Brentwood Elementary School

Audit of School Internal Accounts

For the Year Ended June 30, 2018

Office of Internal Auditing

August 2018

David J. Bryant, CPA, CIA, CFE, CGFM, CRMA

Director – Internal Auditing

Audit Team:

Brad Mostert, CFE

Senior Auditor

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 Brentwood Elementary 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.

Office of Internal Auditing
Escambia County School District
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Executive Summary

Brentwood Elementary School received a full audit for the 2017-2018 fiscal year.

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 2017-2018 fiscal year, Brentwood Elementary School received a full audit. This report documents the results of the audit.

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 record unrecorded interest for the school's CD.
- To correct the improper posting of the Compass purchasing card rebate to the General account.

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

Our testing resulted in 6 audit findings.

Our testing resulted in 6 audit findings:

- Purchases were made without prior written approval.
- There was no evidence of receipt of goods verification on items shipped to the school.
- Credit card statements were not signed by the principal, indicating review and verification of the reconciliations.
- Fundraiser Request/Reconciliation (FRR) Forms were not properly completed.
- The Fundraising Log Sheet was not utilized.
- The Monthly Log Report was not properly maintained.

The school's overall fund balance as of June 30, 2018 was $22,252.07.

The overall fund balance reported by the school at June 30, 2018 was $22,252.07. 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 accounts were processed in accordance with 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.

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 2017-2018 fiscal year, Brentwood Elementary School received a full audit.

Outside support organizations are <u>not</u> included in this report

Outside support organizations (school booster clubs and parent teacher associations) affiliated with this school that operate independent of a

and are <u>not</u> audited by our office.

school's internal accounts **<u>are not included</u>** in this report and **<u>are not audited</u>** by the Office of Internal Auditing.

Brentwood Elementary School last received a full audit in the 2015-2016 fiscal year. There were 5 matters that rose to the level of audit findings. There were findings related to the improper accounting for book fair receipts, various issues with the L2121 Accounts Payable account, petty cash funds not being maintained properly, documentation of evidence of receipt of goods, and the proper completion of Monies Collected Forms (MCFs), which were determined to be addressed adequately during a subsequent follow-up audit.

The bookkeeper retired in January and was replaced in the same month.

The school has had the same principal in place since the previous audit. The school's previous bookkeeper retired on January 11, 2018, and was replaced in the same month.

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, 2018. 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

No known conflicts of interest were identified.

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.**

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 Brentwood Elementary School 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.

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

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, 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, 7/1/2017	$	18,751.26
Total Receipts		28,912.00
Total Disbursements		(15,662.62)
Total Net Journal Entries		(9,748.57)
Ending Cash Balance, 6/30/2018	$	22,252.07
Audit Adjustments		-
Ending Fund Balance, 6/30/2018, Per Skyward	$	22,252.07
Cash Balance per Confirmation(s)	$	22,112.42
Outstanding Deposits		-
Outstanding Checks		-
Other Reconciling Items		139.65
Ending Fund Balance, 6/30/2018, Per Confirmation(s)	$	22,252.07

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 record unrecorded interest related to the investment account, we recommended a journal entry be processed for $9.52.
- To correct the improper posting of the Compass credit card rebate, we recommended a journal entry be processed for $157.59.

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 check requests.

	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.
One finding related to lack of evidence of receipt of goods.	*Evidence of Receipt of Goods* Our testing indicated invoices/packing slips used as supporting documentation for expenditures did not include evidence indicating receipt of goods. This evidence would include a signature (or initials) indicating verification of the quantity of the items ordered, and a date indicating when the goods were received. This is a repeat audit finding from 2013-2014 and 2015-2016. The Internal Funds Policy Manual gives specific guidelines regarding documentation for expenditures. Section VIII, D of the Manual states, "When the items purchased are received, the goods should be checked to ensure the items are correct and not damaged. The person receiving the items should initial and date the receiving slip or invoice to document their review and that all items ordered were received." See our recommendation in the Recommendations section below.
One finding related to principal's failing to sign credit card statements.	*Regions Credit Card Statements – Proper Procedures* Our testing indicated that credit card statements were not completed properly. The credit card statements were not signed by the principal, indicating review and verification of the reconciliations. Effective November 1, 2017, the District changed the IA Pcard from BBVA Compass Bank to Regions Bank and implemented new procedures. See our recommendation in the Recommendations section below.
One finding related to improper completion of the FRR forms.	*Fundraiser Request/Reconciliation Forms – Proper Completion* Our testing indicated that fundraising activities tested had FRR forms that were not completed properly. This is a repeat audit finding from 2013-2014. Chapter 8 Section III, 4.4 of the State Board of Education Rules states all

fundraisers shall be planned to finance a specific objective and have the approval of the organization sponsor and the principal. In addition, the principal shall maintain control over the activity. The requirements of the rule are met through the proper completion of the Fundraising Request/Reconciliation Form.

The Fundraising Guidelines Handbook approved by the School Board explains the use of the Fundraising Request/Reconciliation Form. The Handbook states, "Completing Section I of this form will document the authorization of the fundraiser…At the conclusion of your fundraiser, complete Section II of the Fundraising Request/Reconciliation Form…Review school internal funds reports to verify accuracy of postings to your account…Evaluate the success of your fundraising activity."

See our recommendation in the Recommendations section below.

One finding related to lack of utilizing the Fundraiser Log Sheet.

Fundraiser Log Sheet
A Fundraiser Log Sheet was not made available for audit.

Effective with the 2016-17 school year, the District implemented utilizing the Fundraising Log Sheet to document all fundraising activity and identify the occurrence of exempted events. The log is to be available for audit purposes.

See our recommendation in the Recommendations section below.

One finding related to the improper completion of the Monthly Log Report.

Monthly Log Report – Proper Completion
Our testing indicated the Monthly Log Report was not properly completed as evidence of the teachers/sponsors receiving a monthly general ledger printout (account ledger report) of their account activity.

This is a repeat finding from 2013-2014.

The Internal Funds Policy Manual provides specific guidelines to be followed for the receipt of monies. As an internal control, at the end of each month, the secretary/bookkeeper is to provide a general ledger of each account to the account sponsors. These reports give the opportunity for those remitting monies to review their accounts on a timely basis for any discrepancies or posting errors. As evidence of this procedure, the account sponsor is to initial a Monthly Log Report.

See our recommendation in the Recommendations section below.

Amounts in the NSF account were carryovers from previous years.

Other Comments

A1117 NSF/Returned Checks Account Balance

Our testing indicated that all items included in the year-end A117 NSF/Returned Checks account balance were not current. Items were still present from as far back as the 2014-2015 fiscal year.

The Internal Funds Policy Manual gives specific guidelines to be followed for the NSF account. Section VII, D (1) states, "If all efforts have been made to collect restitution for a returned check and all attempts have been successful, the check will need to be written off as a bad debt…"

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

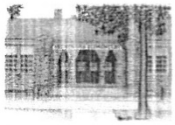
Review and instruct staff on

Prior Written Approval

In an effort to address purchases made prior to receiving written approval

policies and procedures related to prior written approval for expenditures.	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 policies and procedures related to evidence required to indicate receipt of goods.	<u>Receipt of Goods</u> In an effort to address the proper evidence of receipt of goods, **we recommend the principal and bookkeeper review the Internal Funds Policy Manual and instruct staff on the proper procedure of documenting receipt of goods.**
Review procedures related to Regions credit card statements.	<u>Regions Credit Card Statements</u> In an effort to ensure that proper procedures are followed regarding Regions credit card statements, **we recommend the principal and bookkeeper review the instructions distributed by the District for proper procedures related to Regions credit card statements.**
Review and instruct staff on policies and procedures related to fundraising activities.	<u>Fundraising Request/Reconciliation Forms</u> In an effort to address the lack of properly completed Fundraising Request/Reconciliation forms, **we recommend the principal and bookkeeper review the Internal Funds Policy Manual and instruct staff on the policies and procedures associated with fundraising activities.**
Review and instruct staff on policies and procedures related to the Fundraiser Log Sheet.	<u>Fundraiser Log Sheet</u> In an effort to address the lack of documenting fundraising activities (and availability for audit), **we recommend the principal and the bookkeeper review the Internal Funds Policy Manual's rules regarding the utilization and maintenance of a Fundraiser Log Sheet.**
Review and instruct staff on policies and procedures related to the Monthly Log Report.	<u>Monthly Log Report</u> In an effort to address the improper completion of the Monthly Log Report, **we recommend the principal and bookkeeper review the Internal Funds Policy Manual and instruct staff on the proper procedures related to the Monthly Log Report.**
Seek assistance from District personnel in writing off old uncollectible amounts.	<u>Other</u> *A1117 NSF/Returned Checks Account Balance* In an effort to properly address the outstanding returned checks from prior years, **we recommend the bookkeeper seek assistance, and permission, from District personnel to write off old uncollectible items.**
	In lieu of a follow-up on these recommendations, we will perform an interim audit approximately 90 days after issuance of the draft report to school administration.

Management Response



"Excellence! No Excuses!!"

Brentwood Elementary School

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Jennifer Sewell	Sarah McKamie	Quinn Evans
Principal	Secretary	Assistant Principal

Dear Mr. Bryant,

October 29, 2018

After reviewing the Internal Accounts Manual, meeting with Ms. Kiker, and speaking with my School Secretary, I have determined there was unintended negligence. After Ms. Kiker reviewed each of the findings, I have addressed each finding with my new school secretary and she has made notes and admitted that she did not understand the appropriate procedures regarding the 5 findings but understood now and would make those corrections going forward.

2017-18 Findings/Solutions

1. **Prior Written Approval for Purchases:** Secretary recognizes that all approvals for purchases must be in advance and has made that adjustment. After reading the Internal Accounts Manual, the secretary has communicated this process to the staff through a faculty meeting to make sure everyone is aware of this step process and will continue to monitor this process closely in the future.

2. **Expenditures: Evidence of receipt of goods -** No one person was verifying receipt of all goods and signing off on receipt; therefor, not all purchases had evidence of receipt of goods. After reading the Internal Accounts Manual, the secretary will receive all goods herself, review contents for correctness and sign off on receipt that all goods are correct and received.

3. **Internal Funds Credit Card Purchases: Principal's Signature and Reconciliation uploaded to Skyward -** Secretary overlooked the Principal Signature and the Uploading to Skyward step when completing credit card statements. After reading the Internal Accounts Manual, the secretary will make sure the Principal signs each statement and that each statement is reconciled and properly uploaded into Skyward.

4. **Fundraising Activities: Properly completed Fundraising Form-** Secretary recognizes that she did not completely make sure all fundraiser forms were completely filled out. After reading the Internal Accounts Manual, the secretary will verify that the purpose for the fundraiser, the Principal's signature, and section II is fully completed on the fundraiser from.

5. **Fundraiser Log Sheet: Missing Fundraising Log Sheet** – Secretary recognizes that she could not locate a fundraiser log sheet at the end of the year for audit purposes. After reading the Internal Accounts Manual, the secretary will utilize the fundraiser log to document all fundraising activity.

6. **Monthly Log Report: Account Sponsors Reviewing Account Activity** – Account sponsors failed to initiate the Monthly Log Report as evidence of their review of their account's activity for all months. The secretary failed to review the Monthly Log Reports to ensure completeness. After reading the Internal Accounts Manual, the secretary will have each account sponsor review and sign the Monthly Log Report that they have reviewed their account every month.

Management Response

Brentwood Elementary School is committed to properly monitoring and processing all financial responsibilities throughout the year and will ensure that appropriate adjustments are made accurately in the future.

Sincerely,

Jennifer Sewell

P.T. 10/29/18

OIA DJB 11/2/18