Washoe County School District

Internal Audit Department

# Annual Charter School Performance Monitoring Follow-Up

## Bailey Charter Elementary School

April 10, 2024

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## Background

In accordance with Nevada Revised Statute (NRS) 388A.351, the Internal Audit Department (Department) participated in the annual monitoring review activities of Bailey Charter Elementary School. Our review resulted in reporting four internal control deficiencies contained within the schools audited financial statements for fiscal year ended June 30, 2023[1].

Generally, a *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Here, the deficiencies concerned general accounting practices and fiscal management as follows:

1. Board of Directors Oversight – Responding to a prior year audit finding, the school represented it would establish a Finance Committee. This did not occur and thus was a finding (*Significant Deficiency*).
2. Expenditure Substantiation – Certain credit card charges did not have adequate supporting documentation (*Material Weakness*).
3. Potential Conflicts of Interest – School management did not have an adequate system in place to ensure that conflict-of-interest relationships are appropriately disclosed and managed. Specifically, procedures were not sufficient to ensure that the Board provided oversight of contracts with, and payments to relatives of school management (the principal's spouse and daughter) (*Material Weakness*).
4. Segregation of Duties – Not all expense reports submitted by the principal were subject to appropriate review and approval as the principal signed the related reimbursement checks issued to herself. The person requisitioning goods or services should not be the same person who approves the purchase (*Significant Deficiency*).

[1] See Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

At the February 27, 2024 regular meeting of the Board of Trustees, the Board requested the Internal Audit Department follow-up on the sufficiency of the corrective actions taken on the above items by the school and report back to the Board at a regular meeting in April 2024.

## Methodology and Report Format

School management is responsible for taking actions to address audit findings. The Internal Audit Department evaluates and reports on the adequacy of management's efforts taken to address the identified issues. Some points to consider regarding management actions are as follows:

- Some corrective actions may take considerable time to fully implement; and
- For some audit findings, management may decide to assume a risk rather than try to mitigate it. If, in management's judgement, the benefits of corrective actions do not outweigh the implementation costs, this may be a reasonable approach. However, if in the judgment of Internal Audit, this approach would subject the school to increased risk, we would report such to the Board of Trustees.

To prepare this report, we met with the school's principal and finance manager to evaluate the actions taken to remedy each of the four deficiencies. This report contains the original finding, recommendation, management response, and the status of each issue. For purposes of reporting the status of each audit finding we use the following terminology:

- Fully Remediated – Signifies the recommendation has been completely implemented, either as described in the report or in a manner that resolves the underlying issue.
- Partially Remediated – Reflects the department has taken steps to implement the recommendation, is in process of implementing, and intends to fully implement the recommendation.
- No Action – This status is reported when a department has not taken any steps to implement the recommendation.
- No Longer Applicable – Refers to a set of facts where operational circumstances have changed, and implementation of the recommendation is either no longer feasible or reasonable.

## Conclusion

The significance of the findings reported in the recent audited financial statements have been discussed in detail between the Department and the school's management. Overall, we found the school has taken significant steps the last two years pertaining to fiscal management. The school has installed a new principal, hired a finance manager, and recruited new board members. Although not all of these findings can be considered *Fully Remediated* at this time, in our opinion, the school has taken significant steps to correct the reported internal control deficiencies. The corrective action taken by the school to address each item is detailed below.

## Status of the Four Audit Findings

## Item #1: Board of Directors Oversight – No Finance Committee Established

Finding Details: In response to a prior year finding, it was represented that a Finance Committee would be established, but no such committee was formed prior to June 30, 2023. Several internal control conditions were reported this year that may have been avoided with increased involvement and oversight by the Board.

Recommendation: The Board implement their planned corrective action from the prior year finding to establish a Finance Committee.

Management Response: Bailey Charter Elementary School concurred with the audit findings recommendation to implement corrective action related to establishing a Finance Committee.

Status: **Fully Remediated**

Discussions with the Principal and Finance Manager and a review of recent meeting minutes revealed the school has established a Finance Committee (Committee) as recommended. The Committee includes the Board Treasurer, the Board President, the Finance Manager, and the school principal. The Committee is led by the Board Treasurer and its purpose is to support school leadership and focus on the oversight of financial operations. Committee meetings have been held on December 18, 2023, February 28, 2024, and the next meeting is scheduled for May 7, 2024. Based upon the above, this item is considered Fully Remediated.

## Item #2: Expenditure Substantiation

Finding Details: The School did not have adequate information to support allowability and determine the correct expense accounts for certain credit card charges. The cause of the condition appeared to be resulting from the former principal opening the credit card accounts using the School's name and her personal social security number. When that principal separated from the School, it was represented only she had on-line access to the credit card statements and would not provide them to current management.

Recommendation: The School should open a credit card account with the Board ensuring the account is only linked to the School's employer

identification number. It was also recommended that employees making credit card purchases be required to submit all receipts, and that the monthly credit card statements are reconciled to receipts.

Management Response: The School concurred with the audit finding recommendation and is in the process of securing a new credit card for purchases from a new bank which is linked to the School's employer identification number. Authorized staff to purchase with the new credit card will also submit receipts for purchases which will then be routinely reconciled.

Status: **Partially Remediated**

Discussions with the Principal and Finance Manager revealed the School is still in the process of obtaining a new credit card. Currently, all expenditures are managed via issuing checks or processing payments online. Additionally, the School has created new financial policies addressing proper payment procedures. However, the proposed Financial Policies are still in draft form and plan to be presented at the upcoming Finance Committee meeting scheduled in May 2024 and a subsequent Board meeting for approval. As a result, this item is considered Partially Remediated.

## Item #3: Potential Conflicts of Interest

Finding Details: School management did not have an adequate system in place to ensure that conflict of interest relationships are appropriately disclosed and managed. Specifically, contracts, invoices, and expense reports of individuals related to the principal were not subject to appropriate review and approval.

Recommendation: The Board should establish a system to ensure that conflict of interest relationships are appropriately disclosed and to provide adequate oversight of contracts with, and payments to, relatives of school personnel. Additionally, segregation of duties controls should be implemented to ensure that School staff are not responsible for reviewing and approving invoices or expense reports for payments to their related parties.

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| Management Response: | A system will be put in place where any and all independent contractors to be hired will be placed as a board agenda item for approval. Additionally, if a conflict of interest exists regarding reimbursement or payment (i.e. to a relative of the Principal or Leadership staff), he/she will require that the Board President sign the reimbursement check, and/or the travel request will be submitted prior to traveling. |
| Status: | **Partially Remediated**<br>Discussions with the Principal and Finance Manager and a review of newly drafted school policies revealed the School has created new financial policies addressing proper payment procedures. Additionally, the school is creating a Conflict of Interest disclosure form to be signed by all employees identified as potentially having conflicts of interest within the school's operations. However, the proposed Financial Policies are still in draft form and plan to be presented at the school's upcoming Finance Committee meeting scheduled in May 2024 and then a subsequent Board meeting for approval. As these policies remain in draft form, this item is considered Partially Remediated. |

## Item #4: Segregation of Duties

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| Finding Details: | Not all expense reports submitted by the School principal were subject to appropriate review and approval, and the principal signed the related reimbursement checks issued to herself. |
| Recommendation: | Management should improve segregation of duties controls to ensure that the person who requisitions or purchases goods or services is not the same person who approves the purchase. Also, checks issued to the principal should be supported by documentation signed by a Board member evidencing their review and approval of payment. |
| Current Management Response: | Bailey Charter Elementary School is a very small school with an even smaller staff who share multiple duties and responsibilities. While in favor of having a Board member signing-off on such reimbursement requests, it may require Board members to be more actively involved, when signatures are required. The Finance Committee will need to meet to best practices related to reimbursements. |

Status:

**Partially Remediated**

Discussions with the Principal and Finance Manager and a review of newly drafted school policies revealed the School has created new financial policies addressing proper payment procedures which include safeguarding against situations where the individual requisitioning or purchasing goods/services is also approving the purchases. We also examined seven checks written to the principal and spouse and found the checks were properly signed by the Boad President (instead of the principal). However, the proposed Financial Policies are still in draft form and plan to be presented at the school's upcoming Finance Committee meeting scheduled in May 2024 and then a subsequent Board meeting for approval. As these policies remain in draft form, this item is considered Partially Remediated.