



Seattle Public Schools Office of Internal Audit

**Internal Audit Report
Nathan Hale High School**

September 1, 2011 through June 30, 2012

Issue Date: September 11, 2012



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Executive Summary

Background

We completed an audit at Nathan Hale High School for the period September 1, 2011 through June 30, 2012. Although Nathan Hale High School was the focus of this audit, our primary goal was to evaluate the overall system of controls put in place by the District. The decentralized nature of a school district results in a situation where many key internal control and compliance functions are performed at the individual schools. The audits conducted at the individual schools will help ensure that these key functions are being performed and are having their intended effect. These audits will also help to highlight those areas where the schools may not have clear guidance on the procedures they are expected to perform, and it will identify those situations where the schools have not been provided adequate resources to perform these key functions properly. In addition to the findings and recommendations noted in this report, the Office of Internal Audit is also using the knowledge gained from the school audits to develop an annual risk assessment that will be used to identify future audit areas.

Roles and Responsibilities

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on October 11, 2011. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit with due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Scope and Objectives

The audit covers the period September 1, 2011 through June 30, 2012. The objective of the audit was to ensure compliance and strong financial internal controls in the following areas:

- Associated Student Body (ASB)
- Cash Handling and Receipting
- Disbursements
- Extra Time Reporting
- Risk Management
- Facility Usage
- Loss Reporting

Audit Approach and Methodology

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with central administration staff from Accounting, Payroll, Human Resources, Risk Management, Property Management, and Transportation, to ensure that we had a strong understanding of the District's compliance requirements.



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- Conducted a surprise cash count in order to observe operations in their normal environment.
- Interviewed school staff knowledgeable of each objective area.
- Analyzed available data to corroborate the information obtained.
- Examined accounting records and tested supporting documentation.

Conclusion

Based on the procedures we performed, Nathan Hale High School appears to have adequate internal controls in some of the objective areas. The areas where controls are not adequate are explained in this report. Although we did not identify any instances of missing funds, the internal controls over cash handling and receipting are not adequate to ensure that all funds were properly recorded and deposited into a District bank account.

This report contains recommendations that are applicable to both the school and central administration and are intended to improve overall accountability and transparency in the objective areas.

We are encouraged by the general desire of Nathan Hale High School staff to comply with District policies and procedures, and we extend our appreciation to the staff for their ongoing improvement efforts.

Andrew Medina

Andrew Medina, CPA, CFE
Director, Office of Internal Audit



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Findings and Recommendations

1) Cash Handling and Receipting Procedures

We identified numerous concerns related to cash handling and receipting. Although some were specific to ASB funds and some were specific to general funds, the following issues represent basic cash handling and receipting problems and therefore apply to both funds:

- The Fiscal Specialist does not always count funds and prepare a receipt in the presence of the depositor or another individual. During a surprise cash count conducted on May 24, 2012, we noted \$9,176.40 that had not been recorded on a receipt. Some of the un-receipted funds dated back to December 2011. Nathan Hale's cash handling issues are further complicated by the fact that the fiscal office also serves as a supply closet, and school employees frequently enter the office to obtain supplies.
- Although some funds received in the fiscal office are eventually recorded on a receipt, not all funds are recorded on a pre-numbered, District approved receipt before being deposited with the bank.
- Multiple District approved receipt books are used at a time, and the receipts are not controlled to ensure that all receipts are accounted for and used in chronological order.
- Funds are not always deposited into a District bank account once every 24 consecutive hours, as required by RCW 43.09.240.
- Nathan Hale allowed a booster club to secure funds in the school safe. If ASB and booster club funds are commingled, the entire amount would be considered public money and would be subject to all state laws that pertain to ASB funds.

The current procedures do not provide adequate documentation, and they increase the risk of theft, loss, or abuse. Although we did not identify any specific instances of missing funds, the current procedures prevent us from providing assurance that all funds received by the school were properly deposited into a District bank account.

Recommendations

In order to ensure accountability for public resources; reduce the risk of theft, loss, or abuse; and protect itself and its staff from unnecessary scrutiny, we recommend that Nathan Hale High School:

- Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day. Funds should not be kept in a temporary location if they were received before the fiscal office closes for the day.
- Complete a receipt in the presence of the depositor, immediately upon receipt of funds, after both people agree to the amount of funds deposited. If this is not feasible, then alternative procedures should be implemented to ensure that the amount of funds turned in to the fiscal office is accurately recorded on a District receipt. For example, the school could implement the following alternative envelope procedures:



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- The depositor can place the funds in a sealed envelope, write the cash and check amounts on the outside of the envelope, sign in ink across the seal, and place the envelope in a secure location. When the Fiscal Specialist or Administrative Secretary is ready to count the funds, another individual should be present. Both individuals should examine the envelope to ensure that the seal has not been broken, and then count the funds together. The Fiscal Specialist or Administrative Secretary should sign and issue a receipt, and the other individual needs to initial the receipt to acknowledge his or her agreement.
- Use either a District approved ASB or a District approved general fund receipt to record all funds collected.
- Account for all receipts issued to the school, and require that each receipting location only use one receipt book at a time to ensure that receipts are issued in chronological order.
- Deposit all funds collected into the District's bank account every 24 hours.
- Follow the District *ASB Procedures Manual* and avoid securing booster club funds at a District facility.

We recommend that the District Accounting Department strengthen the language in the *ASB Procedures Manual*. Specifically, the *Manual* should highlight that:

- Schools need to account for all receipts issued to the school. Only one receipt book should be used at a time, unless special circumstances exist. Each receipt book should be used in its entirety before starting a new book.
- Receipts are to be completed immediately upon receipt of funds, in the presence of the depositor. This should be stressed as a high priority to all Fiscal Specialists and Administrative Secretaries. If it is absolutely not feasible to count funds and prepare a receipt in the presence of the depositor, then alternative procedures (such as the envelope procedures described above) should be implemented to ensure that the amount of funds turned in to the fiscal office is accurately recorded on a District receipt.
- All funds collected must be deposited with the District's bank every 24 hours, as required by RCW 43.09.240.
- Funds must be deposited with the fiscal office on the same day that they are collected. It is not acceptable to maintain funds in a classroom if they were collected before the fiscal office closes.

We also recommend that the District's central administration:

- Make training that focuses on the relevant state laws and District procedures governing ASB activities mandatory for fiscal specialists, coaches, principals, ASB activity coordinators, and any other staff who may be responsible for cash receipting activities. District training currently provided to Fiscal Specialists should emphasize that it is in each



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Fiscal Specialist's best interest to strictly enforce these policies with their school staff. In order to protect themselves against claims of mishandling money, they need to follow District procedures, and they need to maintain adequate supporting documentation.

- Make the Finance Department procedure entitled "General Fund Cash Handling Procedures" (dated 4/30/07) more identifiable and easily accessible. Currently this procedure is not easy to locate on the District website. This procedure should also undergo a comprehensive review to ensure that it contains the same requirements as noted in the District's *ASB Procedures Manual*, including the above recommended enhancements.
- Alter the general fund receipts available through the District warehouse to include a place to record the breakdown of cash and checks received. The cash and check breakdown of each receipt is critical in order to prevent and detect a cash for check substitution scheme.
- Strongly consider implementing an automated point of sale system that would eliminate the need for manual receipts and would standardize the school accounting systems. Currently schools use a variety of methods to account for their funds, including manual systems, Excel spreadsheets, and QuickBooks. A point of sale system would be more efficient, and would provide substantially greater accountability of school funds.

2) Extra Time Reporting

Some certificated staff extra time is compensated based on extra time budget allocations rather than on actual hours worked. Nathan Hale pays extra time for a predetermined number of hours per month for these employees. The school does not require these employees to record in employee self service (ESS) or otherwise report the details of the work performed, such as the date, reason for the extra time, and total hours worked.

Recommendations

We recommend Nathan Hale:

- Pay extra time only for actual hours worked, as it is earned, and within the appropriate budgets.
- Work with the District to determine whether this extra time should be reported via ESS only or supported with Extra Time Reporting Forms.

3) Risk Management

An overnight field trip was not preapproved by the Risk Management Department, as required by School Board Policy 2320, "Field Trips and Excursions."

Recommendation

We recommend Nathan Hale notify the Risk Management Department of all overnight fieldtrips, in advance, and implement a control to ensure that all future trips receive preapproval.



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Management Responses

- **Response Received from Nathan Hale High School**

*MANAGEMENT RESPONSES TO INTERNAL AUDIT REPORT
NATHAN HALE HIGH SCHOOL
SEPTEMBER 1, 2011-APRIL 30, 2012*

We appreciate the thoroughness of the audit of Mr. Medina and are pleased the he found the majority of our practices to be in line with District and State policies. Although we would appreciate greater District support in correcting some of the identified shortcomings (Armored Car money pick up, Point of Sale system, online/credit card payments, paid overtime for making sometimes unrealistic deadlines for our Fiscal Specialist, etc.), we will do everything we can in our building to make necessary corrections.

Below is a bullet point explanation of how we will rectify your identified shortcomings. School personnel will:

Cash Handling

- *Count funds and prepare receipt in the presence of depositor or other individual when received.*
- *Use pre-numbered, district approved receipts.*
- *Make sure all receipt books are accounted for and in chronological order.*
- *In lieu of District pick up, travel to the bank each day to make daily deposit.*
- *No money, other than Nathan Hale High School money, will be secured in our one building safe.*

Extra Time Reporting

- *All staff at Nathan Hale receiving extra time will be required to complete appropriate form(s) prior to hours/time being entered into SAP/Payroll system.*

Risk Management

- *All field trips, especially overnight, will be preapproved by District Risk Management Department prior to event.*

Prepared and submitted by Jill Hudson, Principal

- **Response Received from central administration**

The Finance Department concurs with the findings and will enhance the Extra time reporting procedures, the ASB Procedures manual and the General Fund Cash Handling Procedures to provide better guidance to our schools. We will continue providing on-going training to the Fiscal specialist and Time Keepers focusing on areas of high risk and/or needing improvement and will partner with the Executive Director of Schools and School Principal to support Nathan Hale School as they take corrective actions on their audit issues and as we make this fiscal



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compliance training mandatory for school personnel who may be responsible for cash receipting activities.

The Finance Department and the Department of Technology have evaluated a technology solution which can help automate the cash handling function in our schools. After review of one such solution, the District has opted to continue its search for a solution that will meet the district's needs. Such technology solutions will be prioritized along with other projects competing for our limited resources.