
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Pre-K 4 San Antonio

Fiscal Compliance

Project No. AU14-021

January 9, 2015

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Pre-K 4 San Antonio (SA) program. The audit objectives and conclusions follow:

Are Pre-K 4 San Antonio operations in compliance with City fiscal policies?

Yes, overall, Pre-K 4 SA is in compliance with fiscal policies. The department has made progress in implementing controls to ensure the effective management of the program's finances. There were no material deficiencies noted; however, we identified the following administrative areas that need improvement:

- Contract monitoring controls were not fully established to ensure adequate documentation supporting the receipt of goods and services provided by contracted vendors and approvals to release payment to those vendors.
- Duties relating to cash handling and review of journal entries were not appropriately segregated.
- Corporate and individual contributions were not formally processed or tracked per the City's donation and contribution administrative directive and related accounting standards.

Pre-K 4 SA management agreed with the audit findings and has begun to develop positive action plans to address them. Their verbatim response to our recommendations is in Appendix B on page 6.

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Background

In 2012, citizens approved a 1/8th of a percent sales and use tax to fund a pre-kindergarten program in San Antonio. In August 2012, City Council passed a resolution creating the San Antonio Early Childhood Education Municipal Development Corporation (MDC), commonly known as Pre-K 4 SA, to administer the program. In 2013, the MDC adopted an eight-year budget that included funding for four education centers, administrative staff, teachers, and operations staff. Two of the centers opened for the 2013/2014 school year, while the other two became operational for the 2014/2015 school year.

According to the adopted budget, approximately 92% of program funding was expected to come from sales and use tax revenue. According to internal budget reports, the program received \$30.5 million in sales tax revenue during its first fiscal year (July 2013 to June 2014). Other program revenue received during the year included \$1.5 million in state funding for students enrolled through participating school districts¹ and \$242,284 in monthly tuition payments for students who were not eligible for state-funded tuition.

The program established a memorandum of understanding (MOU) with each of the seven participating school districts that receive state funding to cover tuition costs for eligible² prekindergarten students. Per the MOU, the program allocates 90% of its available seats proportionally to each district and may bill them up to \$3,200 per student per year (depending on the students' attendance) for reimbursement of state funds. The remaining 10% of the program's seats are reserved for students who do not live within the boundaries of the participating districts or who otherwise are not eligible for state-funded tuition. These latter students enroll directly through Pre-K 4 SA and pay a tuition rate based on household size and income. Any of the seats allocated to districts that are not filled may be opened up to tuition-paying students or reallocated to other participating districts. The program conducts an annual lottery to select student applicants to attend its education centers. According to internal reports, 741 students attended Pre-K 4 SA during the 2013/2014 school year.

¹ Participating school districts were Edgewood, Harlandale, North East, Northside, San Antonio, South San Antonio, and Southwest independent school districts.

² Eligibility criteria include students who are unable to speak or comprehend English, are educationally disadvantaged, are homeless, and are children of active duty military personnel.

Audit Scope and Methodology

The audit period was July 1, 2013 through June 30, 2014. The audit scope included expenditures and revenues related to contracts and agreements, as well as overall compliance with COSA Administrative Directives and fiscal policies/procedures during this period.

We interviewed staff, observed cash handling processes and reviewed student enrollment files and procedures to obtain an understanding of fiscal processes. We reviewed and analyzed data and supporting documentation associated with internal financial reports, program revenue and expenditures, student attendance, tuition rates, and office and classroom supplies inventory. We used City Administrative Directives, relevant accounting standards, Pre-K 4 SA policies and procedures, memoranda of understanding with participating school districts, and vendor contracts as criteria for our test work.

We tested general controls over the Texas Enterprise Information System (TxEIS), which is used to track student attendance. General controls testing included an assessment of procedures to create and change user accounts, as well as appropriateness of roles and responsibilities assigned to individual system users.

We relied on computer-processed data in SAP, the City's accounting system, to verify budget, revenue, and expense information. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included validating source data and calculations for internal financial reports, tying revenue and expense amounts to invoices and other supporting documentation, and ensuring the accurate accounting of expenditure caps for specific vendors according to vendor contracts. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results and Recommendations

A. Contract Monitoring

Contract monitoring controls were not fully established to ensure adequate documentation supporting the receipt of goods and services provided by contracted vendors and approvals to release payment to those vendors. We conducted a risk-based analysis on 27 contracts associated with the program and selected 7 contracts for further testing. We tested a sample of 27 out of 84 payments to these 7 vendors and identified the following issues:

- Supporting documents, including deliverables as specified by contract provisions, were either inadequate or unavailable for payments to 4 out of the 7 vendors.
- Evidence of appropriate review and approval was not documented for 17 of the 27 payments tested.

Failure to effectively monitor contracts puts the City at risk of paying for goods and services that were not satisfactorily provided per contract agreement. Additionally, lack of monitoring controls may result in overpaying vendors and exceeding budgeted expenditures.

Recommendation

The CEO should ensure that contract monitors take appropriate steps to ensure vendors are in compliance with contract requirements and maintain documentation of associated reviews and approvals. For example, contract monitors should ensure vendors provide documentation and other deliverables specified by their respective contracts prior to approving vendor invoices for payment.

B. Segregation of Duties

Cash handling duties related to the preparation of cash deposits were not appropriately segregated from accounting and recordkeeping duties.

Specifically, the senior accountant periodically gathers payments collected at each education center and prepares the associated deposits and is responsible for the accounting of the payments. Furthermore, a reconciliation of the check logs to the written receipts issued at point of sale is not taking place.

Additionally, the senior accountant reviews and approves journal entries prepared by the department fiscal administrator, who is the senior accountant's supervisor. Having a subordinate review a supervisor's work may cause undue influence, which compromises the quality of the review.

Administrative Directive (AD) 8.1 Cash Handling states that cash custodian responsibilities should be segregated from accounting and recordkeeping functions and that a supervisor should reconcile deposit amounts to written receipts, cash register or computer system generated receipts and follow up on any discrepancies.

Controls that appropriately segregate duties help mitigate the risk of personnel being able to conceal theft or loss of cash payments.

Recommendation

The CEO should ensure that staff members properly segregate cash handling duties from accounting duties and ensure that the reviewer/approver of journal entries either supervises or is independent from the preparer of the entries.

C. Accounting for Contributions

Three contributions were received during the program's first year: a local corporation provided \$20,000 to assist in the program's strategic planning efforts, a private donor gave \$3,000 to purchase bird feeders for school grounds, and another corporation provided \$1,000 in gift cards for teachers to purchase classroom supplies.

Although Pre-K 4 SA management had accounted for the three contributions, they did not report the contributions in the organization's restricted fund balance, as required by accounting standards.³ Additionally, management did not submit a *Donation and Contribution Form* to the Office of Management and Budget and Finance, as required by the City's administrative directive for donations and contributions.⁴ This form facilitates coordination between the departments to ensure that donations and contributions comply with the City's Ethics Code and to appropriately establish accounting data in SAP for all funds received, including gift cards, which should be treated as cash.

Failure to comply with the standards described above puts the program at risk of misuse or loss of revenue from contributions.

Recommendation

The CEO should establish a formal process to properly account for and track contributions and related expenses according to applicable administrative directives and accounting standards.

³ GASB 33 *Accounting and Financial Reporting for Nonexchange Transactions* states: "Governments that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted (or a reservation of fund balance for governmental funds)."

⁴ Administrative Directive 8.8 Donations and Contributions defines a donation as a gift to the City for a *general* purpose, and defines a contribution as a gift for a *specific* purpose.

Appendix A – Staff Acknowledgement

Sandy Paiz, CFE, Audit Manager
Bruce Coleman, CIA, CISA, Auditor in Charge
Michelle Garcia, CPA, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

November 24, 2014

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for AU14-021 Pre-K 4 SA Fiscal Compliance

Pre-K 4 SA has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.


Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	Contract Monitoring The CEO should ensure that contract monitors take appropriate steps to ensure vendors are in compliance with contract requirements and maintain documentation of associated reviews and approvals. For example, contract monitors should ensure vendors provide documentation and other deliverables specified by their respective contracts prior to approving vendor invoices for payment.	Page 3	Accept	Kathleen Bruck, CEO	Completed July 2014

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>The scope of the audit was from July 2013 to June 2014. During that time, Pre-K 4 SA had 27 contracts totaling \$5.5 million. Also during that time there were 209 staff hired. Of 27 contracts, the Auditor selected a sample of 7 contracts to review. Of the selected contracts, 4 of the 7 were cited. Most of the selected contracts (6 of 7) were drafted and executed in the summer of 2013 before the existence of Pre-K 4 SA staff.</p> <p>The CEO has implemented the following action plan:</p> <ul style="list-style-type: none"> • Designated staff to monitor assigned contracts to include compliance reviews. • Requested a contract compliance review of the Corporation's Food Service and Transportation contracts by the Department of Finance's Compliance & Resolution Division. These reviews resulted in recommendations that resolved issues noted in the report. • Establish procedures to ensure that the appropriate documentation, including deliverables as specified by the contract provisions, is included with invoices as they are processed for payment. • Assign the Department's Procurement Specialist additional duties involving contract monitoring. <p>In addition, the department will examine the benefits of possibly adding a Contract Compliance position during the FY 2016 budget process.</p>				
2	<p>Segregation of Duties</p> <p>The CEO should ensure that staff members properly segregate cash handling duties from accounting duties and ensure that the reviewer/approver of journal entries either supervises or is independent from the preparer of the entries.</p>	Page 4	Accept	<p>Kathleen Bruck, CEO</p> <p>Alfredo Martinez, DFA</p>	Completed August 2014

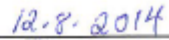
Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan: Pre-K 4 SA had implemented the following procedures to segregate cash handling from accounting duties:</p> <ul style="list-style-type: none"> • The Administrative Associate for each Education Center accepts payments and performs the deposit of funds duties. • The Department initiated armored car pickup of deposits for each of its Education Centers. • The Sr. Accountant no longer handles cash or performs deposit duties other than posting the Department's End-of-day transaction in SAP and providing the Finance department a list of customer payments for posting to SAP customer accounts. • The Department has hired additional staff to further segregate the Department's cash handling procedures. <p>At Pre-K 4 SA, the Department Fiscal Administrator (DFA) is the primary author of journal entries in the Department. This is to ensure a balanced workload for the two fiscal positions assigned to Pre-K 4 SA. The City's General Accounting AD states that only a "preparer" and "approver" are required. However, the Department is adding an Accountant in FY 2015 (December 2, 2014) which allows for the recommendation to be implemented. In the interim, the DFA will request that someone other than the Sr. Accountant review and approve journal entries.</p>				
3	<p>Accounting for Contributions</p> <p>The CEO should establish a formal process to properly account for and track contributions and related expenses according to applicable administrative directives and accounting standards.</p>	Page 4	Accept	Kathleen Bruck, CEO Alfredo Martinez, DFA	Completed September 2014
	<p>Action plan: Each Pre-K 4 SA Director has been provided AD 8.8 "Donations & Contributions". In August/September 2014, the Department's DFA conducted City process training that included a review of the AD with Pre-K 4 SA Directors. Directors are now knowledgeable of the AD and the current process is to notify the DFA of any potential donation/contribution so that it can be determined how it is reportable per the terms of the AD.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



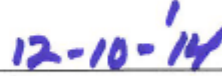
Kathleen Bruck
Chief Executive Officer
Pre-K 4 San Antonio



Date



Peter Zaroni
Deputy City Manager
City Manager's Office



Date