



**L. D. McArthur Elementary School**  
*Audit of School Internal Accounts*  
*For the Year Ended June 30, 2016*

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Office of Internal Auditing  
October 2016

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

Audit Team:  
**Jeremy Williams**  
*Audit Administration Specialist*

## 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 L. D. McArthur 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

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**L. D. McArthur 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, L. D. McArthur 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.

**Seven adjusting journal entries were recommended.**

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

- To record unrecorded interest on the school's CD.
- To transfer the remaining balance of the 5<sup>th</sup> grade graduating class account to the General account.
- To correct the improper posting of science t-shirts expense to the General account.
- To correct the improper posting of 5<sup>th</sup> grade award expense to the General account.
- To correct the improper posting of safety patrol party expense to the General account.
- To correct the improper posting of end of year celebration expense to the General account.
- To correct the improper posting of 5<sup>th</sup> grade banquet expense to the Faculty Fund 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:

- Disbursements/expenditures lacked initials and dates on receiving slips or invoices as evidence of receipt of goods.
- Donation letters for field trips did not contain the required proper language.

**The school's overall fund balance as of June 30, 2016 was \$52,475.54.**

The overall fund balance reported by the school at June 30, 2016 was \$52,475.54. We determined that the financial information reported by the school reconciles with bank statements and independent bank confirmations.

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

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

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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,

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

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, L. D. McArthur 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.

L. D. McArthur Elementary School last received a full audit in the 2013-2014 fiscal year. There were two matters that rose to the level of an audit finding. There were findings related to the proper completion of request forms for expenditures and the proper utilization of budgeted funds, which were determined to be addressed adequately during a subsequent follow-up audit.

**There was a change in the secretary position due to retirement.**

The school has had the same principal in place since the previous audit. However, due to the retirement of the prior secretary, a new secretary began working for the school during June 2016.

## Objective

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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

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

## Methodology

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**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 L. D. McArthur 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

<b>Summary of Fund Activity</b>	
Beginning Cash Balance, 7/1/2015	\$ 51,892.54
Total Receipts	150,917.27
Total Disbursements	(130,715.02)
Total Net Journal Entries	<u>(19,619.25)</u>
Ending Cash Balance, 6/30/2016	\$ 52,475.54
Audit Adjustments	-
Ending Fund Balance, 6/30/2016, Per Skyward	<u>\$ 52,475.54</u>
Cash Balance per Confirmation(s)	\$ 52,369.53
Outstanding Deposits	-
Outstanding Checks	(17.25)
Other Reconciling Items	<u>123.26</u>
Ending Fund Balance, 6/30/2016, Per Confirmation(s)	<u>\$ 52,475.54</u>

**Seven adjusting journal entries were recommended.**

We noted seven journal entries that were necessary.

During fieldwork, we recommended a journal entry be processed for \$116.74 to record unrecorded interest as of year-end on the school's CD.

We also recommended a journal entry be processed for \$531.16 to transfer the remaining balance in the C3007 5<sup>th</sup> Grade account to the G7000 General account as required per District guidelines.

We also recommended a journal entry be processed for \$67.50 to correct the improper posting of a science t-shirts expense. The transaction was recorded to the G7000 General account instead of the F6080 Donations Unrestricted account.

We also recommended a journal entry be processed for \$101.00 to correct the improper posting of a 5<sup>th</sup> grade awards expense. The transaction was recorded to the G7000 General account instead of the F6080 Donations Unrestricted account.

We also recommended a journal entry be processed for \$95.00 to correct the improper posting of a safety patrol party expense. The transaction was recorded to the G7000 General account instead of the F6080 Donations Unrestricted account.

We also recommended a journal entry be processed for \$69.50 to correct

the improper posting of an end-of-year celebration expense. The transaction was recorded to the G7000 General account instead of the F6080 Donations Unrestricted account.

We also recommended a journal entry be processed for \$86.88 to correct the improper posting of a 5<sup>th</sup> grade banquet expense. The transaction was recorded to the F6100 Faculty Fund account instead of the F6080 Donations Unrestricted 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.**

Findings

*Receipt of Goods*

**One finding related to the lack of 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.

*Proper Language Use In Donation Letters*

**One finding related to the lack of proper language contained in donation letters.**

A review of the donation letters for field trips issued by different grade levels indicated there were instances where the proper language was absent.

The Internal Funds Policy 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.

## Opinion

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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.

**Financial information reconciles with bank statements and independent confirmations.**

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

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

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

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**Review policies and procedures related to receipt of goods.**

### Receipt of Goods

In an effort to address the proper evidence of receipt of goods, **we recommend the principal and secretary review the Internal Funds Policy Manual and instruct staff on the proper procedure of documenting receipt of goods.**

**Review policies and procedures**

### Donation Letters

In an effort to address the use of proper language contained in donation letters, **we recommend that the principal review the Internal Funds**

**related to the use of proper language concerning donation letters issued by the school.**

**Policy Manual and instruct school staff on the correct wording and phrasing.**

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

# Management Response

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## L. D. McArthur Elementary School

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Pensacola, Florida 32534

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Fax 850-494-5707

Dr. Tama J. Vaughn  
Principal

Cheryl Johncheck  
Assistant Principal

November 29, 2016

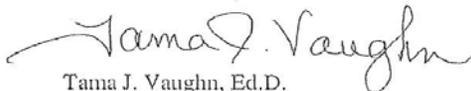
David J. Bryant  
Director of Internal Auditing  
Escambia County School District  
75 North Pace Boulevard  
Pensacola, Florida 32505

Dear Mr. Bryant,

During the 2015 Audit, it was found that the 4<sup>th</sup> and 5<sup>th</sup> grade Field Trip Parent letters did not contain language that makes it clear solicitations are strictly voluntary and that a student would not be prevented from participating if the parents choose not to contribute. Additional training has been provided to teachers emphasizing the importance of the wording that will meet this guideline and a copy of the information given for reference. I will write a new parent letter to be used for future field trips.

Thank you for your assistance in correcting our donation letters.

Respectfully,



Tama J. Vaughn, Ed.D.  
Principal

OK

DJB

12/2/16

  
12/1/16

McArthur Elementary.....building the future