



OFFICE OF INTERNAL AUDITING

**ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
SCHOOL INTERNAL ACCOUNTS**

**STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS &
TRANSFERS**

FOR THE YEAR ENDED JUNE 30, 2006

October 9, 2006



"Making a Positive Difference"

Office of Internal Auditing

David J. Bryant, CPA
Director

Michèle A. Kiker
Auditor

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INTERNAL AUDITOR'S REPORT SCHOOL INTERNAL ACCOUNTS

To the Escambia County District School Board
and Jim Paul – Superintendent
Pensacola, Florida

We have audited the internal school accounts of Escambia County District School Board for the year ended June 30, 2006, for all schools listed in the table of contents. These accounts are included as agency funds in the School Board's annual financial reports. These accounts and the annual financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the compliance of the transactions included in the accounts with the governing provisions of Florida Statutes, 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. We conducted our audit in accordance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditing.

The purpose of our audit was to conduct a comprehensive evaluation of the schools' management of their internal accounts. We planned and performed our audit to obtain reasonable assurance that transactions were made in accordance with applicable policies and laws. Our audit included examining, on a test basis, transactions of schools' internal accounts. Our audit also included independent confirmation of financial information and interviews with District 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 provides a reasonable basis for our opinion.

In our opinion, the transactions included in the schools' internal accounts were generally consistent with applicable Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. In addition, we determined the schools' financial records reconcile with bank statements and independent bank confirmations.

During our audit, we became aware of matters that present opportunities for strengthening internal controls, increasing operating efficiencies, and assuring compliance with applicable laws, rules, regulations, policies and/or procedures. These matters are communicated in our Management Letter, which has been provided to the Superintendent.

October 9, 2006

SCHOOL DISTRICT OF ESCAMBIA COUNTY
SCHOOL INTERNAL ACCOUNTS - ALL SCHOOLS & SPECIAL CENTERS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND TRANSFERS
FOR THE YEAR ENDED JUNE 30, 2006

	AUDITED BEGINNING BALANCE 7/1/2005	RECEIPTS	DISBURSEMENTS	TRANSFERS	AUDIT ADJUSTMENT(S)	AUDITED ENDING BALANCE 6/30/2006
A. ATHLETICS	\$ 366,432.55	\$ 1,119,420.22	\$ 1,119,031.43	\$ 1,911.28	\$ -	\$ 368,732.62
B. MUSIC	52,591.09	367,332.78	357,061.27	2,508.33	(648.22)	64,722.71
C. CLASSES	305,535.63	1,441,742.87	1,432,584.48	28,283.04	(177.76)	342,799.30
D. CLUBS	170,162.79	700,087.13	691,630.54	(2,308.78)	(141.26)	176,169.34
E. DEPARTMENTS	304,394.89	783,236.04	778,901.28	(3,101.78)	-	305,627.87
F. TRUST	814,978.33	2,394,705.78	2,279,657.67	(39,499.36)	2,987.61	893,514.69
G. GENERAL	844,658.00	596,061.97	636,047.20	12,207.27	(2,174.21)	814,705.83
TOTAL ALL FUNDS	\$ 2,858,753.28	\$ 7,402,586.79	\$ 7,294,913.87	\$ -	\$ (153.84)	\$ 2,966,272.36

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD**COMBINED - ELEMENTARY SCHOOLS****STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND TRANSFERS
FOR THE YEAR ENDED JUNE 30, 2006**

	AUDITED BEGINNING BALANCE 7/1/2005	RECEIPTS	DISBURSEMENTS	TRANSFERS	AUDIT ADJUSTMENT(S)	AUDITED ENDING BALANCE 6/30/2006
A. ATHLETICS	\$ 2,403.77	\$ 10,124.93	\$ 8,869.45	\$ -	\$ -	\$ 3,659.25
B. MUSIC	5,514.04	6,981.76	6,309.63	35.76	-	6,221.93
C. CLASSES	62,442.14	194,746.59	185,499.27	(2,189.24)	-	69,500.22
D. CLUBS	5,595.62	13,691.01	13,951.89	1,795.14	-	7,129.88
E. DEPARTMENTS	102,589.30	216,279.42	222,789.98	(7.63)	-	96,071.11
F. TRUST	353,321.02	945,649.07	939,943.07	(23,287.33)	4,646.90	340,386.59
G. GENERAL	398,825.34	322,175.28	369,235.26	23,653.30	(4,646.90)	370,771.76
TOTAL ALL FUNDS	\$ 930,691.23	\$ 1,709,648.06	\$ 1,746,598.55	\$ -	\$ -	\$ 893,740.74

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
COMBINED - SECONDARY SCHOOLS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND TRANSFERS
FOR THE YEAR ENDED JUNE 30, 2006

	AUDITED BEGINNING BALANCE 7/1/2005*	RECEIPTS	DISBURSEMENTS	TRANSFERS	AUDIT ADJUSTMENT(S)	AUDITED ENDING BALANCE 6/30/2006
A. ATHLETICS	\$ 364,028.78	\$ 1,109,295.29	\$ 1,110,161.98	\$ 1,911.28	\$ -	\$ 365,073.37
B. MUSIC	47,077.05	360,351.02	350,751.64	2,472.57	(648.22)	58,500.78
C. CLASSES	222,438.05	1,217,197.75	1,221,047.68	30,901.50	(177.76)	249,311.86
D. CLUBS	158,341.37	686,088.62	677,407.73	(3,997.25)	(141.26)	162,883.75
E. DEPARTMENTS	172,618.99	472,707.10	461,033.92	(4,575.59)	-	179,716.58
F. TRUST	406,489.50	897,902.88	787,250.32	(15,969.57)	(1,659.29)	499,513.20
G. GENERAL	396,821.13	231,947.41	229,200.25	(10,742.94)	2,472.69	391,298.04
TOTAL ALL FUNDS	\$ 1,767,814.87	\$ 4,975,490.07	\$ 4,836,853.52	\$ -	\$ (153.84)	\$ 1,906,297.58

* Beginning balances adjusted for minor reclassifications made by Finance Department at 06/30/2005.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
COMBINED - SPECIAL CENTERS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND TRANSFERS
FOR THE YEAR ENDED JUNE 30, 2006

	AUDITED BEGINNING BALANCE 7/1/2005	RECEIPTS	DISBURSEMENTS	TRANSFERS	AUDIT ADJUSTMENT(S)	AUDITED ENDING BALANCE 6/30/2006
A. ATHLETICS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
B. MUSIC	-	-	-	-	-	-
C. CLASSES	20,655.44	29,798.53	26,037.53	(429.22)	-	23,987.22
D. CLUBS	6,225.80	307.50	270.92	(106.67)	-	6,155.71
E. DEPARTMENTS	29,186.60	94,249.52	95,077.38	1,481.44	-	29,840.18
F. TRUST	55,167.81	551,153.83	552,464.28	(242.46)	-	53,614.90
G. GENERAL	49,011.53	41,939.28	37,611.69	(703.09)	-	52,636.03
TOTAL ALL FUNDS	\$ 160,247.18	\$ 717,448.66	\$ 711,461.80	\$ -	\$ -	\$ 166,234.04

**ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
SCHOOL INTERNAL ACCOUNTS
NOTES ON INTERNAL ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity - The Escambia County District School Board school internal accounts are comprised of the individual account balances of 61 public schools and centers located within Escambia County, Florida. These schools and centers are governed by the Escambia County District School Board. The School Board consists of five elected members, representing five geographical districts in Escambia County, Florida. The Superintendent of Schools is elected by the voters of Escambia County, Florida and serves as the executive officer of the School Board.

Fund Accounting - In accordance with Florida Statutes, school internal funds are accounted for as an agency fund. This fund is organized into sub-funds that represent the individual schools and centers within the District. Each sub-fund is divided into seven classifications: Athletics, Music, Classes, Clubs, Departments, Trusts, and General. Not all schools utilize all classifications.

Recognition - At the individual school level, school internal accounts recognize revenue and expenditures using the cash basis of accounting. At year-end, the accounts are adjusted to accrual basis for inclusion in the District's annual financial report. Given students are released in late May, and almost all revenue and expenditures in the school internal accounts are generated from student activity, there is usually no material accounts payable or receivable as of the fiscal year ended June 30. Any material accounts payable or receivable is the result of activity between the individual schools and the District. The net payable to the District from school internal accounts was \$100,350.81 and \$29,614.84, for the years ended June 30, 2005 and 2006, respectively.

Note 2 - Segregation of Duties

Each school or center employs only one individual responsible for the handling of transactions related to internal accounts. The District has established internal controls to help ensure assets are not lost due to waste, abuse, mismanagement, errors or fraud. In prior audit years, it was noted that these internal controls did not appear adequate. In the past few years, the District has taken steps to increase the awareness of the need for segregation of duties. Established controls include pre-numbered documents, transaction logs, required authorizations, timely reconciliations, continued monitoring at multiple levels and increased timeliness of audits. These controls appear sufficient to mitigate concern over segregation of duties.

Note 3 - Audited Beginning Balances

On July 1, 2005, the District implemented a new software program for recording the transactions of internal accounts at the school level. This implementation required the input of each schools' individual account balances in the various classifications. District personnel used this opportunity to correct account misclassifications. Accounts appearing under one classification as of June 30, 2005, may appear under a different classification as of July 1, 2005. Actual account balances did not change, only the classification.



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**MANAGEMENT LETTER
SCHOOL INTERNAL ACCOUNTS**

To The Escambia County District School Board
and Jim Paul – Superintendent
Pensacola, Florida

We have audited the internal school accounts of The Escambia County District School Board for the year ended June 30, 2006, and have issued our report thereon dated October 9, 2006. We conducted our audit in accordance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditing.

In planning and performing our audit of the schools' management of their internal accounts for the year ended June 30, 2006, we considered the School Board's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on whether transactions were made in accordance with applicable Florida Statutes, State Board of Education rules and policies and procedures established by the Escambia County District School Board and District personnel, not to provide assurance on internal controls.

During our audit, we became aware of matters that present opportunities for strengthening internal controls, increasing operating efficiencies, and assuring compliance with applicable laws, rules, regulations, policies and/or procedures. We feel these matters have risen to the level where it is necessary to bring them to management's attention. We will review the status of these comments during our next audit of the schools' internal accounts. We have discussed some of these comments with various school-based personnel during the performance of our audit and would be pleased to discuss them with you at any time. Our comments are attached.

October 9, 2006

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PREFACE TO AUDIT COMMENTS

The internal accounts of the schools in the Escambia County School District are governed by Chapter 7 of the State Board of Education Rules (Chapter 7), Florida Statutes, School Board policy, and various policies and procedures established by the operating management of the District. These policies and procedures are comprehensive and appear adequate. Much of these governing policies are incorporated into the Escambia County School District Internal Funds Procedures Manual (Procedures Manual). A copy of this manual is provided by operating management to all secretaries and school finance specialists who are responsible for school internal accounts.

During the course of our audit, we became aware of instances where school-based personnel may not have fully adhered to the established policies and procedures; however, except for one school, none of the instances of noncompliance were significant enough at the individual school level to warrant an audit finding at the school.

The comments included in this letter represent instances of noncompliance, when considered collectively, we feel warrant comment. Therefore, we felt it necessary to inform executive management of what we feel may represent potential "District-wide" concerns. Although the majority of the issues have been addressed in the existing governing policies and procedures, we feel management should reiterate these policies and procedures to the school-based personnel. Additionally, we have included comments in the letter on established policies and procedures that should be clarified or updated by management.

Management has agreed to reiterate to school-based personnel the policies and procedures discussed in the letter. In addition, management has indicated they will increase the training provided to secretaries and school finance specialists. Issues included in this letter should be discussed in those training sessions. We feel these actions should be sufficient to address our concerns included in this letter.

As this is the first District-wide report on school internal accounts issued by the Office of Internal Auditing, we chose to address our comments at the District-wide level. In future years, our concerns will be addressed at the individual school level, with only instances of significant noncompliance being included in our District-wide comments to executive management.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
AUDIT OF SCHOOL INTERNAL ACCOUNTS
For the Year Ended June 30, 2006

Comment No. 1: Idle Funds & Bank Service Charges

Of the 23 schools receiving full audit procedures, twenty-two schools (95.65%) appear to have idle funds in their checking account. Idle funds are defined as funds that are not anticipated to be expended within a reasonable period or funds that are in excess of daily requirements.

As stated on Page 2-2 of the Procedures Manual, “While it is possible to achieve a competitive interest rate on your checking account funds, this is extremely rare. Thus, it is advisable to place any funds that are in excess of daily requirements into savings accounts or certificates of deposits (CDs).”

Chapter 7 requires that idle funds be invested “in order to earn the maximum possible yield under the circumstances.”

It was also noted during the audit that some schools were paying what appeared to be high monthly service charges. In a few instances, the service charges were in excess of the amount of interest earned. These service charges appear to be in addition to charges for returned checks, check ordering fees and/or account adjustments. Although bank service charges are sometimes unavoidable, many banks now have accounts that do not have monthly service charges.

Comment No. 2: Worthless “Returned Checks” Accounts

Of the 23 schools receiving full audit procedures, fifteen schools (65.21%) ended the year with a balance in their “Returned Checks” account. It appears that these accounts may contain uncollectible checks. Although the account balances are minor, if the accounts contain checks that are uncollectible, the accounts to which the checks were originally received may be overstated.

Discussions with Secretaries and Bookkeepers indicated that they often encountered difficulties

in collecting worthless checks and the process was tedious and time consuming.

The District does not have an established policy requiring schools to use check collection services. These services have a high collection success rate and are usually available at no cost to the school or District. Some schools currently take advantage of such services.

Comment No. 3: Timeliness of Bank Reconciliations

Of the 23 schools receiving full audit procedures, nine schools (39.13%) had at least one month where the bank reconciliation was not completed within the District established timeline.

Four of the nine schools (17.39% of the total schools tested) had more than one instance of not completing the bank reconciliation within the District established timeline.

In addition, the June 30, 2006 bank reconciliation for ten schools (43.47%) contained outstanding checks greater than 90 days old. Although the amounts of the checks are not material to schools’ cash balances, accounts could be understated if the checks are no longer valid.

Chapter 7 requires bank statements to be reconciled as soon as received. In addition, Page 3-4 of the Procedures Manual requires bank reconciliations to be performed on a monthly basis. This reconciliation process includes resolution of old outstanding checks.

Comment No. 4: Handling of Voided and Skipped Checks

Of the 23 schools receiving full audit procedures, ten schools (43.47%) had instances where voided and skipped checks were not properly defaced and/or signature lines were not removed. It was noted that checks were occasionally stored in with boxes of old records and have the potential to be misused.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
AUDIT OF SCHOOL INTERNAL ACCOUNTS
For the Year Ended June 30, 2006

Page 1-5 of the Procedures Manual requires spoiled checks to “be marked VOID...and the signature line should be cut out.”

Comment No. 5: Lack of Prior Approval for Purchases

Of the 23 schools receiving full audit procedures, sixteen schools (69.56%) had multiple instances where proper procedures were not followed to ensure the prior approval of purchases made from internal funds.

The majority of these instances were the result of the failure to complete a Request for Purchase form or completing the form after the purchase had been made.

Chapter 7 states all purchases from internal funds must be authorized in writing by the Principal or designee. Page 1-7 of the Procedures Manual outlines the policy to ensure prior authorization. It states, “A Request for Purchase/Purchase Order form should be completed for all expenditures. Expenditures exceeding \$100.00 require a MAS generated purchase order to be completed and approved by the Principal prior to obligating internal funds.”

Comment No. 6: Lack of Documentation for Purchases

Of the 23 schools receiving full audit procedures, ten schools (43.47%) had disbursements that lacked significant documentation or back up in the form of an invoice or other supporting documentation. At these ten schools, lack of documentation ranged from 3.30% to 30.00% of disbursements reviewed.

Page 1-7 of the Procedures Manual states, “All internal fund expenditures must be supported by documentation such as vendor invoices, cash receipts, or other receipts. No disbursement should be made unless the invoice supporting that payment has been certified as correct by the person receiving the merchandise or service.”

Comment No. 7: Use of Internal Funds when Budgeted Funds are Available

Of the 23 schools receiving full audit procedures, nineteen (82.60%) had a percentage of their District budget unspent. The percentage unspent ranged from .15% to 50.71%.

A review of the purchases made from internal accounts throughout the year at these schools indicated a significant amount of items were purchased from internal accounts when budgeted funds were available for use. Total purchases for which budgeted funds may have been used ranged at each school from approximately \$200 to \$3,000.

Chapter 7 deems purchases from internal funds for “equipment, supplies, forms, postage, repairs and maintenance and other items for which school board funds are available” inappropriate and “shall not be made.”

Comment No. 8: General Fund Expenditures

During the course of the audits of schools receiving full procedures, we reviewed the expenditures made from the General Fund. This review indicated what appears to be a general lack of understanding of what purchases might be charged to the General Fund.

Chapter 7 states, “Those internal account funds designated for general purposes shall be used to benefit the student body. This category encompasses all other accounts for funds which are to be utilized for the general welfare of the student body.”

Therefore, purchases for individual class groups or purchases for faculty members may not be charged to the General Fund. District guidelines provide for minimal exceptions, such as promotion and public relations expenditures.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
AUDIT OF SCHOOL INTERNAL ACCOUNTS
For the Year Ended June 30, 2006

Comment No. 9: Issues related to Sales Tax

Of the 23 schools receiving full audit procedures, twelve schools (52.17%) were noted as having issues related to sales tax.

In general, with the exception of purchases from the faculty account and items purchased for resale, school internal fund expenditures are exempt from payment of sales tax. Most schools that have purchases requiring the payment of sales tax are doing so in a consistent manner. Occasionally, schools not normally affected by sales tax concerns are required to pay sales tax.

The rules developed by the Florida Department of Revenue are cumbersome and numerous. Generally, items purchased for resale such as t-shirts, school store supplies, fund-raising items, etc... are subject to Florida sales tax. A reminder as to when to pay sales tax would be beneficial to those schools that rarely are required to address the issue. A list of common school expenditures that are exempt from sales tax should also be included.

Comment No. 10: Reimbursements in Excess of Established Limits

Of the 23 schools receiving full audit procedures, seven schools (30.43%) made reimbursements to employees in excess of District established limits.

The current policy, contained in Page 1-5 of the Procedures Manual, states, "School staff can be reimbursed for items they purchase with personal funds...Such reimbursements, except travel, cannot exceed \$50.00."

It appears the District has allowed authorized exceptions to this policy, but has never officially amended the policy. Officially documenting the policy change would give schools more flexibility in the purchasing of necessary school supplies.

Comment No. 11: Proper Completion of Monies Collected Forms

Of the 23 schools receiving full audit procedures, twenty-one schools (91.30%) had instances where Monies Collected Forms attached to receipts were not properly completed. The number of occurrences ranged from 6.70% to 50.00% of receipts tested.

Examples of the problems include: failure of the sponsor to date the form, failure of the sponsor to denote method of payment (i.e. cash or check), changes to the form by the secretary or bookkeeper without evidence of the consent of the sponsor and/or failure of the sponsor to remit the funds to the secretary or bookkeeper in a timely manner.

Chapter 7 and the Procedures Manual give thorough guidance on the collection of funds by sponsors via properly completed Monies Collected Forms that are remitted to the secretary or bookkeeper in a timely manner.

It should be noted, these infractions are usually the result of the sponsor's actions or inactions. The secretary or bookkeeper usually is the recipient of the form, not the maker.

Comment No. 12: De Minimus Collections

While performing the audits of the 23 schools receiving full audit procedures, we noted schools were documenting minor individual collections on Monies Collected Forms.

Page 1-4 of the Procedures Manual states, "The MCF must list the names and amounts received from each payor." It appears the District policies requiring the documentation of individual collections, as it relates to minor amounts, may be unnecessarily cumbersome to sponsors and in most cases serve no feasible purpose. Such is the case as it relates to the use of Monies Collected Forms for minor collection amounts. Examples include the collection of \$1.00 dance tickets or \$.75 book fair items.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
AUDIT OF SCHOOL INTERNAL ACCOUNTS
For the Year Ended June 30, 2006

Although documenting individual collections serves a role in the collection process, it appears in some instances the policy inhibits the flow of the activity. For example, the requirement to document each individual person sold a \$1.00 dance ticket does not seem the most efficient method of documenting collection.

It appears the District has allowed exceptions to receipt guidelines for de minimus collections, but has never officially amended the policy to reflect allowable exceptions.

Comment No. 13: Control of Fund Raising Activities

Of the 23 schools receiving full audit procedures, ten schools (43.47%) had instances where Fundraising Reconciliation/Requests Forms were not properly completed, including instances where fund raising activities commenced prior to obtaining approval from the Principal or established designee. In addition, a financial reconciliation of the activity for the fundraiser was not always completed.

Chapter 7 requires that each fund raising activity shall be planned, be approved and be controlled. The District has further detailed requirements as they relate to fund raising in the Fund Raising Guidelines Handbook. This handbook provides in-depth guidance on fundraisers and the completion of the Fundraising Request/Reconciliation Form.

Comment No. 14: Proper Language for Donation Letters

Significant amounts of funds are raised each year by the schools from donations made by parents and other family members. These donations are used to offset the costs associated with field trips, educational enhancements, supplies, etc... These donations are usually solicited via "donation" letters sent home with students.

Of the 23 schools receiving full audit procedures, eight schools (34.78%) were noted

as having donation letters that did not contain the proper language as it relates to the requirement to donate and the actions for failing to donate.

District guidance, Attorney General and Department of Education Opinions have addressed the solicitation of donations. This guidance indicated that students may not be charged a fee for materials and related class activities. In addition, students may not be prohibited from participating due to their lack of or inability to donate.

Comment No. 15: Raffles and Games of Chance

We attended football games at all eight high schools. We noted that raffles or "50/50" games were being conducted by school-based groups (i.e. SGA or cheerleaders) at two (25.00%) of the schools.

Chapter 7 states, "Raffles and other activities of chance shall not be conducted for school connected activities."

The District has taken great effort to provide schools guidance on permissible fundraising activities. The District has published and provided to all schools a Fundraising Guidelines Manual. Pages 4 and 10 of the Manual specifically prohibit conducting raffles or "50/50" split games of chance.

Comment No. 16: Password Changes

Of the 23 schools receiving full audit procedures, we noted 20 school secretaries or bookkeepers (86.95%) indicated that they never or rarely change the password to access their internal accounts software.

Periodic changing of passwords reduces the possibility that someone other than the secretary or bookkeeper could log on to the accounting software and gain access to sensitive financial or personnel data.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD
AUDIT OF SCHOOL INTERNAL ACCOUNTS
For the Year Ended June 30, 2006

It should be noted, after the date of this report, but prior to its issuance, the District enacted the password change function of the internal accounts software, which requires users to change their passwords every 90 days.

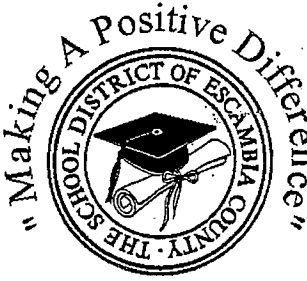
Comment No. 17: Deficit Account Balances

Of the 23 schools receiving full audit procedures, we noted that 10 of the schools (43.47%) had accounts with negative balances as of June 30, 2006. Eight of the ten schools had more than one account with a negative balance.

Although some instances exist where temporary deficit balances may be acceptable, such as travel advances, sound business practice dictates debts should not be incurred for which funds are not available.

Chapter 7 states, "At no time shall a trust account have a deficit." The Procedures Manual further explains on Page 1-13, "Do not incur obligations for which funds are not available..."

Management's Repsonse



Memorandum

To: David J. Bryant, Director
Internal Auditing

From: Gloria Johnson,
Director Accounting Operations *Gloria Johnson*

Date: April 5, 2007

Subject: 2005-2006 School Internal Accounts Audit

The following is our response to the School Internal Accounts Audit for the fiscal year ended June 30, 2006.

We appreciate the opportunity to respond to your comments and for the effort of your department to complete the required audit procedures necessary in a timely fashion for the external auditors.

In response to the audit report draft for the 2005-2006 school internal accounts audit, the district sent a memo out to all school principals, secondary bookkeepers, and elementary secretaries on December 4, 2006, which addressed each of the comments included in the audit report. Schools were reminded they should be following the applicable policies and procedures as follows:

Issue: Schools are not always investing idle funds and may not have the most economical type of checking account for their individual needs.

Schools are responsible for managing their bank accounts (checking, certificate of deposits, etc.) in the most efficient manner. At least once a year, schools should review their cash flow needs and invest any idle funds in one of the following approved investment accounts: certificate of deposit, savings, or money market account. These investments are easy to obtain and do not require long term commitments.

Schools also should be aware of the various types of checking accounts available and determine which account best suits the schools needs. When deciding on the type of account, consider the following issues: quantity of checks and deposits made each month, average number of NSF checks received, average balance that will be retained, location of bank (including bank branches), and past experience with service.

Issue: NSF checks that appear to be uncollectible remain on the schools books.

At the end of each year, the NSF account (M-4500.000) should be reconciled. For any check that is determined to be uncollectible, permission should be requested (via memo from the principal) to write off the bad debt.

Schools are encouraged to use check collection services for NSF checks. There are many companies who will take over the collection process for NSF checks and simply write a check to the school each month for the checks that were successfully collected. These services are often available at no cost to the school.

Issue: Bank reconciliations are not always completed timely.

Bank reconciliations should be completed by the end of the month following the month being reconciled (i.e., October reconciliation should be done prior to November 30). If a school needs help, they can contact the district office and someone will assist them. The completed reconciliation should be reviewed and signed by the principal. A copy of the reconciliation, the bank statement, and the month end reports should then be sent to the Internal Auditing Department.

Issue: Voided checks were not always properly defaced.

The word "void" should be written across the check and the signature line should either be cut out or thoroughly marked out.

Issue: Disbursement policies (regarding prior approval, documentation, allowable use of funds, payment of sales tax, etc.) were not always followed.

Documentation & Approval

All disbursements require a Request For Purchase/Purchase Order form (RFP) to be completed and signed by the requester and the principal. If a disbursement is over \$100, a purchase order is also required. The purpose of the PO is to encumber the funds in Schoolbooks. If both the RFP and PO are used, the principal is only required to sign one or the other to document prior approval of the purchase.

The Superintendent's prior approval is required for disbursements (other than fundraising items that will be resold) of \$7,500 or more. Anything over \$25,000 must have the School Board's approval and be properly bid.

All disbursements must be adequately documented with invoices, receipts, statements, etc.

Allowable Expenditures

Items that relate to the basic educational process (i.e., textbooks, classroom supplies, desks, computers, etc.) and the general operation of the school (i.e., office supplies,

custodial supplies, office equipment, etc.) should be provided using budgeted funds. Internal funds are to be used for extra-curricular items or to augment programs provided by the district. Once all budgeted funds have been used, then internal funds general fund can be used.

The general fund is to be used for items that will "benefit the current student body as a whole" and not only certain students. For example, the cost of a motivational speaker to come in and speak to all students would be an allowable use of general funds. However, the cost of a speaker to come and speak to a specific class or grade would not be allowable. Schools are permitted to allocate a portion of the general fund monies to groups (such as grade levels) provided that the allocation is an equal amount for everyone. For example, a principal can decide to allocate \$500 to each grade level for the school year. An account is set up for each grade and \$500 is moved from the G-7000 account to the various grade levels. Grades spend the money as needed throughout the year. Unused money at the end of the year is transferred back into the G-7000 account.

Sales Tax

Items purchased using internal funds are generally tax exempt. However, there are some exceptions. The following items are taxable:

- Purchases made from the faculty fund
- Items purchased for resale (fundraiser items, food, etc.)
- Items rented (such as uniforms, instruments, etc.)
- Items where students are paying for the item, but the school will make the purchase on the student's behalf (i.e., club jersey's, uniforms, cap & gowns, etc.) where ownership of the item remains with the student
- Items to be sold in the school store
- Items sold at a bookfair

The following items are commonly questioned items that are NOT taxable:

- Yearbooks
- Workbooks
- Instructional Material
- Uniforms paid for by the school where ownership remains with the school
- Admission to school sponsored events (even if a DJ is used)

If sales tax is required, the easiest way is to pay the vendor sales tax at the time the items are purchased. If tax is not paid at that time, the school will have to collect sales tax at the time of sale and remit the sales tax to the Department of Revenue.

Reimbursement Limits

Schools are encouraged to use purchasing cards and school checks for purchases whenever possible. To reduce the risk of unauthorized purchases and payment of

sales tax for items that should be exempt (when purchased by the school directly), reimbursements of purchases (staff member buys an item and then asks to be reimbursed) should be limited to small amount items. With the exception of teacher lead money items, sales tax paid by an employee may not be reimbursed because the tax would not have been required had the school made the purchase directly. The internal funds procedures manual states that school staff can be reimbursed for purchases made with their personal funds provided the purchase (except for travel) does not exceed \$50. Over the years, this procedure has been informally modified allowing exceptions to the \$50 limit to be approved by the principal before the purchase is made. However, the exceptions and modifications have never been properly documented. Without documentation of allowable exceptions, these items must be considered non-compliance issues by the auditors. This memo serves as notice of the principal's ability to approve necessary exceptions to the \$50 reimbursement limit. When the policies and procedures are formally updated, a change to this limit will be considered.

Issue: Monies collected forms are not always completed properly.

A monies collected form (MCF) is to be completed whenever money is collected. The person collecting the money completes the MCF including the following information: purpose of the collection, name of person collecting the money, account number where the money should be posted to, name and amount for each person who gave the money, indication of whether the money received was cash or check, and the total collected. The person should then sign and date the form. The MCF and the money are then given to the bookkeeper or secretary who counts the money and signs and dates the form documenting receipt of the money.

For checks received in the mail (i.e., donations, commissions, etc.), a MCF is not required provided the check stub or remittance is retained for documentation.

If collection amounts are very small and will not require proof of payment by the person making the payment, then the individual names and amounts are not required. A lump sum amount can be used. For example, if a teacher is collecting pennies for a charity drive or collecting \$1 admission at the door for a dance, each student name and amount contributed is not necessary. The MCF can show a lump sum total collected. However, this only applies if there is no need for knowing how much each person gave (i.e., not refundable, no need to document who has paid and who hasn't, etc.).

Issue: Fundraising guidelines were not always followed.

Schools are reminded to review the district's Fundraising Guidelines Manual before beginning any fundraising activity. All fundraising rules should be followed.

As your report stated the district enacted the password change function of the internal accounts software, which requires users to change their passwords every 90 days. The district has begun providing monthly training sessions for the use of internal funds software and is working on providing sessions which will incorporate continuing education on policies and procedures. We are hoping to provide additional resources

to update policy providing clearer guidelines, train the bookkeepers and field bookkeeper questions.

Bookkeepers have been notified that any future non-compliance issues will be addressed in the school's individual audit report. The district establishes internal account policies and procedures and provides training. It is the school's responsibility to adhere to the adopted policies and procedures.

If we can be of any further assistance, please let us know.