APPROVED
ESCAMBIA COUNTY SCHOOL BOARD

DEC 1 5 2020

DR. TIMOTHY A. SMITH, SUPERINTENDENT
VERIFIED BY RECORDING SECRETARY

J.M. Tate High School

Audit of School Internal Accounts
For the Year Ended June 30, 2020

Office of Internal Auditing
August 2020

David J. Bryant, CPA, CIA, CFE, CGFM, CRMA
Director – Internal Auditing

Audit Team:
Michèle A. Kiker, CFE, CGAP, CRMA
Senior Auditor

McKenzie Lane
Audit Administration Specialist

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 J.M. Tate High School 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, bookkeepers, secretaries, and various support personnel throughout the District for their cooperation and commitment.

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Executive Summary

Our office audits the internal accounts of the District's schools annually. The authority to conduct these audits is granted by the School Board of Escambia County in the Charter for the Office of Internal Auditing.

These audits are conducted on a rotating basis with a sample of schools receiving "full" audits each year, and the other schools receiving "limited" audits. For each full audit, extensive testing procedures are applied to internal funds accounts. Limited audits include cash procedures and reconciliation to independent bank confirmations. For the 2019-2020 fiscal year, J.M. Tate High School (Tate) received a full audit. This report documents the results of the audit.

Tate received a full audit for the 2019-2020 fiscal year.

The purpose of our audit was to determine whether the financial information reported in the internal accounts reconciles with bank statements and corresponding independent bank confirmations, and to determine compliance of transactions included in those same internal accounts with the governing provisions of Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. We also sought to determine whether any instances of non-compliance were severe enough to render the financial information reported by the school unreliable. We believe our audit provides a reasonable basis for our opinion, findings, and recommendations.

Two adjusting journal entries were recommended.

Our audit procedures indicated matters that required adjustment of the school's records. Two journal entries were necessary:

- To correct a remaining balance in the Reimbursable by District account created by failing to process a reimbursement request.
- To transfer the remaining balance of the Graduated Seniors account to the General account.

These journal entries were processed by the bookkeeper in the following school year.

Our testing resulted in 2 audit findings.

Our testing resulted in 2 audit findings:

- Purchases were made without prior written approval.
- Saleable Inventory counts were improperly maintained.

The school's overall fund balance as of June 30, 2020 $477,601.96.

The overall fund balance reported by the school at June 30, 2020 was $477,601.96. We have determined that the financial information reported by the school reconciles with bank statements and independent bank confirmations.

The majority of transactions included in the school's internal

In our opinion, the majority of transactions included in the school's internal accounts were processed in accordance with all applicable Florida Statutes, State Board of Education rules, and policies and procedures of the School

accounts were processed in accordance with applicable policies and procedures.

Board.

We have also determined that the instances of non-compliance noted above and elsewhere in this report do not have a material effect and are not severe enough to render the financial information unreliable.

This report contains 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. We will follow-up on these recommendations approximately 90 days after the school's exit conference.

Background

Each year, our office audits the District's schools' internal accounts. The authority to conduct these audits is granted by the School Board of Escambia County in the Charter for the Office of Internal Auditing.

School internal funds are defined in the Internal Funds Policy Manual (the Manual) as "all monies collected and disbursed by school personnel within a school, for the benefit of the school, or a school sponsored activity." As further explained in the Manual, "School internal funds shall be used to supplement activities approved by the school board when the District budgetary funds are not available or have been exhausted." More plainly, internal funds include everything from money found on campus to collections from ticket sales for athletic events.

Each year, District schools receive either a "full" audit (including all procedures listed in the Methodology section below), or a "limited" audit, where only certain procedures are performed (such as obtaining third-party confirmation for all cash and investment accounts and reconciliation of bank statements and confirmations). For the 2019-2020 fiscal year, Tate received a full audit.

Outside support organizations are <u>not</u> included in this report and are <u>not</u> audited by our office.

Outside support organizations (school booster clubs and parent teacher associations) affiliated with this school that operate independent of a school's internal accounts **<u>are not included</u>** in this report and **<u>are not audited</u>** by the Office of Internal Auditing.

Tate last received a full audit in the 2017-2018 fiscal year. There were 5 matters that rose to the level of audit findings. There were findings related to utilization of L2121 for credit card purchases, proper handling of credit card statements, proper utilization of the Fundraiser Log, proper utilization of the Monthly Log Report, and proper utilization of budgeted funds, which were determined to be addressed adequately during a subsequent follow-up audit.

School Administration has been consistent for several years.

The school has had the same principal and bookkeeper in place since the previous audit.

Objective

The purpose of our audit was to determine whether the financial information contained in the internal accounts reconciles with bank statements and corresponding independent bank confirmations, and to determine compliance of transactions included in those same internal accounts with the governing provisions of Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. We also sought to determine whether any instances of non-compliance were severe enough to render the financial information unreliable.

We have conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditing, and have planned and performed our audit to obtain reasonable assurance that transactions were made in accordance with applicable policies and laws and that the financial information presented is reliable.

We believe our audit provides a reasonable basis for our opinion, findings, and recommendations.

Scope

The State Board of Education Redbook, Chapter 8, Section I, 1(b) states that the District School Board is responsible for the administration and control of school's internal accounts and in connection therewith shall provide for an audit of those accounts. Pursuant to this rule, we have audited the financial transactions of the internal accounts of the school as of and for the fiscal year ended June 30, 2020. These accounts are the responsibility of the principal of that school.

Methodology

The audit consists of 3 phases: planning, fieldwork, and reporting.

Each audit consists of 3 phases, containing specific steps to ensure it is done in accordance with professional standards and current accepted practice.

The Planning Phase

The planning phase serves as the initial stage of an audit, where the auditor

determines which schools are audited, ensures his or her independence, assesses the overall control environment and risk factors, and selects the samples of transactions to be tested.

School Sample
Rather than auditing 100% of schools each year, a system of rotation is utilized that is based primarily on school classification (i.e., elementary, middle, high).

Ensuring Independence
An independence statement is completed for each school. This statement contains the signature of each auditor certifying that there are no conflicts of interest and that they are free from bias. **No known conflicts were identified.**

No known conflicts of interest were identified.

Control Risk Assessment
At the beginning of each audit, the 2 prior audits and work papers, as well as any follow-up audits, are reviewed. We also determine whether there have been any significant personnel changes (i.e., principal, bookkeeper).

Each school's bookkeeper and principal are given internal control questionnaires to complete prior to their audit beginning. We review the responses, and discuss any items of concern with the appropriate staff. These questionnaires represent only a portion of our assessment of the overall control environment.

Control Risk for Tate has been assessed at moderate.

Based on our experience with the school, control risk is assessed at moderate. Therefore, our audit procedures are limited to those in the audit program. If control risk is assessed at a level higher than moderate, additional procedures may be performed.

Transactional Samples
Statistical sampling for attributes has been chosen. This method allows conclusions to be drawn about the population based on statistical inference. If after testing we determine the sample does not provide adequate coverage of the total population, auditor judgment and discussion with the Director of Internal Auditing are used to determine whether additional sampling methodologies are necessary (judgmental sampling, whole population, etc.).

The Fieldwork Phase
The fieldwork phase involves transactional testing of the school's internal accounts. The items in each of our samples are tested for compliance with applicable Florida Statutes, State Board of Education Rules, Board Policies, contract terms and conditions, and grantor restrictions.

While performing our testing, a percentage of transactions is allowed to contain compliance violations before it is determined to be an audit finding.

For our purposes, exceptions of greater than or equal to 20% of the total population may exist before an audit finding is issued.

For our purposes, an audit finding is a recurring issue that is present in greater than or equal to 20% of the sample. In addition, due to seriousness or materiality, a single compliance violation could also result in an audit finding.

Upon the completion of fieldwork, exit conferences to discuss the results of the audit are conducted with principals and secretaries/bookkeepers, if necessary.

The Reporting Phase

Upon the completion of the planning and fieldwork phases of an audit, the results of those phases are compiled into an easily readable and understandable format (i.e., the audit report). The report is presented to, and approved by, the Audit Committee and the School Board at the end of each audit cycle.

Financial information from full audits is combined with information from limited audits and compiled into a District-Wide Report on Internal Accounts.

Detailed Results

Summary of Fund Activity		
Beginning Cash Balance, 7/1/2019	$	426,883.38
Total Receipts		735,103.88
Total Disbursements		(186,644.88)
Total Net Journal Entries		(497,740.42)
Ending Cash Balance, 6/30/2020	$	477,601.96
Audit Adjustments		-
Ending Fund Balance, 6/30/2020, Per Skyward	$	477,601.96
Cash Balance per Confirmation(s)	$	481,774.75
Outstanding Deposits		-
Outstanding Checks		(4,574.79)
Other Reconciling Items		402.00
Ending Fund Balance, 6/30/2020, Per Confirmation(s)	$	477,601.96

General Ledger Review

Throughout the year and prior to the school's closing of their records at year end, we may review various reports, transactions, and supporting documentation of the school. The purpose of this review is to recommend adjusting journal entries, reclassifications, or other necessary actions which we feel will result in more accurate reporting and/or compliance with

established rules, policies, and procedures. Any recommended entries or actions are traditionally completed prior to the close of the school's records, and are therefore included in the reported June 30 financial information, unless otherwise indicated.

Two adjusting journal entries were recommended.

As a result of our fieldwork, 2 additional adjusting journal entries were recommended:

- To transfer the remaining balance in the F6255 Reimbursable by District account created by the failure to process a reimbursement request in a timely manner, we recommended a journal entry be processed for $670.46.
- To transfer the remaining balance in the C3150 Senior Class account, we recommended a journal entry be processed for $1,248.55.

After fieldwork, but prior to the issuance of this report, the school implemented our recommendations to process all journal entries mentioned above.

Findings

Prior Written Approval

One finding related to lack of prior written approval.

Our testing indicated purchases were made prior to the principal's written approval date, as evidenced on the approval forms for both check requests and credit card purchase requests.

This is a repeat audit finding from 2015-2016.

The Internal Funds Policy Manual gives specific guidelines regarding the prior approval of purchases. Section VIII, A of the Manual states, "All disbursements require **prior written** approval of the Principal or his/her designated representative. 'Prior written approval' may consist of a properly completed Purchase Requisition/Request for Purchase Oder. This must be done **BEFORE** the item is ordered and funds are obligated." In the case of credit card purchases, the Request Purchase Utilizing Purchasing Card approval form should be used.

See our recommendation in the Recommendations section below.

Saleable Inventory

One finding related to improper maintenance of saleable inventory.

Our testing indicated the merchandise counts reported for saleable inventory items were incorrect. The items were in disarray and were not properly maintained.

The Internal Funds Policy Manual gives specific guidelines regarding saleable inventory. Section IV, H.6 of the Manual states, "Inventories of merchandise in the school's store must be maintained using the Report of Saleable Inventory and kept up-to-date for audits." This also applies to other saleable inventory not kept in the school store.

See our recommendation in the Recommendations section below.

Opinion

Our opinion is divided into 2 major areas: whether or not the financial information reported by the school reconciles with corresponding bank statements and independent bank confirmations; and an assessment of the compliance of transactions included in the internal accounts with the governing provisions of Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. An overall assessment is also made as to whether any instances of non-compliance were severe enough to render the financial information unreliable. We believe our audit provides a reasonable basis for our opinion, findings, and recommendations.

The financial information reconciled with bank statements and independent confirmations.

We have determined that the financial information reported reconciles with bank statements and independent bank confirmations.

The majority of the school's transactions were processed in accordance with all applicable policies and procedures.

In our opinion, the majority of transactions included in the school's internal accounts were processed in accordance with all applicable Florida Statutes, State Board of Education rules, and policies and procedures of the School Board.

We have also determined that the instances of non-compliance noted above and elsewhere in this report do not have a material effect and are not severe enough to render the financial information unreliable.

Recommendations

Review and instruct staff on policies and procedures related to prior written approval for expenditures.

Prior Written Approval

In an effort to address purchases made prior to receiving written approval from the principal/designee, **we recommend the principal and the bookkeeper review the Internal Funds Policy Manual and instruct staff on the proper procedures of obtaining prior written approval for expenditures.**

Review and instruct staff on the policies and procedures related to saleable inventory.

Saleable Inventory

In an effort to address the improper maintenance of saleable inventory, **we recommend the principal review the Internal Funds Policy Manual and instruct staff on the proper maintenance of saleable inventory.**

We will follow-up on these recommendations approximately 90 days after issuance of the draft report to school administration.

Management Response

Laurie Bedford
Assistant Principal
Curriculum & Instruction

Rick Shackle
Principal

Deborah Long
Assistant Principal
Facilities & Planning

To: David Bryant
Director, Internal Auditing

From: Rick Shackle

Date: November 30, 2020

Subject: 2019-20 Internal Audit

Please note the following findings and corrective actions pertaining to Tate High School's 2019-2020 audit:

Saleable Inventory: Saleable inventory accounts were improperly maintained.

The school store attempted to sell inventory in the cafeteria during lunches. That inventory was stored in a locked room in the cafeteria and not accounted for on a daily basis. These inconsistencies and the fact that numerous people had a key to this room made it impossible to maintain accuracy.

Action: I will meet with the sponsor and the new SOP will be consistent that any inventory taken from the school store sent to the cafeteria for sale will be returned daily with an account of what was taken and what was returned.

Expenditures/Prior Approval: There were expenditures made prior to written approval.

Action: The identified individuals will have the opportunity to sit down and have a one-on-one conversation with administration to revisit the SOP and the expectation of Tate High School and Escambia County School District. Mrs. Archer and I will continue to meet with club sponsors and athletic coaches annually to educate them on the proper process of the SOP pertaining to prior approval and requisitions.

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