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INTERNAL AUDITOR'S REPORT R.C. LIPSCOMB 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 R.C. Lipscomb 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.

It should be noted that the current principal was not promoted to that role until July 2012. As such, she did not have oversight responsibilities for the transactions and corresponding records for the period audited, July 1, 2011 through June 30, 2012.

During our audit we noted significant deficiencies in various internal control processes. We noted the following deficiencies during our testing of various transactions: 1) No evidence of approval for disbursement transactions, 2) Lack of supporting documentation for disbursement transactions, 3) Failure to post transactions to the accounting software in a timely manner and/or in the proper reporting period, 4) Missing, incomplete and/or inaccurate receipt documentation, 5) Deposit composition discrepancies, and 6) Failure to make deposits within required timeframes.

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 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 R.C. Lipscomb Elementary as of and for the fiscal year ended June 30, 2012.

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 2011-2012 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 \$77,968. The ending fund balance, as reported by the school, was \$59,838. This total is comprised of the individual balances of approximately 60 accounts. During the fiscal year, school personnel processed hundreds of receipt and disbursement transactions. Total reported receipt transactions were \$106,188, and total reported disbursement transactions were \$124,318. Our audit included examining, on a test basis, these transactions.

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

Disbursements

- Approval

31.4% of transactions tested included various issues related with proper approval. These issues include failure to document approval through use of the required authorization form or any other approval document, or failure to properly complete the form with required information, such as purchase amount, approval signatures, and/or approval date. We noted 34% of credit card purchases tested did not include the required authorization form or any other approval document.

- Invoice

22.9% of transactions tested did not have a supporting invoice/receipt or the invoice/receipt was incomplete. In these instances, no third-party documentation was provided to document what was purchased. We noted 29% of credit card purchases tested did not include a supporting invoice/receipt documenting what was purchased.

- Posting

We noted in at least four months of credit card purchases tested, the purchases during the month were not posted to the individual accounts until up to six weeks later, thereby failing to include all activity in the accounts and overstating the account balances for financial reporting purposes. June credit card purchases were not recorded prior to the closing of the fiscal year. As such, the overall fund balance, and all associated individual accounts are overstated by a total of \$2,431.27.

Receipts

- Documentation

31.4% of transactions tested included various issues related to documenting the collection. These issues include failure to document the collection through use of the required monies collected form or any other receipt document, un-initialed alterations to completed forms, and/or lack of signatures attesting to the accuracy of the collection.

- Deposit Composition Discrepancies

44.1% of deposits tested indicated discrepancies between the composition of cash and checks collected per the supporting documentation to the composition of the cash and checks per the deposit slip, which could indicate personal check cashing, check for cash substitution, or improperly completed monies collected forms. We noted significant composition discrepancies between supporting documentation and deposit slips, ranging from \$20 to \$518, for collections related to the book fair.

- Deposit Timeliness

12% of deposits tested indicated deposits were not made in a timely manner, with one collection being held by the secretary for twenty days prior to deposit.

Conclusions

There appears to be significant deficiencies in various internal control processes. 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. In addition, it does not appear the principal was adequately trained to recognize the deficiencies and determine the appropriate corrective actions.

Failure to secure approval for disbursements could result in improper or unauthorized purchases being made, which may or may not be charged to the correct accounts. As such, we were unable to determine the accuracy of individual accounts.

Missing receipts/invoices could result in personal, improper, or incorrect purchases being made. We were unable to determine the propriety of the purchases or if the purchases were charged to the correct accounts. As such, we were unable to determine the accuracy of the individual account balances.

Failure to record transactions in the proper reporting period results in the overstatement of the overall fund balance, as well as the individual accounts to which these transactions should have been posted. As such, we were unable to determine the accuracy of the individual accounts balances.

Failure to properly complete monies collected forms could result in receipts being posted to incorrect accounts. Alterations, changes, and missing information on monies collected forms, especially after remittance to the secretary, could result in missing funds and/or posting to incorrect accounts. As such, we were unable to determine the accuracy of the individual account balances.

Failure to deposit funds in a timely manner or in the form in which it was collected could result in a failure to deposit all funds as a result of loss or a potential check for cash substitution scheme. As such, we are unable to determine if all funds were deposited or the accuracy of the individual account balances.

Several of the findings noted above were also noted in the 2010-2011 internal accounts audit. In addition, the findings were reviewed with the prior principal and secretary during the previous year audit exit conference on October 6, 2011.

The school reported a reconciled ending cash balance of \$59,838. 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 approximately 60 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 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 better organization of records by the school secretary.

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 staff training with the school personnel to ensure proper methodologies are communicated and understood.

We recommend an interim year audit be performed in early 2013 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.

A handwritten signature in black ink that reads "David J. Bryant". The signature is written in a cursive style with a horizontal line extending from the end of the name.

David J. Bryant, Director
Office of Internal Auditing

September 28, 2012

AUDIT TEAM

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