



Brentwood Elementary School
Audit of School Internal Accounts
For the Year Ended June 30, 2016

Office of Internal Auditing
November 2016

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

Audit Team:
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Auditing Administration Specialist

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 Brentwood Elementary School 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

Brentwood Elementary School 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, Brentwood Elementary School 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.

Thirty-one adjusting journal entries were recommended.

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

- To correct twenty-three discrepancies in the Accounts Payable account to individual expense accounts.
- To correct the improper posting of a yearbook expense to the General account.
- To correct the improper posting of a faculty expense to the General account.
- To correct the improper posting of a vending commission to the General account.
- To record transfer of money market funds to a CD account.
- To record monthly services charges for the money market account.
- To record three expenditures in the Petty Cash account.

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

Additional journal entries were required.

Additional journal entries were processed in the following school year by District personnel to address remaining matters related to the L2121 Accounts Payable account. See comment below.

Lack of organization and basic accounting skills.

Organization of Records and Requisite Expertise

Our testing indicated a general lack of organization of the school's financial records. This lack of organization led to several issues including missing MCFs, missing supporting documentation for credit card expenditures, missing saleable inventory log, and missing petty cash vouchers. In addition, numerous transactions were processed in error or backwards indicating a lack of understanding of basic accounting concepts.

The secretary has received significant training, including specialized one-on-one training from District personnel. While we are unfamiliar with the secretary's prior employment experience, it is unclear if she is currently capable of effectively performing her responsibilities related to school internal accounts. Additional training may be required.

Our testing resulted in five audit findings.

Our testing resulted in five findings:

- Disbursements/expenditures lacked initials and dates on receiving slips or invoices as evidence of receipt of goods.
- Monies Collected Forms (MCFs) were not properly completed.
- The L2121 Accounts Payable account was not utilized properly and had a debit balance at year-end that was considered material.
- Cash collections for book fairs were not identified per each student.
- The accounting of the A1112 Petty Cash fund was not handled properly.

The school's overall fund balance as of June 30, 2016 was \$16,817.57.

The overall fund balance reported by the school at June 30, 2016 was \$16,817.57. We have determined that the financial information reported by the school reconciles with bank statements and independent bank confirmations.

We have documented several compliance violations, as noted in the Detailed Results section. These matters appear to be widespread, varied in nature, and material.

The balance of the L2121 Accounts Payable account is expected to be zero at year-end or have a credit balance made up of unpaid June purchases. We noted that the L2121 account had debit balances of \$709.41 and \$5,409.33 in the prior and current years, respectively. Debit balances spanning multiple years indicate errors, unrecorded transactions, and/or a continued failure to follow District policy, along with an overall lack of

financial oversight.

In reviewing the L2121 Accounts Payable account further, we noted various issues, including, but not limited to, duplicate postings, improper postings, mathematical errors, unrecorded transactions, etc. During fieldwork, we recommended 23 adjusting journal entries, totaling \$3,177.46 to address the discrepancies which not only affect the L2121 account but numerous other school account balances. District-level personnel also processed an additional 27 journal entries, totaling \$3,610.84 to address the remaining discrepancies. All adjusting entries were posted during the following school year. As such, the individual accounts affected were overstated/understated as of June 30, 2016.

Individual accounts did not contain all financial activity; and were not monitored properly, as account sponsors did not detect the discrepancies.

Given the significant nature and amount of adjusting journal entries required, the widespread and material compliance violations, and the extent of the L2121 account discrepancies, we consider the financial information reported by the school 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.

The financial information reported by the school cannot be relied upon.

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

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

School administration has been consistent.

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, Brentwood Elementary School 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.

Brentwood Elementary School last received a full audit in the 2013-2014 fiscal year. There were six matters that rose to the level of an audit finding. There were findings related to evidence of receipt of goods, properly completed Monies Collected Forms, monthly general ledger review, timeliness of bank reconciliations, donation letters, properly completed Fundraising Request/Reconciliation forms. These matters were determined to be addressed adequately during a subsequent follow-up.

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 principal of that school.

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

Control Risk for Brentwood Elementary School has been assessed at moderate.

assessment of the overall control environment.

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.

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

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.

Detailed Results

Summary of Fund Activity	
Beginning Cash Balance, 7/1/2015	\$ 22,402.31
Total Receipts	27,461.66
Total Disbursements	(13,243.07)
Net Journal Entries	(19,803.33)
Ending Cash Balance, 6/30/2016	\$ 16,817.57
Audit Adjustments	-
Ending Fund Balance, 6/30/2016, Per Skyward	<u>\$ 16,817.57</u>
Cash Balance per Confirmation(s)	\$ 16,454.69
Outstanding Deposits	-
Outstanding Checks	(6.00)
Other Reconciling Items	368.88
Ending Fund Balance, 6/30/2016, Per Confirmation(s)	<u>\$ 16,817.57</u>

Thirty-one adjusting journal entries were recommended.

We noted thirty-one adjusting journal entries that were necessary:

During fieldwork, we recommended 23 journal entries be processed for a total of \$3,177.46 to correct discrepancies in the L2121 Accounts Payable account.

We also recommended a journal entry be processed for \$33.89 to correct an improper posting of vending commission to the G7000 General account.

We also recommended a journal entry be processed for \$21.50 to correct an improper posting of a faculty expense to the G7000 General account.

We also recommended a journal entry be processed for \$10.00 to correct an improper posting of a yearbook expense to the G7000 General account.

We also recommended a journal entry be processed for \$139.71 to record the monthly services charges to the A1115 Money Market account.

We also recommended a journal entry be processed for \$1,860.29 to record the A1115 Money Market account redeemed to the A1118 CD account.

All recommended journal entries were processed.

We also recommended three journal entries be processed for a total of \$100.00 to record the A1112 Petty Cash account expenses.

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

School financial records were disorganized.

Organization of Financial Records & Requisite Expertise

Our testing indicated an overall lack of organization of the school's records, as well as what appears to be a lack of understanding of basic accounting concepts.

Secretary demonstrated lack of basic accounting concepts.

The lack of organization led to several issues, the most severe of which was the inability to locate MCFs related to fundraising activities, checks received in the mail, yearbook sales and supporting documentation for credit card purchases. In addition, numerous transactions were processed in error or backwards indicating a lack of understanding of basic accounting concepts.

Training provided on multiple occasions.

The previous principal stated she recognized the secretary's need for additional training and requested such training. District staff conducted multiple one-on-one trainings, with the principal in attendance for some of these training sessions. While we are unfamiliar with the secretary's prior employment experience, it is unclear if she is currently capable of effectively performing her responsibilities related to school internal accounts.

See our recommendation in the Recommendations section below.

One finding related to evidence of receipt of goods.

Findings

Evidence of Receipt of Goods

Our testing indicated invoices/packing slips used as supporting documentation for expenditures did not include evidence indicating receipt of goods. This evidence would include a signature, verifying the quantity of the items ordered, and a date, indicating when the goods were received.

The Internal Funds Policy Manual gives specific guidelines regarding documentation for expenditures. Section VIII, D of the Manual 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.

One finding related to improper completion of Monies Collected Forms.

Proper Completion of Monies Collected Forms (MCFs)

Our testing indicated that receipts/deposits tested were missing MCFs to account for the receipt of money.

The Internal Funds Policy Manual gives specific guidelines to be followed for the receipt of monies. 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.

One finding related to the proper utilization of the L2121 Accounts Payable account and its ending balance.

L2121 Accounts Payable

District year-end procedures require all schools to reconcile their L2121 Accounts Payable account and post final payments prior to the close of each fiscal year. As such, the balance at the beginning of each year should be zero. We noted that the L2121 account had debit balances of \$709.41 and \$5,409.33 in the prior and current years, respectively. While minor timing discrepancies between the close of year-end and the processing of payments is expected, continued discrepancies spanning multiple years indicate errors, unrecorded transactions, and/or a continued failure to follow District policy, along with an overall lack of financial oversight.

In reviewing the L2121 Accounts Payable account further, we noted various issues, including, but not limited to, duplicate postings, improper postings, mathematical errors, unrecorded transactions, etc. During fieldwork, we recommended 23 adjusting journal entries, totaling \$3,177.46 to address the discrepancies which not only affect the L2121 account but numerous other school account balances. District-level personnel also processed an additional 27 journal entries, totaling \$3,610.84 to address the remaining discrepancies. All adjusting entries were posted during the following school year. As such, the individual accounts affected were overstated/understated as of June 30, 2016.

The District has established an internal control whereby account sponsors are to review their account activity each month, and attest to each account's completeness and accuracy by initialing a monthly account log. It is clear that the individual accounts did not contain all financial activity; however, the monthly log was completed by the account sponsors. It does not appear that the accounts were effectively monitored.

Section VIII, E, (2) (e) 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."

One finding related to improper procedures for accounting for book fair collections.

See our recommendation in the Recommendations section below.

Monies Collected Forms – Book Fair

Our testing included Monies Collected Forms (MCFs) that were not properly completed for book fair activity. Cash collections were listed as a total on the MCF instead of identified per each student.

The Internal Funds Policy Manual gives specific guidelines to be followed for the receipt of monies. Section VI, B.4 of the Manual states, “When collecting funds from a group of students for a field trip or book fair, a class roster or list may be attached to the MCF indicating the students that have paid and the amount of each payment.”

See our recommendation in the Recommendations section below.

One finding related to the proper utilization of the A1112 Petty Cash account and its ending balance.

Petty Cash Account

The A1112 Petty Cash account had a balance at the end of the school year of \$100.00 and a review of the general ledger for the account indicated activity during the year was not recorded.

Section XII of the Internal Funds Policy Manual provides specific fiscal year end guidelines. The Manual states, “All petty cash funds must be closed out and the funds re-deposited prior to the closing of records for the fiscal year so that all expenditures will be accounted for in the proper period.”

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 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.

We have documented several compliance violations, as noted throughout

The school's financial information cannot be relied upon.

this report. These matters appears to be widespread, varied in nature, and material.

Given the significant nature and amount of adjusting journal entries required, the widespread and material compliance violations, and the extent of the L2121 account discrepancies, we consider the financial information reported by the school unreliable.

Recommendations

Develop an action plan to ensure staff possesses necessary skills.

Organization of Records & Requisite Expertise

In an effort to address the lack of organization of the school's records and what appears to be a lack of basic accounting skills, **we recommend the principal meet with the secretary to determine the cause of the disorganization and discuss what appears to be a weakness in the secretary's skills. The principal should then consider contacting the Human Resources and Finance Department to determine what resources are available to the secretary to develop the necessary skills to be successful. An action plan should be developed, monitored, and evaluated.**

Review policies and procedures related to the evidence required to show receipt of goods.

Evidence of Receipt of Goods

In an effort to address the lack of evidence for the receipt of goods shipped to the school, **we recommend that the principal and secretary review the Internal Funds Policy Manual and instruct school staff on the proper procedures for demonstrating proper evidence of the receipt of goods.**

Review policies and procedures related to the proper completion of MCFs.

Proper Completion of Monies Collected Forms (MCFs)

In an effort to address the improper completion of MCFs, **we recommend the principal and secretary review the Internal Funds Policy Manual and instruct staff on the proper completion of MCFs.**

Review policies and procedures related to the L2121 Accounts Payable account.

L2121 Accounts Payable

In an effort to address the improper procedures related to the L2121 Accounts Payable account, **we recommend the principal and secretary review the Internal Funds Policy Manual on the proper procedures related to the L2121 Accounts Payable account.**

Instruct staff on proper review of accounts.

General Ledger Review

In an effort to ensure individual accounts have the correct balance, are not overstated due to transactions not being recorded, or do not contain other errors, **we recommend the principal and secretary review the Internal Funds Policy Manual and instruct account sponsors to review**

their general ledger for both completeness and accuracy.

Review policies and procedures related to accounting for book fair proceeds.

Monies Collected Forms – Book Fair

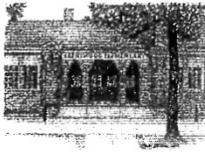
In an effort to address the improper documentation of book fair collections, **we recommend the principal and secretary review the Internal Funds Policy Manual and instruct school staff on the proper procedures to properly document book fair collections.**

Review policies and procedures related to the A1112 Petty Cash account.

Petty Cash Account

In an effort to address the improper procedures related to the A1112 Petty Cash account, **we recommend the principal and secretary review the Internal Funds Policy Manual on the proper procedures related to the A1112 Petty Cash account.**

Management Response



"Imagine the Possibilities!"

Brentwood Elementary School of Communication and Technology

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Jennifer Sewell
Principal

Deborah Jones
Secretary

Kristin Cain
Assistant Principal

Dear Mr. Bryant,

January 6, 2017

After reviewing the Internal Accounts Manual, meeting with Mrs. Kiker, and speaking with my school secretary, I have determined there was unintended negligence. After Mrs. Kiker reviewed each of the findings, my school secretary acknowledged that she did not understand the appropriate procedures regarding the 5 findings but understands now and will make those corrections going forward.

2015-16 Findings/Solutions

1. **Expenditures - Evidence of receipt of goods** - Secretary was not verifying receipt of goods and signing off on receipts herself. After reading the Internal Accounts Manual, the secretary will receive all goods herself, review contents for correctness and sign off on receipt that all goods are correct and received. The secretary and I will work together to make sure these processes are followed accordingly.
2. **Receipts – Properly completed MCF** –Secretary recognizes that she was not keeping accurate filing procedures of receipts or verifying completion of all MCFs. After reading the Internal Accounts Manual, the secretary will keep copies of the MCFs and bank deposit in the receipt binder. The secretary and I will work together to make sure these processes are followed accordingly.
3. **L2121 Accounts Payable- Various** – Secretary said she was not aware of these violations. After reading the Internal Accounts Manual, the secretary will process journal entries immediately, Post appropriate purchase entries and they will be entered at the end of the day as there are less interruptions and therefore less room for errors. All account sponsors will view the activity of their accounts. The secretary and I will work together to make sure these processes are followed accordingly.
4. **Receipts – Improper accounting of book fair** - Secretary said she did not know these procedures were incorrect. After reading the Internal Accounts Manual, the secretary will make sure procedures are listing student names on the MCFs or attaching a student roster to the MCFs indicating the student's names, the amount, and if they paid by cash or check. The secretary and I will work together to make sure these processes are followed accordingly.
5. **Petty Cash Fund - Not properly maintained** – Secretary claimed she did not understand the guidelines for keeping petty cash funds. The decision was made not to continue the petty cash fund at this time. The secretary and I will work together to make sure these processes are followed accordingly.

Handwritten signature and date:
1/20/17

Brentwood Elementary School is committed to properly monitoring and processing all financial responsibilities throughout the year and will ensure that appropriate adjustments are made accurately in the future.

Sincerely,


Jennifer Sewell

OK DJB
1/23/17