



District Financial Information Concerns: *Follow-Up of Audit Committee Recommendations*

Office of Internal Auditing
February 2014
Revised March 2014

APPROVED
ESCAMBIA COUNTY SCHOOL BOARD

APR 15 2014

MALCOLM THOMAS, SUPERINTENDENT
VERIFIED BY RECORDING SECRETARY

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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 District operational staff. We did not encounter any restrictions to records or personnel, which would prohibit us from expressing an opinion or offering recommendations.

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 Finance and Business Services staff for their cooperation and commitment during our follow-up engagement.



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Executive Summary

In May and June 2013, a series of events occurred regarding District financial matters, which prompted the Chair of the School Board to request guidance from the District's Audit Committee. After significant research and discussion, the Audit Committee provided a list of escalating recommendations to address "the lack of availability and accuracy of the financial information needed by the Board."

In July 2013, the Board met with the Superintendent, Audit Committee Chair, and various District staff to discuss their concerns, to address the Audit Committee's recommendations, and to determine the required appropriate actions. Certain actions were agreed to by consensus of the Board and Superintendent. The Board requested Internal Auditing to follow-up on the performance of those actions, and to provide a follow-up report within a reasonable period of time. This report represents that follow-up.

We were asked to follow-up on four major areas of concern: 1) lack of financial statements being provided to the Board, 2) failure of bank reconciliations to be performed in a timely manner, 3) failure of purchasing cards transactions to be reviewed in a timely manner, and 4) need of a review of the Finance function's operations. We conducted fieldwork in mid-to-late January. The results of our follow-up are as follows:

Monthly Financial Statements

It appears the District has implemented procedures which allow for the timely presentation and approval of financial statements by the Board.

Bank Reconciliations

It appears the District has had difficulty implementing procedures which allow for the timely reconciliation of bank accounts. At the time of fieldwork in January 2014, the General Clearing Fund account had not been reconciled since July 2013. The Payroll Fund account had not been reconciled since August 2013. The Risk Management Trust Fund account had not been reconciled since September 2013. The Employee Benefit Trust Fund account had not been reconciled since September 2013. According to Finance personnel, all accounts had one to two months "in process."

Note: At the time of this report, additional bank reconciliations were completed as follows: the General Clearing Fund account reconciled through November; the Payroll Fund account reconciled through November; the Risk Management Trust Fund account reconciled through November; and the Employee Benefit Trust Fund reconciled through December. In addition, the Superintendent is now providing the Board a

monthly report that details the status of all bank reconciliations.

Purchasing Card Reviews

It appears the District has implemented procedures which allow for the timely review of purchasing card transactions. Finance personnel is continuing to develop a sampling methodology (in lieu of reviewing 100% of transactions), and has indicated in the future they will also include unusual transactions (judgmental sampling) in their sampling as well.

Departmental Review

It appears a review of the Finance function's operation was done. Although an oversight committee was not utilized as intended, the Florida Association of District School Superintendents (FADSS) conducted a review of the Finance and Human Resources operations and provided recommendations for reorganization and operational efficiencies, which appears to have been the intent of the Audit Committee's recommendation.

Although a copy of the report has been provided to the individual Board Members, the FADSS report dated November 2013 has not been presented at a Board Workshop, so that the Board Members could openly discuss the report and its recommendations.

We **recommend** the Board meet to discuss the result of our follow-up actions and to determine the necessity of any further actions.

Background

The Skyward conversion impacted normal operations.

In January 2012, the District implemented new Enterprise Resource Planning (ERP) Software, Skyward. According to Finance personnel, the focus and priority of the Finance Department was payroll and accounts payable. Consequently, many other normal finance and business functions were delayed during this time.

In May 2013, the Director of Accounting exited the DROP program early and retired. In addition, shortly after the departure of the Director of Accounting, the Director of Budgeting was moved from the Director position to a Senior Financial Analyst position. During audit fieldwork conducted in July 2013, we noted District bank account reconciliations "in-process," but none had been completed since July 2012; and purchasing card reviews were significantly behind. Finance personnel stated these deficiencies were because of time spent adopting Skyward and difficulties implementing various functions of the system. According to Finance personnel, bank reconciliation training did not begin until February 2013.

There were difficulties producing reliable data from Skyward.

During a Special Budget Workshop held on June 25, 2013, Finance staff presented financial information for the School Board Members to consider in their deliberations of the District's annual budget. School Board Members noted discrepancies in the figures contained in the reports distributed during the meeting. Finance personnel informed the Board that these reports were generated by third-party programmers who attempted to replicate the traditional "Budget Book" format. Finance personnel determined that in some instances certain historical cost data was pulled from wrong fields in the General Ledger, which resulted in the reports placing otherwise accurate data into the wrong location. According to Finance personnel, budget information for the new year was not affected. After significant discussion, all agreed that the information would be withdrawn, revised, and provided to the Board Members at a later date.

On June 27, 2013, the School Board's General Counsel issued a memorandum titled "Concerns regarding Financial Information." In the memo she detailed her concerns:

- The Board had not received the statutorily required monthly financial statements "from July 2012 until this past month (June 2013)."
- The budgetary documents provided at the Special Board Workshop were "incorrect, and could not be relied upon."
- There had been significant turnover of Finance personnel, including the "abrupt departure of the Director of Accounting, and the demotion of the Director of Budgeting."
- The Director of Food Services "left abruptly, amid questions about that department's finances."

General Counsel expressed concern and advised the Board to take action.

General Counsel advised the Board that given the concerns, their fiduciary obligation to the public required action. She recommended further inquiry by the Board.

The Audit Committee provided the Board with recommendations.

The School Board Chair requested the District's Audit Committee assess the situation and provide the Board with recommended actions. On July 2, 2013, the Audit Committee met and discussed the matter. The Audit Committee Members expressed concern over the matter. Although the Committee understood the challenges of implementing the Skyward system, they stated, "We do not feel the circumstances justify the lack of or reliability of financial information, or the lack of adequate monitoring by the District." As the members were unaware of each Board Member's level of concern, or the collective sentiment of the Board, they felt it best to offer the Board an escalating set of recommendations.

The School Board met later on July 2, 2013 at a Special Workshop to discuss the District's budget and the recommendations from the Audit Committee. Finance personnel provided revised budget information, and

The Board and Superintendent agreed on several actions to be taken.

assured the Board that the information was now reliable. The Board Members, Superintendent, and staff discussed the details in the Audit Committee's recommendations. Ultimately the Board and Superintendent agreed by consensus to the following:

- The Board would be updated on the current status of:
 - Monthly financial statements
 - Monthly bank reconciliations for all District accounts
 - Purchasing card "audits."
- A committee would be formed to review the organizational structure and personnel of the Finance area, with the goal of increasing productivity and determining efficiencies and best practices.

The Board instructed Internal Auditing to monitor the status of corrective actions and report back to the Board.

Follow-Up Results

Monthly Financial Statements

July 2012 through April 2013 – These statements were provided to the Board at the July 2, 2013 meeting, and were approved by the Board at its Regular School Board Meeting on July 16, 2013.

May 2013 – Approved by the Board at its Regular School Board Meeting on June 18, 2013.

June 2013 – Approved by the Board at its Regular School Board Meeting on August 20, 2013.

July 2013 – Approved by the Board at its Regular School Board Meeting on September 17, 2013.

August 2013 – Approved by the Board at its Regular School Board Meeting on October 15, 2013.

September 2013 – Approved by the Board at its Regular School Board Meeting on November 19, 2013.

October 2013 – Approved by the Board at its Regular School Board Meeting on December 17, 2013.

November 2013 – Approved by the Board at its Regular School Board Meeting on January 21, 2014.

December 2013 – Outstanding as of the date of this report.

Conclusions

Financial Statements are being provided to the Board in a timely manner.

It appears the District has implemented procedures which allow for the timely presentation and approval of financial statements by the Board.

Bank Reconciliations

According to Finance personnel, it is typical and reasonable for staff to be working through one to two months reconciliations at the date of inquiry.

	<p>Reconciliations should be completed no later than 60 days after statement receipt. For example, if December's bank statement is received January 15, the account should be reconciled by no later than March 15 (60 days later). It is also expected that extended break periods, such as Winter Break, and the beginning of fiscal year, would affect the timeliness of the reconciliation process.</p>
<u>General Clearing Fund (as of January 17, 2014):</u>	
Reconciliations for July 2012 through July 2013 were completed.	<p>Status as of January 17, 2014</p> <p>July 2012 through March 2013 – Complete – These reconciliations were completed by Finance personnel in May/June 2013 and provided to Internal Auditing staff in June 2013.</p> <p>April 2013 through July 2013 – Complete – These reconciliations were completed by Finance personnel.</p> <p>August 2013 and September 2013 – Incomplete – Finance personnel were processing these reconciliations. These reconciliations were outside the “processing period,” and hence would be considered late.</p> <p>October 2013 through December 2013 – Incomplete – Finance personnel were not processing these reconciliations; however, they fall within Finance’s 60 day processing period, with consideration given for Winter Break.</p>
August 2013 and September 2013 were in process, but not completed as expected.	<p>Status as of Report Finalization</p> <p>The General Clearing Fund account’s bank reconciliations for August 2013 through November 2013 were completed.</p>
October 2013 through December 2013 fall within Finance’s 60 day processing period.	
At the time of this report, reconciliations through November 2013 were completed.	
<u>Payroll Fund (as of January 17, 2014):</u>	
Reconciliations for July 2012 through August 2013 were completed.	<p>Status as of January 17, 2014</p> <p>July 2012 through May 2013 – Complete – These reconciliations were completed by Finance personnel in May/June 2013 and provided to Internal Auditing staff in June 2013.</p> <p>June 2013 through August 2013 – Complete – These reconciliations were completed by Finance personnel.</p> <p>September 2013 – Incomplete – Finance personnel were processing this reconciliation. This reconciliation was outside the “processing period,” and hence would be considered late.</p> <p>October 2013 through December 2013 – Incomplete – Finance personnel were not processing these reconciliations; however, they fall within Finance’s 60 day processing period, with consideration given for Winter Break.</p>
September 2013 was in process, but not completed as expected.	<p>Status as of Report Finalization</p> <p>The Payroll Fund account’s bank reconciliations for September 2013 through November 2013 were completed.</p>
October 2013 through December 2013 fall within Finance’s 60 day processing period.	
At the time of this report, reconciliations through November 2013 were completed.	

Risk Management Trust Fund (as of January 17, 2014):

Reconciliations for July 2012 through September 2013 were completed.

October 2013 through December 2013 fall within Finance's 60 day processing period.

At the time of this report, reconciliations through November 2013 were completed.

Employee Benefit Trust Fund (as of January 17, 2014):

Reconciliations for July 2012 through September 2013 were completed.

October 2013 through December 2013 fall within Finance's 60 day processing period.

At the time of this report, reconciliations through November 2013 were completed.

The District has had difficulty performing bank reconciliations timely.

Risk Management Trust Fund

Status as of January 17, 2014

July 2012 through May 2013 – Complete – These reconciliations were completed by Finance personnel in May/June 2013 and provided to Internal Auditing staff in June 2013.

June 2013 through September 2013 – Complete – These reconciliations were completed by Finance personnel.

October 2013 – Incomplete – Finance personnel were processing this reconciliation. This reconciliation falls within Finance's 60 day processing period, with consideration given for Winter Break.

November 2013 through December 2013 – Incomplete – Finance personnel were not processing these reconciliations; however, they fall within Finance's 60 day processing period, with consideration given for Winter Break.

Status as of Report Finalization

The Risk Management Trust Fund account's bank reconciliations for October 2013 through November 2013 were completed.

Employee Benefit Trust Fund

Status as of January 17, 2014

July 2012 through May 2013 – Complete – These reconciliations were completed by Finance personnel in May/June 2013 and provided to Internal Auditing staff in June 2013.

June 2013 through September 2013 – Complete – These reconciliations were completed by Finance personnel.

October 2013 – Incomplete – Finance personnel were processing this reconciliation. This reconciliation falls within Finance's 60 day processing period, with consideration given for Winter Break.

November 2013 through December 2013 – Incomplete – Finance personnel were not processing these reconciliations; however, they fall within Finance's 60 day processing period, with consideration given for Winter Break.

Status as of Report Finalization

The Employee Benefit Trust Fund account's bank reconciliations for October 2013 through November 2013 were completed.

Conclusions

Although we agree it is typical and reasonable for District staff to be working through one to two months reconciliations at the date of inquiry, it appears the District has had difficulty implementing procedures which allow for the timely reconciliation of bank accounts. Due to the fact that the applicable month's bank reconciliation may or may not have been completed at the time Financial Statements were presented to the Board, the reliability of the financial information should be considered. The

General Clearing Fund account has reconciliations outstanding, with August 2013 being the oldest month. Approximately \$20-\$50 million flows through this account monthly. The Payroll Fund account has reconciliations outstanding with September 2013 being the oldest month. Between \$20-\$30 million flows through this account monthly. The Risk Management Trust Fund and Employee Benefit Trust Fund accounts both have reconciliations outstanding with October 2013 being the oldest month. Approximately \$300-\$400 thousand and between \$2-\$4 million, respectfully, flow through those accounts monthly.

Note: At the time of this report, and as mentioned above, additional bank reconciliations were completed as follows: the General Clearing Fund account reconciled through November; the Payroll Fund account reconciled through November; the Risk Management Trust Fund account reconciled through November; and the Employee Benefit Trust Fund reconciled through December.

Purchasing Card Reviews

There are 6 individuals who review both the administrative requirements of monthly reporting and the \$8 million of annual transactions. There are 20,000+ yearly transactions that occur across 450 different purchasing cards. Monthly reviews begin on the 10th of each month. Finance personnel relayed monthly reviews were not considered complete until the individual completed all of their assigned reviews. **On January 10, 2014**, the status of the reviews was as follows:

August 2013 through September 2013 – 5 of the 6 individuals had completed all of their assigned reviews. According to Finance personnel, the remaining deficiency was because the individual had transitioned to a new position, and the department was in the process of assigning the incomplete reviews.

October 2013 - 2 of the 6 individuals had completed all of their assigned reviews.

November 2013 - 1 of the 6 individuals had completed all of their assigned reviews.

December 2013 - 0 of the 6 individuals had completed all of their assigned reviews.

Finance management relayed that the District was satisfied with reviews of less than 100% of all transactions. They were not overly concerned if an individual had not completed all of their assigned reviews due to the intent to transition from reviewing 100% of transactions to a sampling methodology. In an effort to become more cost effective and time efficient, the District strived to develop a new sampling method that would encompass a retroactive approach to July 1st.

Note: Our office made several recommendations in the Food Service Audit report dated August 2013 specifically related to P-Card audits, which

Finance has implemented a system of sampling methodology for reviews.

Reviews of purchased card transactions are up to date.

Recommendation made to form oversight committee.

The Superintendent engaged FADSS to conduct a review of the Finance and HR operations.

included implementing a sampling methodology.

By the end of fieldwork in late January 2014, Finance personnel had completed all reviews. The outstanding reviews for August and September transactions, which were assigned to the transitioned employee, were divided amongst staff and completed. For transactions through October 2013, Finance personnel continued to review 100% of all transactions for all cardholders. The remaining outstanding reviews for October through December 2013 transactions were completed using a sampling methodology. The methodology involved reviewing a random sample of 20% of cards that had transactions. Although Finance desired a sampling methodology be implemented earlier, the sampling methodology was not implemented until during fieldwork.

Conclusions

It appears the District has implemented procedures which allow for the timely review of purchasing card transactions. In an effort to become more cost effective, time efficient, and have the reviews current by the end of fieldwork, we concur with Finance's decision to implement sample testing. Finance management has accepted the risks associated with not reviewing all transactions; given the cost/benefit of reviewing 100% of transactions. Finance personnel are continuing to develop the sampling methodology, and have indicated in the future they will also include unusual transactions (judgmental sampling) in their sampling.

Departmental Review

An oversight committee was not formed, as was the intention of the Audit Committee and the Board. According to the Superintendent there was a "miscommunication" concerning what actions would be taken. The Superintendent engaged the Florida Association of District School Superintendents (FADSS) to conduct a review of the Finance and Human Resources operations. The FADSS team included finance and human resource experts from school districts across the state, with an emphasis on school districts that use the Skyward school administration software program. They took a "close look" at the organization, staffing and the efficiencies of those departments and then offered recommendations in their report dated November 2013.

Although exit interviews were not conducted by the FADSS team, a significant number of current Finance personnel were interviewed. The process focused primarily on better utilization of the Skyward system.

Copies of the FADSS report were distributed to each Board Member.

Conclusions

It appears a review of the Finance function's operation was done. Although an oversight committee was not utilized as recommended, the

FADSS provided numerous recommendations.

Florida Association of District School Superintendents (FADSS) conducted a review of the Finance and Human Resources operations and provided recommendations for reorganization and operational efficiencies.

Note: FADSS reiterated our recommendations related to P-Card audits, including: "use of the data miner that is embedded in Skyward" and "conducting a random sample of P-Card invoices in place of the 100% audit."

At the time of this report, the FADSS Report had not been presented at a Board Workshop.

At the time of this report, the FADSS report had not been presented at a Board Workshop for discussion, so that Board Members could openly discuss the report and its recommendations.