Increase in school adherence to established policies and procedures through regular training, support and review.*

Outcome Measurement: Increase in school staff who reach out to Finance Support Team for guidance, attend training, especially due to staff turnover at the administrative levels of schools.

Observation 2 – Use of Non-Board Funds Instead of School Budget

Context:

School generated funds are meant to complement the schools operating budget. Consequently, funds raised cannot be used to purchase items funded by the Ministry of Education, such as classroom learning materials, textbooks as well as facility renewal, maintenance, or upgrades funded through provincial grants.

Finding:

Internal Audit identified numerous school generated fund disbursements as being more consistent with those applicable to the school operating budget. The following are examples of such transactions:

- Classroom/lab supplies
- Face shields (PPE)
- Honoraria
- Workbooks
- Dictionaries

In Internal Audit's experience, these types of expenditures are incurred by the school operating budget and not school generated funds. Although the transactions described above are not regarded as high-risk, control and transparency are reduced as SAP and approved vendors do not have to be used.

We also observed that there were a number of categories (created by schools for bookkeeping within School Cash Online) which are consistent with expenses for which budget dollars are provided. The following is a list of such categories:

- Administration
- Guest speakers
- Numeracy Literacy
- Police Reference Checks
- School Reserve

Many of these disbursements were often recorded as uses of Student Activity fees or School Council funds.

Risk:

There is a risk that student contributed funds are being used to make purchases that should have been paid for through the school operating budget, reducing the amount available for eligible initiatives.

Recommendation 2:

To the extent that such payments exceed risk tolerance thresholds, management should periodically review school financials to identify and respond to potential expenditures which should have been made by the budget. Management should also continue to reinforce expectations regarding school generated funds as well as procurement in their

training sessions and materials. Management should also consider how to make training around school generated funds mandatory and not optional.

Management Response:

Management believes this is of low risk due to the isolated nature of individual school transactions and is not a system wide issue.

- *Management will review these expenditures and categories and follow up with the applicable schools for items that should be purchased via the budget, however, items purchased to enhance student learning are at the Principals' discretion.*
- *There were five schools who purchased face shields / Personal Protective Equipment prior to them being available at the Distribution Centre.*
- *Honoraria or gifts of appreciation are limited to a value of \$50.00 per year and are not allowed for TDSB employees. Management will review all honoraria paid from the Non Board Accounts, contact school staff to determine the eligibility of the expenditures, provide training and where needed, ensure the non-board account is reimbursed,*
- *One school created a category named Numeracy Literacy. These expenditures were for workbooks; Management will suggest a name change of the category to School Administration instead of Numeracy Literacy.*
- *The Finance Support Officers regularly review registers and identify higher risk anomalies. The risks and impact from these particular audit findings are relatively low as they are isolated to these individual schools and are low-dollar transactions.*

Position Responsible: *Comptroller and Assistant Comptroller, Finance*

Timelines: *Monthly, quarterly and annual transactional reviews have been implemented. Service Now implementation anticipated to begin September 2022.*

Desired Outcome: *Increase in school adherence to established policies and procedures through regular training, support and review.*

Outcome Measurement: *Increase in school staff who reach out to Finance Support Team for guidance, attend training, especially due to staff turnover at the administrative levels of schools.*

Observation 3 – School Generated Funds and Budget Reimbursements

Context:

School generated fund expenditures can be made via the school systems such as petty cash, purchase card or through the SAP system with a reimbursement from the school generated funds account to the school budget. Examples include school buses booked via SAP, entrance tickets acquired via purchase card and use of Board approved vendors and educational partners. Using school systems allows for greater

transparency, leveraging of Board negotiated rates and ensuring providers of goods and services have been properly vetted.

Finding:

For the 12-month period ended February 28, 2021, there were 135 disbursements of \$10,000 or more, totaling \$2.8M. Of these, the largest disbursement was approximately \$77,000. 91% of these disbursements represent reimbursements to the school's budget or transfers of funds to other school accounts (e.g. Nutrition, School Council). The remaining disbursements were primarily to yearbook vendors (e.g. Friesens, Herff Jones). It was also noted in the PACE Account Analysis report (issued February 2021), large school generated balances (at 7% of schools) may be a result of school generated fund expenditures incurred through school systems but not reimbursed, causing the school generated funds account balance to be artificially inflated.

Opportunity:

There is an opportunity to promote existing purchasing mechanisms via school systems as opposed to more manual ordering for high value purchases such as yearbooks.

Recommendation 3

While the above finding is not cause for concern, it may be preferable that large-dollar purchases (e.g. yearbooks) be paid via budget with subsequent budget reimbursement to improve visibility and tracking of vendor spend.

Management Response:

Management agrees with the opportunity, but believes this is of low risk due to the minimal volume of such transactions, as well as the fact that schools are generally eligible for the vendor discounts and HST rebates under either methods of payment.

For example, Yearbook vendors invoice schools at the contracted rate regardless of how the order is initiated (whether via KEV School Cash Online or SAP's Purchase order process).

- Through TDSB's financial training, school staff are taught that large dollar purchases are paid via the school budget and subsequently reimbursed from the non-board account for visibility and vendor purchase tracking purposes. However, schools often opt to pay directly through KEV school cash online to eliminate the need for the additional non-board account reimbursement process.*

Position Responsible: *Comptroller and Assistant Comptroller, Finance*

Timelines: *School staff training will continue to reiterate that large dollar purchases are paid via the school budget and subsequently reimbursed.*

Desired Outcome: *Increase visibility and tracking of large dollar purchases by routing transactions through SAP.*

Outcome Measurement: *Increase in school staff who reach out to Finance Support Team for guidance, attend training, especially due to staff turnover at the administrative levels of schools.*

Finding 4 – Other Observations

During the course of fieldwork, Internal Audit noted several opportunities for improvement to increase Managements ability to maintain oversight of school generated fund activity.

- As noted in the scope section of the report, 96% of reconciliations were completed by schools in a timely manner. With respect to the remaining 4%, there may be delays in transaction recording, thereby reducing transparency. It should be noted that delays in the reconciliation process are not unique to the audited period.
- The creation of Non-Board accounts as chequing accounts is useful for practical purposes but does create an opportunity for maverick buying. As noted in Observation 1, a significant (approximately \$9.2k) purchase to commission artwork was made using school generated funds. Based on discussion with school staff, no competitive procurement process was carried out prior to engaging the vendor, nor was the mural disclosed as part of fundraising initiatives. Management should continue to advise that purchases be made from the school budget when possible, with subsequent reimbursement from the school generated fund account.
- Approximately \$5.6k paid to an Office Administrator for working 2 hours/day within the school's Nutrition Program. This was reimbursed from the school's Nutrition account but may represent double payment for certain hours worked. Finance Support Team alerted Toronto Foundation for Student Success who manages the Nutrition program as well as the school principal to the matter for further follow up.

IV. CONCLUSION

The majority of samples reviewed aligned with the guidance provided by the Board to both Principals and School Councils. Due to the inherent nature of school generated funds, there remains a risk that oversight of school generated fund disbursements is less robust in comparison to budget disbursements. The risk includes undetected instances of maverick buying, ineligible expenditures and lack of budget reimbursement. Management continues to reinforce expectations regarding school generated funds, and we encourage Management to consider making training around school generated funds mandatory and not optional for applicable staff.