



Reinhardt Holm Elementary School
Audit of School Internal Accounts
For the Year Ended June 30, 2017

Office of Internal Auditing
September 2017

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

Audit Team:
Michele Kiker, CFE, CGAP, CRMA
Senior Auditor

Mark Helmus
Auditing Intern

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 Reinhardt Holm Elementary 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
Escambia County School District
www.escambia.k12.fl.us/iaudit
75 North Pace Blvd. – Suite 403
Pensacola, Florida 32505

Executive Summary

Reinhardt Holm Elementary School received a full audit for the 2016-2017 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 2016-2017 fiscal year, Reinhardt Holm 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.

Our testing resulted in five audit findings.

Our testing resulted in five audit findings:

- Bank reconciliations were not performed timely.
- Request for Purchase (RFP) forms were not utilized for credit card payments.
- The L2121 Accounts Payable account was not properly utilized as it relates to the timely recording of credit card purchases.
- Cash collections for book fairs were not identified per each student.
- The Fundraising Log Sheet was not utilized.

The school's overall fund balance as of June 30, 2017 was \$30,909.21

The overall fund balance reported by the school at June 30, 2017 was \$30,909.21. 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

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

policies and procedures.

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.

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 2016-2017 fiscal year, Reinhardt Holm Elementary School received a full audit.

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

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.

Reinhardt Holm Elementary School last received a full audit in the 2013-2014 fiscal year. There were no matters that rose to the level of an auditing finding.

The principal retired at year-end and was replaced in the next school year.

The school's previous principal retired on June 30, 2017, and was replaced by the current principal at the start of the next school year. The school's bookkeeper has been in place at the school for several years.

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 Auditors, 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, 2017. 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.

No known conflicts of interest were identified.

Control Risk for Reinhardt Holm Elementary School has been assessed at moderate.

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.**

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, bookkeeper).

Each school's 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.

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

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

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 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, 7/1/2016	\$ 30,523.42
Total Receipts	21,568.41
Total Disbursements	(21,158.62)
Total Net Journal Entries	(24.00)
Ending Cash Balance, 6/30/2017	\$ 30,909.21
Audit Adjustments	-
Ending Fund Balance, 6/30/2017, Per Skyward	\$ 30,909.21
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Cash Balance per Confirmation(s)	\$ 30,894.21
Outstanding Deposits	-
Outstanding Checks	15.00
Other Reconciling Items	-
Ending Fund Balance, 6/30/2017, Per Confirmation(s)	\$ 30,909.21

General Ledger Review

Throughout the year and prior to the school's closing of their records at year end, we may review various reports, transactions, and supporting documentation of the school. The purpose of this review is to recommend adjusting journal entries, reclassifications, or other necessary actions which we feel will result in more accurate reporting and/or compliance with established rules, policies, and procedures. Any recommended entries or actions are traditionally completed prior to the close of the school's records, and are therefore included in the reported June 30 financial information, unless otherwise indicated.

No adjusting journal entries were recommended.

As a result of our fieldwork, no additional adjusting journal entries were recommended.

One finding related to the timely completion of bank reconciliations.

Findings

Completion of Bank Reconciliation in a Timely Manner

A review of the school's bank reconciliations indicated bank statements were not reconciled in a timely manner.

The Internal Funds Policy Manual gives specific guidelines for the completion of bank reconciliations. Section IX, E of the Manual states, "Bank statements should be reconciled as soon as received, and absolutely no later than the last day of the following month."

One finding related to the proper completion of RFPs.

See our recommendations in the Recommendations section below.

Request for Purchase Forms – Proper Completion

Our testing indicated that RFPs were not present for the Compass Credit Card payments.

The Internal Funds Policy Manual, Section VII, D, states, “No disbursement shall be made without the prior written approval of the principal.... ‘Prior approval’ may consist of a **properly completed** Purchase Requisition/Request for Purchase Order form (RFP).” A properly completed RFP includes such fields as the account name and/or number to be charged and the teacher/sponsor signature.

See our recommendations in the Recommendations sections below.

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

Proper Utilization of the L2121 Account

During our audit, we reviewed two Compass 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. Sections 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 recommendations in the Recommendations sections below.

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

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 lack of utilizing the Fundraiser Log Sheet.

Fundraiser Log Sheet

A review of the school files indicated the Fundraiser Log Sheet was not utilized to document fundraising events as exempted or non-exempted days.

Effective with the 2016-2017 school year the District implemented utilizing the Fundraiser Log Sheet to document all fundraising activity and identify the occurrence of any exempted events.

See our recommendations in the Recommendations sections below.

Opinion

The financial information reconciled 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 bank reconciliations. Select specific day of the month for completion of bank reconciliation.

Bank Reconciliations - Timeliness

In an effort to address the timeliness of bank reconciliations, **we recommend that the principal and bookkeeper review the Internal Funds Policy Manual pertaining to bank reconciliations. We also recommend that principal select a specific day of the month to review the bank reconciliation to ensure it is completed timely. In addition, we recommend bank reconciliations should be attempted as soon as the bank statement is received.** In addition, in cases where reconciliations require assistance from District personnel, we recommend keeping the first attempt at reconciliation as evidence of timeliness in case the reconciliation is not completed by the end of the following month.

Review policies and procedures related to credit card payments.

Request Purchase Utilizing Purchasing Card Forms

In an effort to address the lack of prior written approval related to credit card payments, **we recommend the principal and bookkeeper review the Internal Funds Policy Manual pertaining to credit card payments and prior written approval for disbursements.**

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

Proper Utilization of the L2121 Account

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

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 bookkeeper 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 Fundraiser Log Sheet.

Fundraiser Log Sheet

In an effort to address the lack of maintaining a Fundraiser Log Sheet, **we recommend the principal and bookkeeper review the Internal Funds Policy Manual and instruct staff on the policies and procedures associated with fundraising activities.**

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

Management Response

Reinhardt Holm Elementary School
6101 Lanier Drive Pensacola, FL 32504 850 • 494 • 5610

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*Kristin Cain, Principal
Cindy Stephens, Assistant Principal
Jo Anne Baerresen, Secretary/Bookkeeper*

Dear Mr. Bryant,

October 5, 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 admitted that she did not understand the appropriate procedures regarding the 5 findings but understands now and will make those corrections going forward.

2016-2017 Findings/Solutions

1. **Bank Reconciliations-Timeliness** - Secretary was not completing reconciliations prior to the last day of the following month. After reading the Internal Accounts Manual, the secretary will reconcile statements as soon as they are received. To ensure this is done in a timely manner and within the guidelines, the secretary and principal will meet on the second Wednesday of each month to review bank reconciliations.
2. **Disbursements-Properly completed RFP** -Secretary recognizes that she was not completing a Request for Purchase (RFP) form for credit card payments. After reading the Internal Accounts Manual, the secretary will complete an RFP for all credit card payments, therefore, providing the needed documentation for prior approval.
3. **Credit Cards- Proper utilization of L2121 Accounts Payable**- Secretary was completing journal entries to record purchases at the time of payment of the statement rather than at the time of each individual purchase. After reading the Internal Accounts Manual, the secretary will make appropriate journal entries into the Skyward accounting system to record at the time of purchase using the Accounts Payable account L2121 to encumber the funds in the proper internal funds expense account. This will be done weekly for all credit card accounts.
4. **Book Fair – Lists of students** - Secretary said she did not know these procedures were incorrect. After reading the Internal Accounts Manual, the secretary will make sure teachers are listing student names on the MCF or attaching a student roster to the MCF indicating the following: student name, the amount of purchase, paid by cash or check (including check number where appropriate). The secretary will also review proper procedures with staff.
5. **Fundraising Activities-Fundraiser log not utilized** – Secretary was unaware that the fundraiser log sheet was needed to document fundraising events as exempted or non-exempted days. After reviewing the Internal Funds Policy Manual and district expectation with Mrs. Kiker, the secretary plans to utilize the Fundraiser Log Sheet to document all future fundraising activity and identify the occurrence of any exempted events. The secretary will also review proper procedures with staff.

Holm 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,

Kristin Cain

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