



Ernest Ward Middle 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:
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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 Ernest Ward Middle 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

Ernest Ward Middle 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, Ernest Ward Middle 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.

One adjusting journal entry was recommended.

Our audit procedures indicated matters that required adjustment of the school's records. One journal entry was necessary:

- To transfer the remaining balance of the 8th Grade account to the General account.

A journal entry was processed by the bookkeeper in the following school year.

Our testing resulted in two audit findings.

Our testing resulted in two audit findings:

- The L2121 Accounts Payable account was not properly utilized as it relates to the timely recording of credit card purchases.
- Disbursements/expenditures lacked initials and dates on receiving slips or invoices as evidence of receipt of goods.

The school's overall fund balance as of June 30, 2017 was \$66,187.60.

The overall fund balance reported by the school at June 30, 2017 was \$66,187.60. 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.

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, Ernest Ward Middle 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.

School Administration has been consistent for several years.

Ernest Ward Middle School last received a full audit in the 2013-2014 fiscal year. There was one matter that rose to the level of audit finding. This was a finding related to the Superintendent's approval missing from a disbursement greater than \$7,500.00. The policy and procedures related to purchases greater than \$7,500.00 were discussed during the Exit Conference.

The school has had the same principal and bookkeeper 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 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.

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, 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.

Control Risk for Ernest Ward Middle School has been assessed at moderate.

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

Transactional Samples

Statistical sampling for attributes has been chosen. This method allows conclusions to be drawn about the population based on statistical inference. If after testing we determine the sample does not provide adequate coverage of the total population, auditor judgment and

discussion with the Director of Internal Auditing are used to determine whether additional sampling methodologies are necessary (judgmental sampling, whole population, etc.).

The Fieldwork Phase

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

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, 7/1/2016 | \$ 69,876.71 |
| Total Receipts | 82,380.05 |
| Total Disbursements | (12,264.92) |
| Total Net Journal Entries | (73,804.24) |
| Ending Cash Balance, 6/30/2017 | \$ 66,187.60 |
| Audit Adjustments | - |
| Ending Fund Balance, 6/30/2017, Per Skyward | <u>\$ 66,187.60</u> |
| | |
| Cash Balance per Confirmation(s) | \$ 66,187.60 |
| Outstanding Deposits | - |
| Outstanding Checks | - |
| Other Reconciling Items | - |
| Ending Fund Balance, 6/30/2017, Per Confirmation(s) | <u>\$ 66,187.60</u> |

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 include in the reported June 30 financial information, unless otherwise indicated.

One adjusting journal entry was recommended.

As a result of our fieldwork, one additional journal entry was recommended:

To transfer the remaining balance in the C3010 8th Grade account to the G7000 General account, we recommend a journal entry be processed for \$805.32.

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

One finding related to lack of 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 (or initials) indicating verification of 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 utilization of the L2121 Accounts Payable account.

L2121 Account – Proper Utilization

Our testing indicated the L2121 Accounts Payable was utilized, but not properly for the Sam's credit card. Purchases were recorded at the time of payment of the statement, rather than at the time of each individual purchase or weekly.

The Manual provides specific guidelines regarding credit card purchases from internal funds. Section VIII, E.2e 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." This process is to keep account balances current and to avoid overspending.

See our recommendation in the Recommendations section below.

Opinion

The financial information reconciled with bank statements and independent confirmations.

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.

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

Review and instruct staff on policies and procedures related to evidence required to indicate receipt of goods.

Receipt of Goods

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

Review policies and procedures related to accounting for credit card purchases.

Utilizing L2121

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.**

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

Management Response



Ernest Ward Middle School

Nancy Gindl-Perry, Principal

Virkeisha Palmer, Assistant Principal

To: David J. Bryant
Office of Internal Auditing

From: Nancy Gindl-Perry
Ernest Ward Middle School *ng*

Date: September 29, 2017

Subject: Findings Internal Audit Report (2016-2017)

*OK
V. Palmer
10/3/17*

The 2016-17 Audit of our Ernest Ward Middle School records resulted in Two (2) findings.

FINDING #1:

- A. **The L2121 Accounts Payable account was not properly utilized as it relates to the timely recording of credit card purchases.**
- B. This violation occurred due to the fact that we were unaware the L2121 account was to be used for ALL credit cards, including our Sam's card, instead of the Compass p cards only.
- C. Since we now know that ALL credit cards are to be assigned to the L2121 account the bookkeeper will use that account for other cards as well.
In addition we will begin to use ONLY our p cards for purchases at Sam's as well since this is the only other credit card we have.

FINDING #2:

- A. **Disbursements/expenditures lacked initials and dates on receiving slips or invoices as evidence of receipt of goods.**
- B. Violations transpired due to teachers not returning the signed and dated packing slips to the bookkeeper once verification of the order was completed by them.
- C. We will correct this issue by implementing the following procedures:
 - 1. The bookkeeper will continue to notify the purchaser, by e-mail, when the goods are received at the school and retain the email for record keeping.
 - 2. Before taking the merchandise from the bookkeeper's office, the order will be verified for correctness by the responsible purchaser. The packing slip will be signed and dated by the purchaser and given to the bookkeeper before items can be taken to the classroom. This packing slip will be retained by the bookkeeper to attach to the original order form and payment information.

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Affirmative action / equal opportunity employer

*OK
OJB
10/6/17*