



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

Office of Internal Auditing
October 2016

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Director – Internal Auditing

Audit Team:
Jeremy Williams
Audit 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 Pleasant Grove 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

Pleasant Grove 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, Pleasant Grove 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.

Eight adjusting journal entries were recommended.

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

- To record unrecorded earned interest on a CD.
- To correct the improper posting of seven separate vending commission receipts to the Donations-Unrestricted 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.
- Late fees and finance charges were paid.

Our testing indicated that the L2121 Accounts Payable account had a debit balance of \$94.05 as of year-end. This account should either have a zero balance as of year-end, or a credit balance composed of recent charges from June not paid by year-end.

District personnel researched the deficit balance and discovered unrecorded late fees, finance charges, credits, and minor mathematical errors. Adjusting journal entries were processed in the following school year to address these items. Although this matter is considered a compliance violation, it does not rise to the level of an audit finding, is not material to the school's financial activity overall, and does not affect the reliability of the financial information.

The school's overall fund balance as of June 30, 2016 was \$46,998.64.

The overall fund balance reported by the school at June 30, 2016 was \$46,998.64. We have 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 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.

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

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, Pleasant Grove 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.

Pleasant Grove Elementary School last received a full audit in the 2012-2013 fiscal year. There were three matters that rose to the level of an audit finding. There were findings related to the proper utilization of budgeted funds, procedures regarding receipt of goods, and timeliness of deposits. All of the matters were determined to be addressed adequately during a subsequent follow-up audit.

School administration has been consistent for several years.

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.

Control Risk for Pleasant Grove Elementary School has been assessed at moderate.

These questionnaires represent only a portion of our 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 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	\$ 56,452.23
Total Receipts	54,514.02
Total Disbursements	(32,104.15)
Total Net Journal Entries	<u>(31,863.46)</u>
Ending Cash Balance, 6/30/2016	\$ 46,998.64
Audit Adjustments	-
Ending Fund Balance, 6/30/2016, Per Skyward	<u>\$ 46,998.64</u>
Cash Balance per Confirmation(s)	\$ 47,039.70
Outstanding Deposits	-
Outstanding Checks	-
Other Reconciling Items	<u>(41.06)</u>
Ending Fund Balance, 6/30/2016, Per Confirmation(s)	<u>\$ 46,998.64</u>

Eight adjusting journal entries were recommended.

We noted eight adjusting journal entries that were necessary.

During fieldwork, we recommended a journal entry be processed for \$26.82 to record unrecorded interest for A1118 CD account.

We also recommended seven journal entries be processed for a total of \$354.41 to correct the improper posting of various vending commission receipts. These receipts were recorded to the F6080 Donations-Unrestricted account instead of the F6100 Faculty Fund account.

All recommended journal entries were processed.

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

The Accounts Payable account had a debit balance.

L2121 Accounts Payable

Our testing indicated that the L2121 Accounts Payable account had a debit balance of \$94.05 as of year-end. This account should either have a zero balance as of year-end, or a credit balance composed of recent purchases from June not paid by year-end. A debit balance in this account can indicate that duplicate payments have been posted, or that purchases (represented as credits to this account) have not been recorded. In the case where a payment has been recorded, but the purchases have not, the overall fund balance for the school would be correct. However, although the overall fund balance would be correct, the individual accounts would be overstated.

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."

We reviewed the L2121 Accounts Payable account's general ledger as of July 2016, noting the payment in July for June was \$110.92 leaving a discrepancy of \$94.05. While this matter is a compliance violation, it is not deemed material to rise to the level of an audit finding.

District-level personnel further analyzed the L2121 Accounts Payable account and identified discrepancies which included minor numerical/mathematical errors, incorrect recording of a refund, and assessed late fees/finance charges. District-level personnel processed 6 adjusting journal entries, totaling \$215.87 to address these discrepancies. All adjusting entries were posted during the following school year.

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.

This is a repeat audit finding from 2012-2013.

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.

Late Fees/Finance Charges

One finding related to late fees and finance charges.

Our testing indicated that \$127.28 in late fees and finance charges were assessed and paid during the fiscal year.

Section VIII, E.2(g) of the Manual states, "Bookkeeper/Secretary issues a check or makes payment to Compass by ACH for all charges in the billing cycle."

Sound general business practices include paying for purchases in a timely manner to avoid service charges or late charges. The District expects all

payments to be made timely to avoid service charges and late charges. An email was sent on October 7, 2014 by District personnel to all secretaries/bookkeepers as a reminder that credit card payments must be paid by the last day of the month to avoid late fees and finance charges.

See our recommendation in the Recommendations section below.

Opinion

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.

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.

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 the evidence required to show receipt of goods.

Receipt of Goods

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

Review policies and procedures and ensure purchasing card statements are paid in full.

Determine appropriateness of requiring secretary to reimburse the school.

Payment of Late Fees and Finance Charges

In an effort to address the payment of late fees and finance charges, **we recommend that the secretary review the Internal Funds Policy Manual and ensure that purchasing card statements are paid timely.**

We also recommend that the principal determine whether it is appropriate to have the secretary reimburse the school for the late fees and finance charges incurred.

Management Response



Pleasant Grove Elementary School
3000 Owen Bell Lane
Pensacola, Florida 32507
(850) 492-0233; FAX (850)492-6991
Pam Mullen Julie Pearson
Principal *Assistant Principal*

December 7, 2016

Mr. David Bryant,

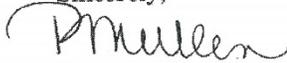
Listed below are the Audit Findings for Pleasant Grove Elementary along with the actions that will be taken by the administration and staff to correct findings.

*Disbursements/expenditures lacked initials and dates on receiving slips on invoices as evidence of receipt of goods- Our school secretary is the point of contact for all deliveries. She receives, opens and checks shipments for accuracy. Recently she has been out and some of the shipments were delivered to classrooms or media center without Mrs. Casler checking. The School Secretary and Administration reviewed procedures. The procedures will be reviewed with the backup (office employee) should the secretary be absent when shipment is received.

*Late fees and finance charges were paid- The school secretary had informed me that, after she had pulled the Compass statement and paid it on the 4th of the month, another charge was added that night to the bill. This resulted in the late fee. Administration and School Secretary reviewed procedures for pulling statements. Mrs. Casler now waits until after the 4th of the month before pulling statement to pay credit card bills.

If you have any questions, please feel free to call.

Sincerely,


Pam Mullen
Principal

AM
12/18/16

 DJB
12/9/16