



# District-Wide Report of School Internal Accounts

*For the year ended June 30, 2016*

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Office of Internal Auditing  
December 2016

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*Director – Internal Auditing*

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**Michèle A. Kiker, CFE, CGAP, CRMA**  
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## Preface

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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 District operational 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.



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## Executive Summary

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We have audited the internal accounts of the Escambia County School District's (the District) schools for the year ended June 30, 2016. 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 District management.

Based on a rotating audit schedule, each year District schools receive either a "full" audit (including extensive testing of transactions), 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). Once all audits are complete, the financial information for all schools is then combined and presented in this report. In addition, compliance matters which were noted at numerous individual schools are summarized and communicated in the Detailed Results section below.

As of June 30, 2015, the 50 schools' internal accounts totaled \$2.80 million. During the fiscal year, \$7.72 million in net receipts were received and \$7.38 million in adjusted disbursements (disbursements plus net journal entries) were made, which resulted in an ending balance as of June 30, 2016 of \$3.14 million.

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.

We determined the internal controls established by the District appear comprehensive, adequate, and effective. During our audit, we did become aware of matters that present opportunities for strengthening internal controls, increasing operating efficiencies, and/or 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. The matters are discussed in the Detailed Results section below.

There were four schools audited that had widespread, varied, and material instances of non-compliance. These schools also had significant discrepancies in the L2121 Accounts Payable account. We consider the financial information at the account-level at these schools to be unreliable. While the account-level financial information at these schools is considered unreliable, the overall fund balances were considered accurate. There were also three additional schools that did not receive

“full” audits this year that had debit balances in their Accounts Payable account. We have made the District aware of these additional schools, and at the time of this report, the extent of the discrepancies is unknown.

We have discussed some of the audit results with various school-based and District-level personnel during the performance of our audits. We recommend District management continue to provide training and assistance to secretaries and school finance specialists, including training related to matters discussed in the Detailed Results section below.

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 during the subsequent school year.

## Background

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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, our office audits these internal accounts, based on authority granted in accordance with Florida State Board of Education Rule 6A-1.087 and the Charter for the Office of Internal Auditing.

These accounts are comprised of the individual account balances of 50 public schools and centers located within Escambia County, Florida. These schools and centers are governed by the Escambia County School District’s School Board, which consists of five elected members, representing five geographical districts in the county. The Superintendent of Schools is elected by the voters of the county, and serves as the executive officer of the School Board.

In accordance with Florida Statutes, school internal accounts 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.

At the individual school level, internal accounts recognize revenue and expenditures using the cash basis of accounting. At year-end, the accounts are adjusted to the accrual basis for inclusion in the District's annual financial report. Given that students are released in late May, and almost all revenue and expenditures in internal accounts are generated from student activity, there are usually no material accounts payable or receivable as of the fiscal year ended June 30.

Any material accounts payable or receivable are the result of activity between the individual schools and the District. The net payable to the District from school internal accounts was \$8,617.60 and \$17,407.34 for the years ended June 30, 2015 and 2016, respectively.

The internal accounts of the schools in the District are governed by Chapter 8 of the State Board of Education Rules (Chapter 8), Florida Statutes, School Board policy, and various policies and procedures established by the operating management of the District.

Much of the governing policies are incorporated into the Manual. A copy of the Manual is made available to operating management and to secretaries and school finance specialists who are responsible for school internal accounts.

Outside support organizations (school booster clubs and parent teacher associations) affiliated with the District's schools that operate independent of a school's internal accounts **are not included** in this report and **are not audited** by the Office of Internal Auditing. It is estimated that approximately \$3 million flows through outside support organizations annually, which would otherwise flow through school internal accounts.

In addition, the activity of charter schools, which are separate not-for-profit corporations each with a separate board of directors, does not flow through District school internal accounts. As such, their financial activity, which was approximately \$7.5 million for the fiscal year ended June 30, 2016, **is not included** in this report and **is not audited** by the Office of Internal Auditing. Audits of the charter schools' financial statements are conducted by other independent certified public accountants.

## Objective

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The purpose of this report is to compile the financial information for all 50 schools and centers in the District, and to document any compliance violations that were pervasive throughout all schools that received a "full" audit.

We believe our audits provide a reasonable basis for our opinion, findings, and recommendations.

## Scope

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State Board of Education Rule 6A-1.087 states that the 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 District's schools as of and for the fiscal year ended June 30, 2016. These accounts are the responsibility of the individual principals at each school. Oversight of these accounts and the annual financial statements are the responsibility of District management.

## Methodology

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Based on a rotating audit schedule, each year District schools receive either a "full" audit (including extensive testing of transactions), 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).

Each individual school audit consists of three phases: planning, fieldwork, and reporting. The planning phase includes steps taken by the auditor to familiarize himself or herself with the school, and to determine their approach to the audit. The fieldwork phase involves the application of testing procedures to the financial records of the school. Finally, the reporting phase consists of communicating the results of the audit to the relevant parties in an easily readable and understandable format. Each phase consists of specific steps taken to ensure an audit is done in accordance with professional standards and currently accepted practices.

## Detailed Results

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### Audit Comments

Our testing indicated that there were five matters that were significant enough to be brought to management's attention.

### *Evidence of Receipt of Goods*

Of the 25 schools that received "full" audits, six (24%) had multiple instances where 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), verifying the quantity of the items ordered, and a date, indicating when the goods were received.

This was a repeat comment from previous district-wide reports:

2013-2014 Percentage of Schools - 20.83%

2012-2013 Percentage of Schools - 33.33%

The Manual gives specific guidelines regarding documentation for expenditures. Section VIII, D 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.

#### *Monies Collected Forms*

Of the 25 schools receiving "full" audits, five (20%) had multiple instances where Monies Collected Forms (MCFs) were not properly completed.

This was a repeat comment from previous district-wide reports:

2011-2012 Percentage of Schools - 15.38%

2010-2011 Percentage of Schools - 35.21%

2009-2010 Percentage of Schools - 30.43%

The Manual gives specific guidelines to be followed for the receipt of monies. These guidelines mention specific procedures to be followed concerning indication of whether the monies were remitted in cash or check, requirements of the teacher or sponsor to sign the monies collected form, and verification by the Secretary/Bookkeeper of the monies collected and the counter signature on the forms. Section VI, B of the Manual states, "Erroneous information may be invalidated by drawing a single line through it and entering the correct information above the error and initialing the correction." Section VI, A.2 of the Internal Funds Policy Manual states "All money received by the school must be substantiated by using a Monies Collected Form (MCF) and an Official receipt."

See our recommendation in the Recommendations section below.

#### *Fundraising Activities*

Of the 25 schools receiving "full" audits, five (20%) had multiple instances where Fundraiser Request/Reconciliation forms were not completed properly, including various signatures and dates (both principal and sponsor) missing, outdated forms being utilized, and not utilizing a form

for charity drives.

This was a repeat comment from previous district-wide reports:

2013-2014 Percentage of Schools - 45.83%

2012-2013 Percentage of Schools - 22.22%

2011-2012 Percentage of Schools - 46.15%

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.

#### *Donation Request Letters*

Of the 25 schools receiving "full" audits, three (12%) had multiple instances of Donation Request Letters not containing the required language.

This was a repeat comment from previous district-wide reports:

2014-2015 Percentage of Schools - 17.65%

2013-2014 Percentage of Schools - 20.83%

2007-2008 Percentage of Schools - 18.51%

The Manual provides specific guidelines regarding donation requests. Section XIV, A of the Manual states, "No student may be charged a fee as a condition of enrollment in a class leading towards graduation." Fees and other charges may be applied to a few programs or activities as listed in the manual. In addition, Section XIV, C of the Manual states, "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. However, you may remind students and parents that the lack of donations can, and most likely will, limit or eliminate some activities later in the term when funds for the class have

been exhausted.”

See our recommendation in the Recommendations section below.

#### *L2121 Accounts Payable*

Of the 25 schools receiving “full” audits, seven (28%) had issues related to their L2121 Accounts Payable account:

- Failure to record transactions at the time of purchase
- Unexplained/Indeterminable credit balance in the account
- Failure to properly utilize the L2121 account
- Debit balances in the account

Debit balances can indicate errors, unrecorded transactions, a failure to follow District policy, or a combination of all of these. These debit balances also indicate an overall lack of financial oversight.

Additionally, an analysis of all District schools and centers indicated that there were three additional schools not receiving “full” audits this year whose L2121 account ended the year with a debit balance.

The Manual provides specific guidelines regarding credit card purchases from internal funds. Section VIII, E.2e of the Manual states, “Bookkeeper/Secretary makes the appropriate journal entry into the Skyward accounting system to record at the time of purchase using the Accounts Payable account L2121 to encumber the funds in the proper internal funds expense account.” This process is to keep account balances current and to avoid overspending.

See our recommendations in the Recommendations section below.

#### Other Matters

Our testing also indicated matters, while not serious enough to rise to the level of an audit finding, that we feel should be brought to District management’s attention.

#### *G7000 General Account Purchases*

We noted the purchase of Chromebooks and software license renewal (Renaissance Place - Accelerated Reader) payments made from internal accounts that were for large dollar amounts. Internal funds should be used to supplement activities, not to supplant District budgetary funds. Continued purchase of such items from internal accounts funding may not be sustainable, and may require District consideration for payment from budgeted funds.

See our recommendation in the Recommendations section below.

### *Credit Card Transactions*

School-level internal accounts credit card transactions number in the thousands throughout all District schools and centers. This creates a significant amount of work for secretaries and school finance specialists to record each of these transactions individually via journal entry into Skyward. Transactions made on purchasing cards for District-budgeted funds are uploaded electronically into the Skyward system. Currently, no mechanism exists for school-level internal accounts credit card transactions to be uploaded electronically or in batches.

See our recommendation in the Recommendations section below.

## Opinion

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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. During our evaluation, we also assessed the adequacy and effectiveness of the schools' system of internal controls.

In our opinion, the majority of transactions included in the schools' internal accounts where a full audit was performed 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.

There were four schools audited that had widespread, varied, and material instances of non-compliance. These schools also had discrepancies in the L2121 Accounts Payable account of an unknown extent. Consequently, we consider the financial information at the account-level at these schools to be unreliable. While the account-level financial information at these schools is considered unreliable, the overall fund balances were considered accurate.

We determined the internal controls established by the District appear comprehensive, adequate, and effective. During our audit, we did become aware of matters that present opportunities for strengthening internal controls, increasing operating efficiencies, and/or assuring compliance with applicable laws, rules, regulations, policies and/or procedures. These matters are communicated in the Detailed Results section.

## Recommendations

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The District provides specialized training throughout the year, and issues various reminders to secretaries and school finance specialists via e-mail.

**We encourage the District to continue to provide this training, and to include training specifically related to the following issues identified as findings:**

- Evidence of Receipt of Goods
- Monies Collected Forms
- Fundraising Activities
- Donation Request Letters

In addition, the District has, in prior years, provided an annual training event where all secretaries and school finance specialists receive training on various topics, including matters noted during audits. These events also allowed secretaries and school finance specialists an opportunity to network and establish mentor relationships, which can be invaluable. **We recommend the District consider re-establishing these annual training events.**

### L2121 Accounts Payable

In an effort to address the improper utilization of the L2121 Accounts Payable account, **we recommend the District continue to provide the appropriate training to secretaries and school finance specialists.**

**We also recommend that District personnel continue to work with the relevant schools and centers whose L2121 accounts have debit balances to resolve all discrepancies.**

District Policy requires this account to have a zero balance at year-end. The District has allowed schools to close the fiscal year with balances remaining in this account. **We recommend that the District ensure that these accounts are monitored for all schools each year, and schools not be allowed to close out their books at year-end if these accounts have balances other than zero.**

### G7000 General Account Purchases

In an effort to address potentially unsustainable purchases made from the G7000 General account, **we recommend the District establish guidelines, and determine the propriety of these types of expenditures from internal accounts, specifically the G7000 General account.**

### Credit Card Transactions

In an effort to increase efficiency for secretaries and school finance specialists related to entering credit card purchases, **we recommend the**

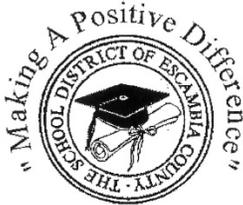
**District research opportunities to allow for electronic upload of charges from the bank directly into Skyward.**

## Appendix A - Financial Information

	AUDITED		AUDITED	
	BEGINNING		ADJUSTED	ENDING
	BALANCE		DISBURSEMENTS	BALANCE
	7/1/2015	RECEIPTS		6/30/2016
Hellen Caro	\$ 51,290.78	\$ 104,781.90	\$ 86,289.02	\$ 69,783.66
Jim Allen	4,176.10	64,795.45	61,048.24	7,923.31
Bellview	14,723.97	89,429.84	86,434.71	17,719.10
Bratt	26,665.54	124,405.16	122,414.65	28,656.05
Brentwood	22,402.31	27,461.66	33,046.40	16,817.57
N.B. Cook	69,306.00	105,734.04	97,888.12	77,151.92
Cordova Park	62,783.67	87,328.59	84,146.45	65,965.81
Ensley	22,012.23	55,428.29	51,809.70	25,630.82
Ferry Pass	11,538.23	23,263.31	23,708.34	11,093.20
Montclair	8,249.85	17,820.46	15,317.39	10,752.92
Myrtle Grove	16,197.06	43,669.36	31,568.67	28,297.75
Navy Point	37,553.50	27,114.48	22,957.18	41,710.80
Oakcrest	14,230.91	19,491.68	19,374.39	14,348.20
Pine Meadow	103,331.25	68,278.58	48,861.42	122,748.41
Pleasant Grove	56,452.23	54,514.02	63,967.61	46,998.64
Scenic Heights	28,773.05	65,013.65	63,770.21	30,016.49
O.J. Semmes	7,601.55	14,052.41	12,474.94	9,179.02
Sherwood	14,995.75	45,067.54	42,773.08	17,290.21
A.K. Suter	37,169.36	46,764.31	52,154.36	31,779.31
Warrington	16,250.87	28,184.89	27,883.92	16,551.84
C.A. Weis	10,306.71	20,407.54	20,845.79	9,868.46
West Pensacola	30,283.27	29,156.49	27,620.97	31,818.79
Reinhardt Holm	25,732.22	21,864.18	17,072.98	30,523.42
Lincoln Park Primary	5,752.84	19,972.99	19,826.10	5,899.73
Longleaf	22,538.97	21,447.37	27,016.34	16,970.00
L.D. McArthur	51,892.54	150,917.27	150,334.27	52,475.54
Beulah	47,020.59	46,556.92	32,369.43	61,208.08
R.C. Lipscomb	87,621.10	116,052.96	107,611.71	96,062.35
Blue Angels	55,950.42	85,822.60	105,293.35	36,479.67
Molino Park	16,464.55	68,585.71	66,634.53	18,415.73
Global Learning Academy	7,565.20	73,561.74	72,759.50	8,367.44
<b>TOTAL ELEMENTARY</b>	<b>\$ 986,832.62</b>	<b>\$ 1,766,945.39</b>	<b>\$ 1,695,273.77</b>	<b>\$ 1,058,504.24</b>

## Appendix A - Financial Information (Continued)

	<b>AUDITED BEGINNING BALANCE 7/1/2015</b>	<b>RECEIPTS</b>	<b>ADJUSTED DISBURSEMENTS</b>	<b>AUDITED ENDING BALANCE 6/30/2016</b>
Bellview Middle	\$ 36,821.51	\$ 60,934.84	\$ 56,137.08	\$ 41,619.27
Ransom Middle	50,242.55	259,610.59	244,865.77	64,987.37
Escambia High	195,736.96	445,218.63	467,881.74	173,073.85
Ferry Pass Middle	78,730.14	112,846.42	107,001.03	84,575.53
Pensacola High	131,412.88	487,280.58	533,936.52	84,756.94
J.M. Tate High	302,934.75	732,304.89	685,011.43	350,228.21
Ernest Ward Middle	61,126.13	118,406.22	109,655.64	69,876.71
Warrington Middle	5,853.42	39,176.40	36,309.86	8,719.96
J.H. Workman Middle	53,536.40	107,948.46	113,673.19	47,811.67
Brown-Barge Middle	52,376.31	90,226.69	84,003.65	58,599.35
W.J. Woodham Middle	25,455.82	76,470.89	70,446.25	31,480.46
Pine Forest High	170,914.30	378,389.94	401,867.17	147,437.07
B.T. Washington High	228,616.14	569,433.08	535,947.98	262,101.24
James C. Bailey Middle	149,507.88	176,196.95	176,111.44	149,593.39
Northview High	114,372.71	339,279.35	337,335.39	116,316.67
West Florida Tech. High	92,446.57	527,396.50	484,505.41	135,337.66
<b>TOTAL SECONDARY</b>	<b>\$ 1,750,084.47</b>	<b>\$ 4,521,120.43</b>	<b>\$ 4,444,689.55</b>	<b>\$ 1,826,515.35</b>
McMillan Pre-K	\$ 2,427.24	\$ 3,119.67	\$ 4,006.34	\$ 1,540.57
George Stone	(23,736.65)	1,385,814.65	1,195,773.15	166,304.85
Escambia Westgate	86,536.03	42,816.81	44,322.53	85,030.31
<b>TOTAL CENTERS</b>	<b>\$ 65,226.62</b>	<b>\$ 1,431,751.13</b>	<b>\$ 1,244,102.02</b>	<b>\$ 252,875.73</b>
<b>TOTAL ALL LOCATIONS</b>	<b>\$ 2,802,143.71</b>	<b>\$ 7,719,816.95</b>	<b>\$ 7,384,065.34</b>	<b>\$ 3,137,895.32</b>



## Memorandum

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**To:** David Bryant  
Director Internal Auditing

**From:** Debbie Fussell *DF*  
Director Accounting Operations

**Date:** January 17, 2017

**Subject:** 2015-2016 District-Wide Report of School Internal Funds

The five comments noted in the audit report are basic procedures that are covered during routine training sessions. Training is offered to secretaries and bookkeepers throughout the school year. The financial analyst meets with each school who receives audit findings to discuss each finding and to assist the bookkeeper/secretary resolve the issues. The district will continue to provide training opportunities and individual assistance as needed to help schools achieve compliance with the Internal Funds Policies and Procedures.

The district will review the procedures relating to the G7000 General Account and revise as needed to enhance the guidelines for expenditures.

The electronic upload of credit card transactions has been considered previously. However, due to software limitations, this has not been a viable option. The ability to import data into the SBAA software module is not currently available. However, the district will revisit the issue with the vendor to consider possible software enhancements or other alternatives. For the short-term, the District will concentrate on training bookkeepers/secretaries on the importance of posting credit card transactions timely and accurately to the liability account.

We appreciate your support and professionalism.