



Escambia Westgate Center
Audit of School Internal Accounts
For the Year Ended June 30, 2016

Office of Internal Auditing
October 2016

David J. Bryant, CPA, CIA, CFE, CGFM, CRMA
Director – Internal Auditing

Audit Team:
Brad Mostert, CFE
Senior Auditor

Preface

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 Escambia Westgate Center 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.



Office of Internal Auditing
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Executive Summary

Escambia Westgate Center received a full audit for the 2015-2016 fiscal year.

Our office audits the internal accounts of the District's schools annually. The authority to conduct these audits is granted in accordance with Florida State Board of Education Rule 6A-1.087 and the Charter for the Office of Internal Auditing.

These audits are conducted on a rotating basis with a sample of schools receiving "full" audits each year, and the other schools receiving "limited" audits. For each full audit, extensive testing procedures are applied to internal funds accounts. Limited audits include cash procedures and reconciliation to independent bank confirmations. For the 2015-2016 fiscal year, Escambia Westgate Center received a full audit. This report documents the results of the audit.

The purpose of our audit was to determine whether the financial information reported in the internal accounts reconciles with bank statements and corresponding independent bank confirmations, and to determine compliance of transactions included in those same internal accounts with the governing provisions of Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. We also sought to determine whether any instances of non-compliance were severe enough to render the financial information reported by the school unreliable. We believe our audit provides a reasonable basis for our opinion, findings, and recommendations.

Five adjusting journal entries were recommended.

Our audit procedures indicated matters that required adjustment of the school's records. Five journal entries were necessary:

- To correct the improper posting of a late fee assessed to the school.
- To record unrecorded interest on the school's CD.
- To correct a deficit balance in the F6120.002 Grant account created by overspending.
- To correct a remaining balance in the F6255.000 Reimbursable by District account created by failing to process a reimbursement request.
- To correct the improper posting of luncheon expenses to the Wellness Program account.

These journal entries were processed by the secretary in the following school year.

Our testing resulted in two audit findings.

Our testing resulted in two audit findings:

- Internal funds were utilized when budgeted funds were available.

The school's overall fund balance as of June 30, 2016 was \$85,030.31.

The majority of transactions included in the school's internal accounts were processed in accordance with applicable policies and procedures.

- The L2121 Accounts Payable account was not utilized properly for all credit cards.

The overall fund balance reported by the school at June 30, 2016 was \$85,030.31. We determined that the financial information reported by the school reconciles with bank statements and independent bank confirmations.

In our opinion, the majority of transactions included in the school's internal accounts were processed in accordance with all applicable Florida Statutes, State Board of Education rules, and policies and procedures of the School Board.

We have also determined that the instances of non-compliance noted above and elsewhere in this report do not appear to have a material effect and are not severe enough to render the financial information unreliable.

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 approximately 90 days after the school's exit conference.

Background

Each year, our office audits the District's schools' internal accounts. The authority to conduct these audits is granted in accordance with Florida State Board of Education Rule 6A-1.087 and the Charter for the Office of Internal Auditing.

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, District schools receive either a "full" audit (including all procedures listed in the Methodology section below), 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). For the 2015-2016 fiscal year,

Outside support organizations are not included in this report and are not audited by our office.

Escambia Westgate Center received a full audit.

Outside support organizations (school booster clubs and parent teacher associations) affiliated with this school 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.

School administration has been consistent for several years.

Escambia Westgate Center last received a full audit in the 2012-2013 fiscal year. There were two matter that rose to the level of an audit finding. There were findings related to the documentation of evidence of receipt of goods and obtaining prior written approval for disbursements, which were determined to be addressed adequately during a subsequent follow-up audit.

The school has had the same principal and secretary in place since the previous audit.

Objective

The purpose of our audit was to determine whether the financial information contained in the internal accounts reconciles with bank statements and corresponding independent bank confirmations, and to determine compliance of transactions included in those same internal accounts with the governing provisions of Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. We also sought to determine whether any instances of non-compliance were severe enough to render the financial information unreliable.

We have conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditing, and have planned and performed our audit to obtain reasonable assurance that transactions were made in accordance with applicable policies and laws and that the financial information presented is reliable.

We believe our audit provides a reasonable basis for our opinion, findings, and recommendations.

Scope

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 school as of and for the fiscal year ended June 30, 2016. These accounts are the responsibility of the school's principal.

Methodology

The audit consists of three phases: planning, fieldwork, and reporting.

Each audit consists of three phases, containing specific steps to ensure it is done in accordance with professional standards and current accepted practice.

The Planning Phase

The planning phase serves as the initial stage of an audit, where the auditor determines which schools are audited, ensures his or her independence, assesses the overall control environment and risk factors, and selects the samples of transactions to be tested.

School Sample

Rather than auditing 100% of schools each year, a system of rotation is utilized that is based primarily on school classification (i.e., elementary, middle, high).

Ensuring Independence

An independence statement is completed for each school. This statement contains the signature of each auditor certifying that there are no conflicts of interest and that they are free from bias. **No known conflicts were identified.**

No known conflicts of interest were identified.

Control Risk Assessment

At the beginning of each audit, the two prior audits and work papers, as well as any follow-up audits, are reviewed. We also determine whether there have been any significant personnel changes (i.e., principal, secretary/bookkeeper).

Each school's secretary/bookkeeper and principal are given internal control questionnaires to complete prior to their audit beginning. We review the responses, and discuss any items of concern with the appropriate staff. These questionnaires represent only a portion of our assessment of the overall control environment.

Control Risk for Escambia Westgate Center has been assessed at moderate.

Based on our experience with the school, control risk is assessed at moderate. Therefore, our audit procedures are limited to those in the audit program. If control risk is assessed at a level higher than moderate,

additional procedures may be performed.

Transactional Samples

Statistical sampling for attributes has been chosen. This method allows conclusions to be drawn about the population based on statistical inference. If after testing we determine the sample does not provide adequate coverage of the total population, auditor judgment and discussion with the Director of Internal Auditing are used to determine whether additional sampling methodologies are necessary (judgmental sampling, whole population, etc.).

The Fieldwork Phase

The fieldwork phase involves transactional testing of the school's internal accounts. The items in each of our samples are tested for compliance with applicable Florida Statutes, State Board of Education Rules, Board Policies, contract terms and conditions, and grantor restrictions.

While performing our testing, a percentage of transactions is allowed to contain compliance violations before it is determined to be an audit finding. For our purposes, an audit finding is a recurring issue that is present in greater than or equal to 20% of the sample. In addition, due to seriousness or materiality, a single compliance violation could also result in an audit finding.

Upon the completion of fieldwork, exit conferences to discuss the results of the audit are conducted with principals and secretaries/bookkeepers, if necessary.

The Reporting Phase

Upon the completion of the planning and fieldwork phases of an audit, the results of those phases are compiled into an easily readable and understandable format (i.e., the audit report). The report is presented to, and approved by, the Audit Committee and the School Board at the end of each audit cycle.

Financial information from full audits is combined with information from limited audits and compiled into a District-Wide Report on Internal Accounts.

For our purposes, exceptions of greater than or equal to 20% of the total population may exist before an audit finding is issued.

Detailed Results

Summary of Fund Activity	
Beginning Cash Balance, 7/1/2015	\$ 86,536.03
Total Receipts	42,816.81
Total Disbursements	19,835.15
Total Net Journal Entries	<u>24,487.38</u>
Ending Cash Balance, 6/30/2016	\$ 85,030.31
Audit Adjustments	-
Ending Fund Balance, 6/30/2016, Per Skyward	<u>\$ 85,030.31</u>
Cash Balance per Confirmation(s)	\$ 85,040.87
Outstanding Deposits	-
Outstanding Checks	-
Other Reconciling Items	10.56
Ending Fund Balance, 6/30/2016, Per Confirmation(s)	<u>\$ 85,030.31</u>

Five adjusting journal entries were recommended.

We noted five journal entries that were necessary.

During fieldwork, we recommended a journal entry be processed for \$2.87 to correct the improper posting of a late fee charged to the school. The transaction was recorded to the F6080.000 Donations – Unrestricted account, and needed to be moved to the G7000.000 General account.

We also recommended a journal entry be processed for \$10.56 to record unrecorded interest as of year-end on the school's CD.

We also recommended a journal entry be processed for \$172.89 to correct the deficit balance in the F6120.002 Grant account created by overspending.

We also recommended a journal entry be processed for \$69.94 to transfer the remaining balance in the F6255.000 Reimbursable by District account created by the failure to process a reimbursement request in a previous year.

We also recommended a journal entry be processed for \$346.52 to correct the improper posting of luncheon expenses to the F6348.000 Wellness account.

All recommended journal entries were processed.

After fieldwork, but prior to the issuance of this report, the school implemented our recommendations to process all journal entries mentioned above.

One finding related to the utilization of budgeted funds before internal funds.

Findings

Budgeted Funds vs. Internal Funds

Our testing indicated \$2,634.30 in expenses that were made from internal funds when District budgeted funds were available to defray all, or a portion, of these costs. The budgeted Supplies line item had a \$2,998.59 remaining balance at year-end. The secretary stated that this exception was an oversight. Purchases for such items from internal funds when budgeted funds are available reduces the amount of internal funds available for other intended purposes.

Chapter 8, Section III, 3.5(1) of the State Board of Education Rules states, "The following expenditures from internal funds are deemed inappropriate and shall not be made except from trust funds collected for a specifically identified purpose: Equipment, supplies, forms, and postage for curricular or classroom use for which school board funds are available."

See our recommendation in the Recommendations section below.

One finding related to the timeliness of utilizing the L2121 account.

Proper Utilization of the L2121 Account

During our audit, we reviewed two Wal-Mart credit card statements for appropriate use of the L2121 Accounts Payable account. The L2121 Accounts Payable account was utilized, but not properly. Purchases were recorded at the time of payment of the statement, rather than at the time of each individual purchase.

The Internal Funds Policy Manual gives specific guidelines regarding credit card purchases from internal funds. Section VIII, E of the Manual states, "Bookkeeper/Secretary makes the appropriate journal entry into the Skyward account 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."

See our recommendation in the Recommendations section below.

Opinion

Our opinion is divided into two major areas: whether or not the financial information reported by the school reconciles with corresponding bank statements and independent bank confirmations; and an assessment of the compliance of transactions included in the internal accounts with the governing provisions of Florida Statutes, State Board of Education rules, and policies and procedures of the School Board. An overall assessment is also made as to whether any instances of non-compliance were severe

Financial information reconciles with bank statements and independent confirmations.

The majority of the school's transactions were processed in accordance with all applicable policies and procedures.

enough to render the financial information unreliable. We believe our audit provides a reasonable basis for our opinion, findings, and recommendations.

We have determined that the financial information reported reconciles with bank statements and independent bank confirmations.

In our opinion, the majority of transactions included in the school's internal accounts were processed in accordance with all applicable Florida Statutes, State Board of Education rules, and policies and procedures of the School Board.

We have also determined that the instances of non-compliance noted above and elsewhere in this report do not have a material effect and are not severe enough to render the financial information unreliable.

Recommendations

Review policies and procedures related to budgeted funds.

Review policies and procedures related to recording of credit card purchases timely.

Budgeted Funds vs. Internal Funds

In an effort to address the proper utilization of budgeted funds prior to internal funds, **we recommend the principal review the State Board Rules pertaining to budgeted funds and instruct school staff on the proper procedures for utilizing budgeted District funds prior to the utilization of school internal funds.**

Proper Utilization of the L2121 Account

In an effort to address the proper utilization of the L2121 Accounts Payable account, **we recommend that the secretary review the Internal Funds Policy Manual on the correct procedures for accounting for credit card purchases.**

We will follow-up on these recommendations approximately 90 days after the school's exit conference.

Management Response

ESCAMBIA WESTGATE SCHOOL

Terry Colburn
Principal



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Jobenna Sellers
Asst. Principal

David Bryant
Director of Internal Auditing
Escambia County School District
75 North Pace Blvd.
Pensacola, FL 32506
November 28, 2016

Received by
JB 12/6/16

Dear Mr. Bryant:

This letter is in response to the October 2016 audit findings for Escambia Westgate School.

1. *Internal funds were utilized when budgeted funds were available.*

Response: I have used this account to purchase needed items such as extra sturdy Ipad covers for student Ipads purchased through Title 1 funds. I also purchased a large amount of projection bulbs needed to use with the Smart Boards that are in every classroom. Although these purchases met the criteria for spending money from the G7000 account, I did not consider using budgeted funds at the time of these purchases.

Plan of Action: I have spoken with Debbie Fussell in Accounting Operations and reviewed the district purchasing policy. I also reviewed the policy with the school secretary. She and I will work together to ensure that correct procedures are implemented in the future. Budgeted funds will be used to purchase supplies and materials before using funds in the G7000 internal account.

2. *The L2121 Accounts Payable account was not utilized properly for all credit cards.*

Response: Purchases on one credit card were recorded at the end of the month when the bill arrived. The secretary was unaware that Walmart purchases needed to be recorded at the time of purchase in the L2121 account.

Plan of Action: The auditor reviewed the procedures with me and the secretary. The secretary is now aware that the L2121 account applies to all credit cards and will proceed accordingly.

Sincerely,

Terry Colburn
Principal

OK DSB
12/6/16

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