



Outside Support Organization Compliance Review

Office of Internal Auditing
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Preface

The Office of Internal Auditing serves to improve the fiscal accountability and enhance the public's perception of the management and operations of the Escambia County School District. This engagement strives to meet those objectives.

Audits, reviews, and other engagements are determined through a District-wide risk assessment process, and are incorporated into the annual work plan of the Office of Internal Auditing, as approved by the Audit Committee. Other assignments are also undertaken at the request of District management.

This engagement was conducted with the full cooperation of District operational staff and other District personnel.

Any recommendations included in this engagement are designed to improve operations and serve as the basis for informed discussions related to policies and procedures.

This engagement was conducted in accordance with the International Standards for Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors.

We thank the principals, assistant principals, and various support organization personnel throughout the District for their cooperation and commitment.



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Executive Summary

The District currently has 84 active OSOs, which consist of 35 PTAs and 49 booster clubs.

The Escambia County School District (the District) supports and endorses the ability of its citizens to form Outside Support Organizations (OSOs) for the purpose of supporting an individual school, or activities at a school. These OSOs are broken into two main types: Parent Teacher Associations (PTAs) and booster clubs (quarterback clubs, cheerleading boosters, etc.).

To ensure proper accounting for funds, and to protect volunteers, OSOs agree to comply with the policies and procedures provided in the “District’s Guidelines for Outside Support Organizations” handbook (Handbook).

It is the responsibility of the school principals to ensure compliance with all requirements listed in the Handbook. It is the responsibility of the District’s OSOs to provide certain documentation to the principal in an accurate and timely manner.

Of the 50 schools operating in the District, 40 of them reported having at least one operating OSO. There is a total of 84 active OSOs at these 40 schools. Further, those 84 OSOs are comprised of 35 PTAs and 49 booster clubs.

We determined compliance with District policies requiring OSOs to meet certain state and federal requirements. The specific policies tested included the following requirements:

- Obtaining registration with the state of Florida’s Division of Corporations
- Obtaining recognized federal tax-exempt status through the IRS Section 501 (typically 501(c)(3))
- Filing of required tax returns (one of several versions of the IRS Form 990)

In addition, we gathered financial information to determine the amount of funds which flowed through OSOs during the 2013-2014 fiscal year.

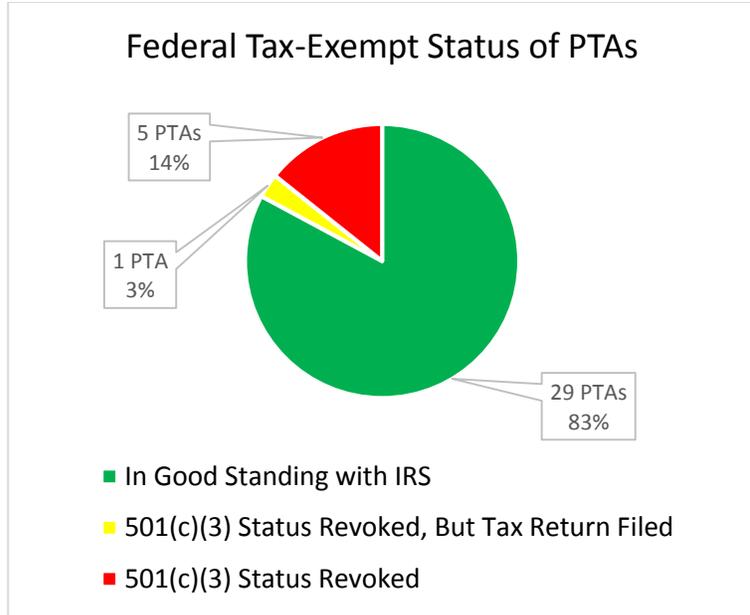
Testing of State and Federal Compliance

PTAs

PTAs are excluded from state corporate filing as they are registered under the state chapter of PTAs; however, they are still required to meet federal guidelines for tax-exempt organizations.

Our testing of PTA compliance with federal tax-exempt guidelines is summarized in the following graph:

6 PTAs currently have their tax-exempt status revoked by the IRS.

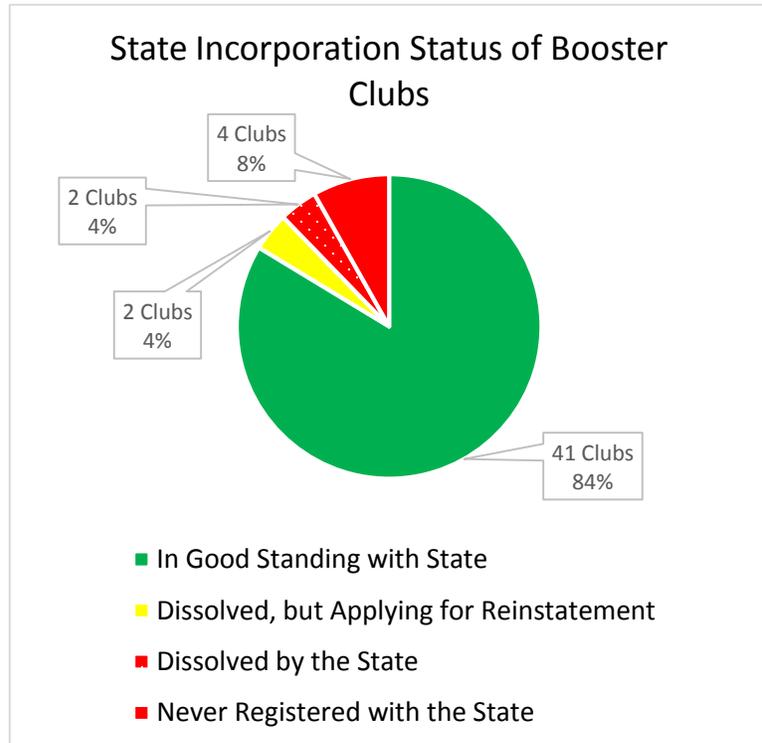


Booster Clubs

In addition to the same federal requirements as PTAs, booster clubs must also meet individual state corporate filing requirements. Our testing of booster club compliance with state corporate filing requirements for non-profits can be summarized in the following graph:

4 booster clubs have not registered with the state of Florida.

4 booster clubs have been administratively dissolved by the state of Florida.

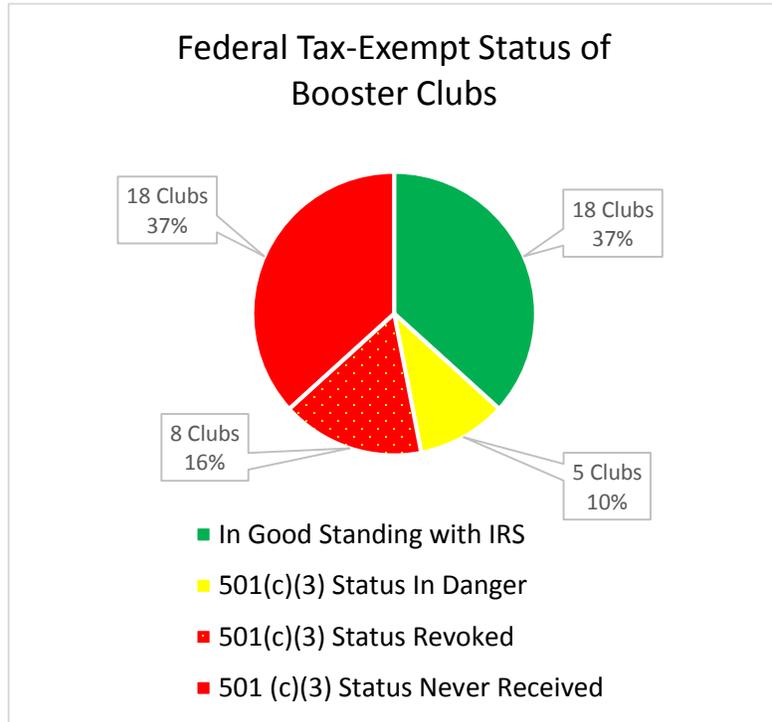


Our testing of booster club compliance with federal tax-exempt guidelines is summarized in the following graph:

8 booster clubs currently have their tax-exempt status revoked by the IRS.

5 booster clubs are in danger of losing their tax-exempt status.

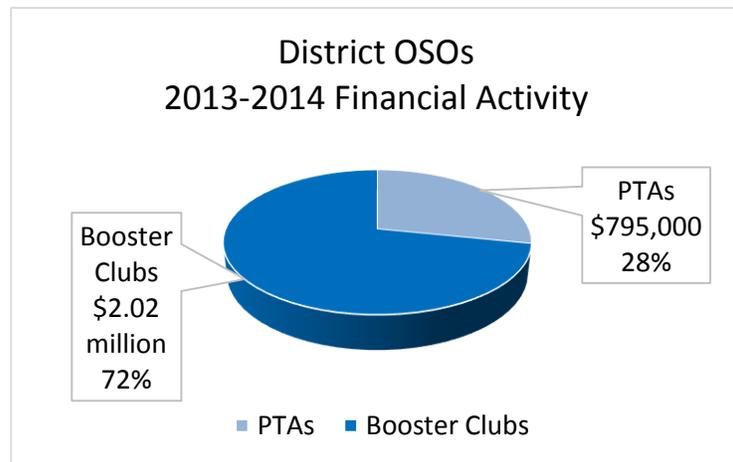
18 booster clubs are not classified as tax-exempt by the IRS.



Financial Analysis:

We collected annual financial information related to each OSO operating in the District. We noted approximately \$2.81 million flowed through these organizations during the 2013-2014 year. This information can be summarized as follows:

\$2.81 million flowed through OSOs in 2013-2014.



This report includes recommendations. The Executive Summary is intended to highlight the various aspects of the report. The full report should be read to understand the basis of our recommendations.

Background

The District has various guidelines for OSOs.

The District supports and endorses the ability of its citizens to form OSOs for the purpose of supporting individual schools or activities at a school. Typical examples of such organizations are PTAs and booster clubs (quarterback clubs, cheerleading booster, band boosters, etc.).

The financial activity of these organizations can be accounted for in one of two ways: through a school's internal funds accounts or in a separate outside bank account.

The District has established guidelines for these OSOs that operate on behalf of schools/activities in Escambia County. To ensure proper oversight, school principals are required to obtain specific documentation listed in the Handbook from those organizations that are affiliated with their school. The documentation to be provided in a timely and accurate manner includes, but is not limited to, the following:

- Annual Authorization Form for each OSO
- Listing of OSO officers (with identification of District employees)
- Meeting minutes
- Prior year audit
- Current year budget
- Treasurer's reports

In addition to the general requirements above, District guidelines require organizations to meet initial and ongoing requirements established by the State of Florida and the Internal Revenue Service. These requirements include the following:

OSOs must register with the Florida Division of Corporations.

State Incorporation

OSOs must register with the state of Florida's Division of Corporations. This registration involves the creation of Articles of Incorporation and filing with the state. To maintain active status, organizations must submit annual reports to the state, along with a fee. District PTAs are excluded from state corporate filing, as they are registered under the state chapter of PTAs.

OSOs must apply for and maintain tax-exempt status with the IRS.

Federal Tax-Exempt Registration

OSOs who operate outside of school internal funds accounts, must apply and receive tax-exempt 501(c) status from the IRS. This process involves completion and submission of certain forms, paying fees, and providing required information. Once receiving a favorable determination letter, a corporation may collect non-taxable contributions. To maintain tax-exempt status, organizations are subject to annual IRS reporting requirements, including filing of required tax returns (one of several versions of the IRS Form 990).

Objective

The objective of this review was to ensure that each of the District's OSOs were operating in compliance with the requirements prescribed to them, and to document the approximate amount of financial activity of the organizations.

Scope

The scope of this review included all schools reporting the operation of OSOs. We acquired and reviewed various documents including the Handbook, Florida Division of Corporation reports, IRS tax information (non-profit status and tax returns), and information related to the inflows and outflows of monetary resources through the organizations. This review covered the 2013-2014 fiscal year.

Methodology

We contacted all schools and requested they provide the official names of all OSOs affiliated with their school and contact information for each organization's president and/or treasurer.

We used the state of Florida's Division of Corporations website to determine whether or not each OSO was registered as a corporation in the state. In addition, we used the IRS' website ("Exempt Organization Select Check" section) to determine whether each organization was registered as a federally-recognized tax-exempt corporation with the IRS, whether their exemptions was active or revoked, and whether they had filed required tax returns.

For any information we could not obtain ourselves, we contacted each relevant OSO president and/or treasurer to ask questions and request any missing information. There were booster clubs that did not provide us the requested information after repeated attempts. In many instances it was necessary to ask school principals to direct OSOs to provide the necessary information.

After obtaining all of the information, we tested to determine compliance with District, state, and federal requirements prescribed to OSOs.

We also requested and compiled information related to the financial operations of each OSO. District monitoring guidelines mandate that this information be gathered and maintained by school principals. In most

instances, principals were unable to provide the information. As such, we were significantly delayed as principals gathered the information from the OSOs. After receiving the required documents, we analyzed this information to determine the approximate amount of resources flowing into and out of the District's OSOs.

Results/Conclusions

Based on responses from school principals, we noted that of the 50 schools, 40 schools reported having at least one active OSO. These 40 schools had a total of 84 active OSOs. These active OSOs can be further broken down into PTAs and other booster clubs. During the 2013-2014 fiscal year, the District had 35 PTAs and 49 booster clubs.

First, we determined compliance with District policies requiring OSOs to meet certain state and federal requirements.

The specific policies we tested included the following requirements:

- Obtaining registration with the state of Florida's Division of Corporations
- Obtaining recognized federal tax-exempt status through the IRS Section 501 (typically 501(c)(3))
- Filing of required tax returns (one of several versions of the IRS Form 990)

PTAs

As mentioned above, the District has 35 active PTAs, with the majority of them at the elementary and middle school levels (32 of 35 total – 91%).

PTAs are not required to be individually registered with the state as corporations, as they are included under the umbrella of the overall state PTA organization. Therefore, we did not need to analyze PTAs with respect to the requirement that each organization be individually registered with the state as a corporation. We did test for compliance with federal tax requirements.

Of the 35 PTAs in the District, we noted that all 35 were at some time registered with the IRS as a federally-recognized tax-exempt organization. **We did note, however, 6 of the 35 (17%) PTAs currently have had their tax-exempt status revoked.** With regards to filing of annual tax returns (some version of the IRS Form 990, most typically one of the following: 990, 990-EZ, or 990-N), we noted 30 of the 35 (86%) PTAs have filed the most recent required tax return.

6 PTAs currently have their tax-exempt status revoked by the IRS.

Booster Clubs

The District has 49 booster clubs (i.e., quarterback clubs, cheerleading boosters, band boosters, etc.), with all of them at the middle and high school levels.

State Incorporation Status

Unlike PTAs, booster clubs (if they are to operate outside of the school’s internal funds accounts) **are required** to be registered individually as corporations in the state of Florida. We tested for compliance with state requirements.

Of the 49 booster clubs in the District, we noted 41 of the 49 (84%) booster clubs were registered as corporations and in good-standing with the state. **We noted 4 of the 49 (8%) booster clubs do not appear have ever registered with the state, while the remaining 4 of the 49 (8%) booster clubs have been dissolved by the state for failure to meet annual reporting requirements.**

Note: During fieldwork, 2 of the 4 dissolved booster clubs initiated the reinstatement process with the state.

IRS Tax Exempt Filing Status

In addition to state requirements, we tested booster clubs for compliance with federal tax requirements.

Of the 49 booster clubs, we noted that 31 of the 49 (63%) booster clubs were at some time registered with the IRS as a federally recognized tax-exempt organization. **However, currently 8 of the 31 have had their tax-exempt status revoked by the IRS.** Revocation usually occurs as a result of failure to file annual tax returns for three consecutive years. **Finally, we noted that 18 of the 49 (37%) booster clubs do not appear to have at any time registered with the IRS for tax-exempt status.**

Note: During fieldwork, 1 of the 18 booster clubs who had not previously applied for tax-exempt status, was in the process of applying for tax-exempt status with the IRS, but had yet to be granted that status at the time of this report.

In addition to the 8 booster clubs mentioned above as having their status revoked, **there are 5 more booster clubs who are in danger of losing their tax-exempt status.** Our research indicated that these organizations have failed to file required annual returns, but have not yet reached the three consecutive year condition to have their status revoked. **These booster clubs will join the 8 already revoked in the near future unless action is taken to remedy the deficiencies.**

4 booster clubs have not registered with the state of Florida.

4 booster clubs have been administratively dissolved by the state of Florida.

8 booster clubs currently have their tax-exempt status revoked by the IRS.

18 booster clubs are not classified as tax-exempt by the IRS.

5 booster clubs are in danger of losing their tax-exempt status.

\$2.81 million flowed through OSOs in 2013-2014.

Financial Analysis:

Finally, we collected annual financial information related to each OSO operating in the District. We noted a total of approximately \$2.81 million in income and approximately \$2.77 million in expenses flowed through the District for the 2013-2014 fiscal year. Approximately \$795,000 of income flowed through PTAs and \$2.02 million flowed through booster clubs.

Recommendations

**Recommendation #1:
Review, Revise, and Reissue Handbook**

The current Handbook communicating what is expected from District OSOs was originally developed in 1998-1999, and appears to have been revised in late 2002. **As such, we recommend that the District establish a committee to review, update, and reissue the Handbook.** Internal Auditing staff can assist with this project, if needed.

**Recommendation #2:
Principals and Assistant Principals Should Review the Handbook**

School principals may not be fully aware of the requirements that OSOs must operate under, and what their monitoring responsibilities are, including what documents they are required to have submitted to them. **As such, we recommend principals and assistant principals at each school review the Handbook to familiarize themselves with that they should be obtaining from their clubs.** One potential solution could include training at a Principal's Meeting. Internal Auditing staff can assist with this training, if needed.

**Recommendation #3:
Obtain Required Information**

Throughout the process of obtaining financial information related to this project, we noted principals were not provided required information by their OSOs, nor were they actively seeking out this information until our office asked for the information. We began requesting this information in December 2014. The information from the 2013-2014 year should have been collected throughout that school year, and been available to us by December 2014. **As such, we recommend principals obtain this information on a more current and ongoing basis, regardless of whether or not our office is performing a review of their compliance.**

**Recommendation #4:
Establish Ongoing Monitoring Process**

While this review prompted many principals to obtain information from their booster clubs, which should have been on file, our procedures cannot substitute for management's responsibility to monitor booster club activity. **As such, in addition to recommending principals and assistant principals establish processes to ensure they are receiving timely and complete information, we further recommend they adequately review the information and effectively monitor OSO activity.**

It appears that in addition to our difficulties in obtaining requested information from OSO representatives, even proactive principals and assistant principals encounter similar difficulties. **As such, we recommend**

Recommendation #5:
Communicate Consequences of Non-compliance to OSOs

Recommendation #6:
Give Handbook to OSO Representatives each year

Recommendation #7:
Address Tax-Exempt Revocation of OSOs

Recommendation #8:
Help OSOs in Danger Avoid Revocation of Tax-Exempt Status

that the principals and/or Superintendent communicate to the OSO representatives the repercussions of not submitting required documentation and if need be, dissolve non-compliant organizations.

Based on conversations with various OSO personnel, we noted that many representatives were not aware of the requirements placed on their organizations for continued operation. **As such, we recommend that each year OSO representatives be made aware of the District's Handbook at the same time the principal gives them authorization to continue (or begin) operations on behalf of their school.** One potential solution could be a mandatory training for OSO representatives at each school, which would take place at the beginning of each school year. Internal Auditing staff can assist with this training, if needed.

As previously mentioned, numerous OSOs have either failed to apply for tax exempt status, or have had their tax-exempt status revoked. The consequences of not being tax-exempt, or losing the exemption include:

- Organizations are not exempt from federal income tax, and
- The organization is not eligible to receive tax-deductible contributions; meaning donors cannot deduct contributions on their tax returns.

The procedures for initially applying for tax-exempt status are well-established, although cumbersome. In addition, the IRS has established procedures for reinstating tax-exempt status. The ease of the reinstatement process is dependent on the time having passed since revocation. Organization whose status has been revoked for longer than 15 months may encounter significant hardships in applying for reinstatement, including having to pay tax on income for all years during which proper forms were not previously filed. The process is complex, and it is unclear what role the District is required to or should play. **As such, we recommend District management discuss this matter and determine a course of action. At a minimum, OSO representatives should be guided to IRS resources.**

As previously noted in the Results/Conclusion section, there are several booster clubs that have not yet had their tax-exempt status revoked, but will if they fail to remedy their reporting deficiencies. **We recommend that the principals responsible for monitoring these OSOs take a proactive approach and help them understand the consequences associated with continuing to not file the required tax returns.**

In many instances, the District staff directs students and parents to remit funds to OSOs, instead of collecting and depositing the funds into internal accounts, where they would be subject to well-established internal controls for accountability and monitoring. The District has acknowledged that it has some monitoring responsibilities for OSOs, but it appears that

Recommendation #9:
Centralize Monitoring

the traditional approach of having principals (or their designees) monitor OSO compliance has not produced the desired results. Many principals did not have the required information from the prior year, and are often unaware of the officers and/or activity of the OSOs they are charged with monitoring. We have encountered this same scenario in previous OSO reviews. Although the Office of Community Involvement has some interaction with District PTAs, currently there is no District-level oversight of OSOs. **As such, we recommend the District consider centralizing certain duties to adequately monitoring OSOs and help ensure the compliance of OSOs with prescribed District policies and procedures.**

Management Response
