

GORENZ DISTRICT NEWSLINE

A newsletter of audit significance from Gorenz and Associates, Ltd., Peoria, IL

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County Sales Tax -

Many school districts have been receiving, or may start receiving, distributions from their county approved School Facility Occupation Tax. Here are a couple of things you should know about this revenue stream.

ISBE requires that these funds be deposited in the Debt Services or Capital Projects Fund – Revenue account number 1983 – School Facility Occupation Tax Proceeds. The Debt Service Fund would be utilized if the proceeds are to be used for repayment of building or life safety bond issues.

Under the Act, money generated through the county sales tax can only be used for “school facility purposes”, defined as “acquisition, development, construction, reconstruction, rehabilitation, improvement, financing, architectural planning, and installation of capital facilities consisting of buildings, structures and durable equipment.” It can also be used for the “acquisition and improvement of real property; interest in real property acquired, or expected to be acquired, in connection with the capital facilities.” Usage also extends to updating systems for fire prevention, safety, security, energy conservation and disabled access.

IMRF and Social Security Tax Levies –

These retirement tax levies are deposited in the IMRF Fund and are restricted for the individual purpose for which the tax was levied. Currently, ISBE does not require separate funds for these real estate taxes. However, the balance for each individual levy must be tracked by the district. Do you know how the balance in your IMRF Fund is split? Are you levying adequately for IMRF versus Social Security purposes? You cannot use your social security levy for IMRF expenditures or vice versa. Is either one of your levies challengeable based on the restricted balance on hand? Some districts have opted to set up individual funds in their accounting system to track these separate levies.

Senate Bill 16 –

This pending legislation has major ramifications for Illinois School Districts. Regardless of which side of the revenue re-allocation plan your district falls on, there is currently a provision within the bill that would create a considerable amount of additional work for all district accounting staff (and their auditors). The proposal calls for school based accounting starting in the 2015-16 school year. Through this process, districts must account for revenues and expenditures at the individual school level in the areas of administration, instruction, special education instruction, instructional support services, pupil support services, salaries, facilities and business services and any other areas determined by ISBE. The current system enables the public to see how much money is spent at the district level, but not how funds are spent within the district. It is uncertain at this time how the AFR (Form 50-35) would be updated to accommodate this new requirement.

Could you defend your Tort Expenditures?

There have been multiple lawsuits around the state with regard to the use of the Tort immunity tax levy. Most of the cases involve the use of salaries as “risk management” expenditures. In differing decisions, salaries have been disallowed primarily due to some defect in the court’s interpretation of the district’s “Risk Management Plan” or in the implementation of those plans. The Illinois State Board of Education (ISBE) has posted a summary of what they believe to be allowable expenditures on their website at http://www.isbe.net/finance/pdf/tort_summary.pdf.

At a minimum, districts should have a risk management plan in place. The plan should be reviewed at least annually by the administration, legal counsel and the board of education. Please contact your district’s legal counsel with specific questions on what can, or can’t, be charged against your tort immunity tax levy.

How can we improve Internal Controls?

While the annual audit does perform certain procedures in sensitive areas, the independent auditor is not part of the internal control of any entity. Our audit results in a report on internal controls, not an opinion as to the effectiveness of your controls. We encourage districts to strengthen controls when possible. Below are some tips you may want to consider for the areas where strong controls are difficult to achieve.

Gate Receipts

This is a very “cashy” area. With the exception of season ticket holders and those with passes, attendees are paying cash to get into the venue. Most districts have limited the entrance points as a way of controlling who gets in. In some cases there is a separate ticket purchasing booth that handles the cash and another gate keeper that collects tickets or approves passes to get in. This is the standard set up even for large venues at professional sports arenas.

Pre-numbered tickets are recommended with different colors being used for varied ticket prices (eg adult tickets, student tickets). You may want to change colors to discourage the use of old tickets or prevent the use of counterfeit tickets. The beginning ticket numbers need to be recorded prior to handing the ticket stock to the sellers. At the end of the event, the final ticket number sold needs to be recorded by the ticket seller and the remaining unsold stock turned in. A reconciliation should be made; computing the number of tickets sold and extending the gross sales amount. Ideally, the ticket seller would sign off on this reconciliation sheet acknowledging who sold the tickets.

Cash drawers need to be accounted for as well. The beginning cash (to be used for change) plus the gross sales should equal the ending cash turned back in at the end of the event. The use of cash collected to pay referees or for supplies should be discouraged or at the very least accompanied by a legitimate receipt. All cash should be secured and deposited as soon as possible.

Gate receipts are difficult to control if only one person is handling the gate. It takes two to separate the cash collection from the ticket taking. Some districts have enlisted help from local community groups (eg lion’s club or veterans group) to man the gates. Other districts pay a stipend to ticket takers. (Stipends to district teachers should be run through payroll and would be subject to TRS). Volunteers may be difficult to control, while paid personnel should be held accountable.

Consider a “self-audit” on selected gate receipts to see if your system is working. Review reconciliation sheets, perform recounts of tickets and cash, look for timeliness of deposits. Are you handling stipends properly? Perform these procedures on a surprise basis.

One of the end results of a good system of internal control is protection for the people who are responsible for handling cash. The checks and balances can show that cash was handled and recorded properly at each step of the process.

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