


THE SCHOOL DISTRICT OF ESCAMBIA COUNTY

**OFFICE OF INTERNAL AUDITING
EXECUTIVE SUMMARY
FOR
BOARD AGENDA**

BOARD MEETING DATE: January 20, 2015	ITEM NUMBER: V.E. 2. C.
AGENDA REFERENCE: Submission of the Internal Accounts Audit of N. B. Cook Elementary.	
BACKGROUND INFORMATION: Each year, we audit the internal accounts of the schools. As part of this process, a percentage of schools (a representative sample) receive audits with full procedures, with the remaining schools receiving audits with limited procedures. Audits receiving full procedures are presented to the Board individually. Audits receiving limited procedures are included in the District-wide report. All audited schools are then combined into a District-wide audit report on schools internal accounts. These audits are being presented to the Board for their review and entry into the minutes as required in SBR 6A-1.087. These audits have been presented to and accepted by the Audit Committee, a standing committee of the Board. Due to significant deficiencies, as noted in the report, we were unable to render an opinion on the school's overall compliance with established policies and procedures nor the accuracy of the school's individual accounts or the school's financial position as a whole.	
EDUCATIONAL IMPACT: Students, parents and the public expect appropriate accounting of District funds and assurances the District has established effective internal controls for the various operations throughout the District.	
FISCAL IMPACT: Timely audits and reviews promote accountability.	
FUND SOURCE: N/A	
RECOMMENDATION: Acceptance of the audit or review.	
ACTION REQUIRED: Board acceptance of the audit or review report and filing as a public record.	
STRATEGIC ALIGNMENT: Goal 5: Increase public support and awareness for the value of the teaching profession and public education. Objective 5.1: Increase public credibility and confidence in Escambia County School District. Goal 7: Utilize existing resources to their maximum potential.	
SUBMITTED BY: 	DATE:
David J. Bryant, Director Office of Internal Auditing	January 6, 2015
LEGAL REFERENCE: Florida Statutes 1001.42 (10) (I), State Board Rule 6A-1.087, School Board Policy 6Gx17-5.05	



"Making a Positive Difference"

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INTERNAL AUDITOR'S REPORT N.B. COOK ELEMENTARY SCHOOL SCHOOL INTERNAL ACCOUNTS

To the Escambia County District School Board
and Malcolm Thomas – Superintendent
Pensacola, Florida

EXECUTIVE SUMMARY

We have completed our audit of the internal accounts of N.B. Cook Elementary School. Our audit included examining, on a test basis, supporting documentation for various transactions of the school's internal accounts. Our audit also included independent confirmation of financial information and interviews with District personnel.

During our audit we noted significant deficiencies in various internal control processes. We noted the following deficiencies during our testing of various transactions: 1) Improper completion of Request for Purchase forms, 2) Failure to obtain and document prior approval before purchases were made, 3) Failure to document receipt of goods (verification of quantity), 4) Failure to obtain the Superintendent's approval for a purchase > \$7,500, 5) Improper completion of Request Purchase Utilizing Purchasing Card forms, 6) Failure to make deposits timely, 7) Failure to have copies of donation request letters available for audit, 8) Improper completion of Fundraiser Request/Reconciliation Reports, 9) Lack of documentation to determine propriety of journal entries, and 10) Failure to utilize budgeted funds prior to using internal funds.

While we are confident the school failed to comply with various governing provisions of State Board of Education rules and policies and procedures of the School Board, given the deficiencies noted above, and further detailed in this report, we are unable to determine the extent of the non-compliance and are unable to quantify the effect on the individual accounts at the school and the school's financial position as a whole. **Therefore, we do not render an opinion on the school's overall compliance with established policies and procedures nor the accuracy of the school's individual accounts or the school's financial position as a whole.**

DETAILED RESULTS

Background

State Board of Education Rule 6A-1.087 states that the School Board is responsible for the administration and control of schools' 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 N.B. Cook Elementary School as of and for the fiscal year ended June 30, 2014.

The principal transferred to N.B. Cook Elementary during the beginning of the 2011-2012 school year and was the principal at another school for several years. The secretary has been in her position for 5-10 years and has had numerous opportunities over the years to receive training from both District personnel and Internal Auditing staff. Both have experience in dealing with internal funds.

Purpose

Internal accounts are the responsibility of the principal of that school. Our responsibility is to express an opinion on the compliance of the transactions included in the accounts with the governing provisions of State Board of Education rules and policies and procedures of the School Board, and to determine if the schools' financial records reconcile with corresponding bank statements and independent bank confirmations.

Scope

The audit involved conducting a comprehensive evaluation of the school's management of their internal accounts for the 2013-2014 year. We planned and performed our audit to obtain reasonable assurance that transactions were made in accordance with applicable policies and laws.

The beginning fund balance for the school was \$49,614. The ending fund balance, as reported by the school, was \$49,786. This total is comprised of the individual balances of 43 accounts. During the fiscal year, school personnel processed hundreds of receipt and disbursement transactions. Total reported receipt transactions were \$99,246, total reported disbursement transactions were \$79,749, and total reported journal entry transactions (which included credit card purchases) were \$19,325. Our audit included examining these transactions, on a test basis.

Our audit also included independent confirmation of financial information and interviews with school personnel. During our evaluation, we assessed the adequacy and effectiveness of the school's system of internal controls and the quality of performance in carrying out assigned responsibilities. We believe our audit is designed to provide a reasonable basis for our opinion.

Testing Results

Expenditures

- Improperly Completed RFP
 - 36.7% of disbursements tested indicated an incomplete Request for Purchase (RFP) form. The following issues were indicated:
 - Account name and/or number to be charged was missing. For these instances, it appears the appropriate account was charged.
 - Sponsor signature was missing.

- Failure to Obtain Prior Written Approval
 - 20% of disbursements tested and 19.05% of credit card purchases tested indicated issues with the approval process as follows:

- Purchases were made prior to obtaining written approval.
 - Approved amount was missing.
 - RFP form not utilized.
- Lack of Receipt of Goods Evidence
45% of expenditures tested where goods were delivered to the school did not include evidence indicating receipt of goods (verification of quantity). Initial/date was missing from either the packing slip or the invoice.
 - Failure to Obtain Superintendent's Approval
Purchases were made to update the sound system of the school. The various purchases totaled \$18,389.00, and as such, required the Superintendent's approval as documented on the *Approval of Expenditure from Internal Funds form*. This form was not utilized as required.
 - Improperly Completed Card Credit Approval form
Thirteen credit card transactions tested did not include a properly completed Request Purchase Utilizing Purchasing Card (RPCard) form. The specifics are as follows:
 - 28.57% of credit card transactions tested did not include the account name and number to be charged on the RPCard form. For these instances, it appears the appropriate account was charged.
 - 33.33% of credit card transactions tested did not include the cardholder's signature authorizing the secretary to use the card.

Receipts/Deposits

- Deposit Timeliness
52.2% of deposits tested were not made in a timely manner. All instances were timeliness issues of the secretary depositing the collections to the bank.

Donation Request Letters

- Copies Not Available
Three of 5 field trips tested did not have a donation request letter available for audit; as such, we could not confirm that they contained the proper language as required.

Fundraisers

- Improperly Completed Fundraiser Request/Reconciliation form
Two of 5 fundraisers randomly selected and tested did not comply with the rules prescribed for fundraising activities by having a properly completed Fundraiser Request/Reconciliation (FRR) form. The following issues were indicated:
 - Principal's authorization signature and date were missing.
 - A FRR form was not utilized for Relay for Life.

Journal Entries

- **Lack of Propriety Evidence**

40% of journal entries tested had supporting documentation that did not indicate the account name/number to be charged. For these instances, it appears an appropriate account was charged.

Note: We removed 19 journal entries from our sample of 34 that were a "void" or deemed a "wash." Numerous "correcting" journal entries could indicate a need for additional training or other issues.

Budgeted Funds vs Internal Accounts

- **Utilization of Budgeted Funds**

The ending District budgeted funds balance on June 30, 2014 was \$2,005 as indicated on the School Cost Center Report, project #01080. A review of the G7000 General account indicated approximately \$1,161 in expenses were made when District budgeted funds were available to defray a portion of these costs. This total includes budgeted items that had a remaining balance at year end. (Note: This is a repeat finding from 2008-09.)

Conclusions

There appears to be significant deficiencies in various internal control processes. The principal's and preparer's signatures attest to the accuracy of all reports. A principal and the school's secretary/bookkeeper work in a "trust environment". It appears the secretary failed to develop effective work methods and procedures in order to perform her duties and ensure complete and accurate financial records. It appears the principal relied upon the secretary's experience, and in doing so, did not provide adequate oversight and failed to verify the accuracy of the accounting records.

During the exit conference for this audit, the Principal stated his concerns for the status of the school's accounting records. He stated the secretary was away from her desk/work for lengths of time due to assisting with coverage of the front lobby and managing personal issues. The Principal also stated the secretary has many years of experience and helps other staff members as often as she can, and as such, her focus is often diverted from her own duties and responsibilities.

Disbursement policies state that no disbursement shall be made without the prior written approval of the Principal or his designated representative (or Superintendent for purchases > \$7,500) and identifying the proper account to be charged. Failure to follow proper procedures related to purchases, such as properly completing a RFP form, obtaining prior written approval, obtaining the Superintendent's approval for purchases > \$7,500, and properly completing a RCard form may hold the school and the District liable for payment for a purchase which might not have been approved had the proper procedures been followed. In addition, failure to include the account name and number of the account to be charged could result in expenditures being recorded to an incorrect account or cause an account to be overdrawn. As such, we are unable to determine if all

expenditures were recorded to the proper account or the accuracy of the individual account balances.

All goods shipped to the school are required to be checked to ensure the items are correct and not damaged. Failure to sign the packing slip or invoice as evidence of receipt of goods could result in disbursing a check for damaged goods or goods not received.

State Board of Education rules states funds collected must be deposited within five (5) working days after receipt. Failure to deposit funds in a timely manner increases the risk of money being lost or stolen. Reliance on financial statement reporting can be impaired due to uncertainty of whether transactions are being recorded in the proper accounting period/year. As such, we are unable to determine if all funds were deposited or the accuracy of the individual account balances.

Schools are authorized to solicit donations from parents and the general public to supplement the normal curricular activities provided by the District. It should be made clear that such solicitations are strictly voluntary and no student will be prevented from participating in an activity if their parents choose not to contribute. Failure to retain copies of donation request letters results in copies not being available for audit; thereby, proper language cannot be confirmed. In addition, the Principal stated he does not review all donation letters if it is for a field trip similar to a previous year. Failure to review donation letters could result in letters sent home to parents which no longer include the proper language.

State Board of Education rules regarding fundraisers cannot be met without proper completion of the Fundraising Request/Reconciliation Form. Completing of the FRR form helps to ensure that fundraising activities are approved and the internal accounts associated with a fundraiser are effectively managed. Failure to follow proper procedures increases the risk that physical assets (cash and/or fundraiser items) could be lost due to waste, abuse, mismanagement, errors and fraud.

All transactions included in the school's account records should include adequate supporting documentation. Journal entries are processed to transfer monies from one account to another and should have evidence of propriety. Failure to have supporting documentation increases the risk of transferring funds to an incorrect account. As such, we are unable to determine the accuracy of the individual account balances.

State Board of Education rules states certain expenditures from internal funds are deemed inappropriate for which school board funds are available. Failure to utilize available budgeted funds to defray a portion of costs for certain expenditures reduces the amount of internal accounts available for other intended purposes.

Two of the findings noted above (prior written approval and deposit timeliness) were also noted in the 2010-2011 internal accounts audit. Those findings were reviewed with the principal and

secretary during the audit exit conference on October 4, 2011. In addition, proper language not included in donation letters was also an audit finding in 2010-2011. Although not a repeat finding, this area was discussed at the audit exit conference, which included emphasizing that donation letters must be available for audit. Both the principal and secretary attended that audit exit conference.

The finding related to budgeted funds was also noted in the 2008-2009 internal accounts audit. That finding was discussed during the audit exit conference on October 15, 2009. The secretary and a previous principal attended that audit exit conference.

The school reported a reconciled ending cash balance of \$49,786 (excluding balance of NSF/Returned checks). We were able to confirm independently with the school's financial institution this reconciled amount. The cash balance is comprised of the individual balances of 43 accounts. We are unable to determine the accuracy of the individual accounts. We are unable to determine if the school's records accurately reflect all transactions. As such, we cannot determine if the ending cash balance is accurate, or if it is overstated or understated due to the discrepancies noted above.

While we are confident the school failed to comply with various governing provisions of State Board of Education rules and policies and procedures of the School Board, given the deficiencies noted above, we are unable to determine the extent of the non-compliance and are unable to quantify the effect on the individual accounts at the school and the school's financial position as a whole. **Therefore, we do not render an opinion on the school's overall compliance with established policies and procedures nor the accuracy of the school's individual accounts or the school's financial position as a whole.**

Recommendations

Although the discrepancies noted above could be the result of malfeasance, it appears they are likely the result of the failure to follow established policies and procedures to ensure complete and accurate financial records.

We recommend both the principal and secretary review the relevant State Board of Education rules and policies and procedures established the School Board. Additional training should be requested if necessary.

We recommend staff training with school personnel to ensure proper methodologies as it relates to expenditures are communicated and understood.

We recommend the secretary ensure collections remitted to her are taken to the bank in a timely manner. This may involve going to the bank more than once a week.

We recommend staff training with school personnel to ensure proper methodologies as it relates to donation request letters are communicated and understood. In addition, we recommend the principal review all donation request letters prior to their being sent home to parents to ensure they contain the proper language. Copies should be retained and available for audit.

We recommend staff training with school personnel, as well as volunteers assisting with fundraising activities, to ensure proper methodologies related to fundraisers are communicated and understood.

We recommend the principal ensure budgeted funds are utilized prior to using internal funds.

We recommend the secretary ensure journal entries include documentation to support propriety.

We recommend the refocusing of the secretary's duties/priorities to more closely align with those responsibilities outlined in her job description, which include developing effective work methods and procedures, better planning, and greater organization of financial records.

We recommend an interim year audit be performed in early 2015 to determine the effectiveness of any corrective actions taken.

Statement on Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditing.



David J. Bryant, Director
Office of Internal Auditing

November 21, 2014

AUDIT TEAM

Michèle Kiker, Senior Auditor
Michael Davis, Auditing Intern



N. B. COOK ELEMENTARY
SCHOOL OF THE ARTS
 ARTS BASED ON ACADEMICS

TROY BROWN
 PRINCIPAL
 JENNIFER COLLINS
 ASSISTANT PRINCIPAL

To: David Bryant
 Director of Internal Auditing
 From: Troy Brown
 Principal, NB Cook Elementary
 Date: December 15, 2014
 RE: Internal Audit Findings

TB JMC 12/14/14

NB Cook's audit for fiscal year 13-14 was received and included several findings. Findings from this audit were reviewed with senior auditor Michele Kiker and principal Troy Brown. After reviewing the rules and policies and procedures established by the school board, the school will strive to correct all findings beginning immediately. The principal, assistant principal, and secretary will ensure the school staff is properly trained in all areas of findings dealing with staff money collecting, expenditure requests, field trip procedures, and fundraising procedures.

Audit findings will be corrected as follows:

DISBURSEMENT - PROPERLY COMPLETED RFP

RFP forms will not be processed unless filled out completely. Account names and number/signature need to be on the RFP for a proper audit trail.

PRIOR WRITTEN APPROVAL

RFP will be placed in a folder for the principal to review each day. No purchases will be made until the folder is returned and reviewed for all correct and complete information.

RECEIPT OF GOODS

A stamp marked RECEIVED has been purchased with lines for initials and date. Two people have been designated to receive all goods. Once they check items delivered, paperwork will be given to secretary and she will add her signature and date.

FAILURE TO OBTAIN SUPERINTENDENT'S APPROVAL

The school will make sure approval is acquired before any large purchases are made, even purchases made into multiple orders. (see principal letter for details regarding this finding)

CREDIT CARD APPROVAL FORM

In the future, all requests for purchases using a credit card will be place in a folder for the principal to review each day. No purchases will be made until the folder is returned and reviewed for all correct information, including the account name and number; correct amount; the cardholder's signature authorizing to assign someone else to make the purchase by phone or internet. Any purchases made with a credit card will be logged into the PCard Log book requiring the cardholder to sign out the card, what is being purchased and sign the card back in as soon as the purchase is made. No other person will be able to use the card except the cardholder.

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RECEIVED

DEC 19 2014

OFFICE OF INTERNAL AUDITING
 ESCAMBIA COUNTY SCHOOL DISTRICT



N. B. COOK ELEMENTARY
SCHOOL OF THE ARTS
ARTS BASED ON ACADEMICS

TROY BROWN
PRINCIPAL
JENNIFER COLLINS
ASSISTANT PRINCIPAL

TIMELINESS OF DEPOSITS

In the future, all deposits will be made on Moudays, Wednesdays, and Fridays when needed.

DONATION LETTER

The district's standardized letter will be used for all field trips beginning January 1, 2015. Teachers will turn them in to the principal for review before being sent home and a copy must be given to the secretary for audit purposes.

FUNDRAISING ACTIVITIES

Fundraiser Request/Reconciliation forms will be properly completed for all future fundraising efforts. After reviewing the rules and procedures with district personnel, the secretary has a better understanding for what is required for the FRR form. The secretary along with the principal will check for proper completion.

SUPPORTING DOCUMENTATION FOR JOURNAL ENTRIES

All refunds will require the teacher to bring their copy of the MCF in order to make a copy for attachment to the refund. Disbursements will not be accepted unless they include documentation including a detailed description. All journal entries will also include the account number and name to be charged.

BUDGETED FUNDS vs INTERNAL ACCOUNTS

The secretary met with Denise Patterson on how to correct this finding. The F-6255 account, which had not been set up in Skyward, was added and instructions were given in the process of requesting refunds from the basic district budget to replace any internal funds expended prior to budget approval.

CK

DJB

12/19/14

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