



Seattle Public Schools The Office of Internal Audit

Internal Audit Report

Central Administration Cash Handling and Deposits

Issue Date: September 13, 2016



Internal Audit Report Central Administration Cash Handling and Deposits

Executive Summary

Background

This audit was conducted by Gary Nystul, an independent contractor. When a member of the Internal Audit Department resigned in March, Gary was contracted with to assist with the annual internal audit plan. This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on October 6, 2015. This area was initially selected for audit to evaluate the process for transporting funds from the individual schools to the bank, and the process for posting deposits to the centralized accounting system.

The independent report with additional background information, observations, recommendations, and a management response is on the following pages.

Andrew Medina

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

GARY NYSTUL
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August 29, 2016

Andrew Medina CPA CFE
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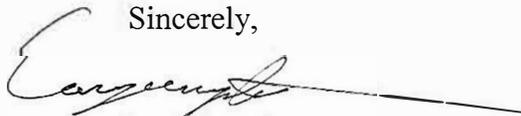
Dear Mr. Medina:

Attached is my report: Audit of the District's Central Administration Cash Handling and Deposits. This work was performed as an independent contractor under a District personal services contract.

I appreciate the assistance provided by the many staff members of the District and the Administrative Secretaries and Fiscal Specialists in the schools visited. The assistance of Elma Allen, Cash Office Coordinator, and Erma Meeks-Hill, ASB Trust Analyst was also greatly appreciated.

Thank you for the opportunity to provide this professional service to you. Please contact me for any additional information.

Sincerely,



Gary Nystul

SEATTLE PUBLIC SCHOOLS AUDIT OF THE DISTRICT'S CENTRAL ADMINISTRATION CASH HANDLING AND DEPOSITS

INTRODUCTION

The purpose of this audit was to review the process for depositing funds received by the schools with the bank. Schools receive money from students, parents and others for various purposes. Money received for school dances, prom, yearbook, athletic events, and etc. are to be deposited in the Association Student Body Fund (ASB). Money received for book fines, material fees for art and similar classes, is deposited into the General Fund. Nutrition Services money is also deposited into the General Fund.

REVIEW OBJECTIVES

The objectives established in the contract were:

- Examine risks associated with the safety and security of transporting school funds to the commercial bank
- Timeliness and accuracy of posting deposits to the District SAP system
- Internal controls over centralized cash receipting and deposits

SUMMARY OF FINDINGS

- The process of transporting money from the schools to the district office has good internal control features
- There are some issues relating to reconciling the deposits
- There is an issue for school staff reconciling money due to the time required to post receipts to the school accounting system
- The lack of current software causes issues in the schools for accounting of these funds

SCOPE AND METHODOLOGY

Financial data from the start of the school year (September 2015) through the time of the filed work (May 2016) was considered. One day was spent riding one of the three mail routes to observe the process and procedures of receiving the deposit bags and transporting them to the mail room. Site visits were made to 18 schools to inquire of the Administrative Secretary or the Fiscal Specialist, about their procedures and documents used. Inquiry was also made of departments in the district office who receive money.

BACKGROUND

From the start of the school year to April of this year the district has received over \$3 million from the schools for ASB, over \$3 million in Self Help General Fund, and over \$3 million for nutrition services. Daily deposit amounts from individual schools for ASB ranged from \$3.00 to \$97,860 with an average of \$1,363 and a median of \$460. Self Help General Fund deposits ranged from \$3.00 to \$115,391.

Depending on the school, either the Administrative Secretary or the Fiscal Specialist is responsible for the preparation of the receipts and deposits, and keeping track of the various accounts. The schools write manual receipts for all money. The receipt books are pre-numbered and have three copies of each receipt.

Classroom teachers often collect for events such as field trips. They follow standard procedure and turn in each day's collections to the Administrative Secretary or the Fiscal Specialist. Some schools have a student store that also receives money. School athletic events and drama productions may also have revenue. The Admin Secretary/Fiscal Specialist issues a receipt to the individual giving them the money and prepares the daily deposit.

Deposits are to be made daily to comply with state law and are recorded on a deposit slip which is pre-printed with the school/cost center. The bank transmits the deposit data to the district accounting office. Nutrition Services deposits are automated for posting to the accounting system. Other deposits are manually posted.

The school nutrition program uses a point of sale system. At each school money received for each student's meal is recorded in an on-line system. At the end of the day the school nutrition supervisor prepares a Daily Summary Report. The report totals checks and cash received during the day. The school nutrition staff prepares a bank deposit slip and places it along with the day's receipts into the deposit bag. The bag is then securely transported by the driver to the district vault each day. The daily summary report is kept at the school. An inquiry of the process used for the point of sale was not made.

OBSERVATIONS AND RECOMMENDATIONS

1. The process of transporting money from the schools to the district office is secure

Each school has several locking deposit bags which are individually numbered. Keys for each bag are kept by the school. The delivery drivers transporting the funds do not have access to the keys required to open the bank bags. There is one set of bags for nutrition services and one for school activities. School staff enters the bag number(s) on the driver's log and signs the form when the driver accepts the bag. Staff was observed ensuring the bags were locked when given to the driver. The driver deposits the bank bags into a drop safe inside the delivery vehicle. The drop safe is bolted to the floor and

inaccessible to the driver. The number of bags collected and transferred to the vault is reconciled by the driver and the central office staff and recorded in a log. Risk of loss of a deposit between a school and the bank is minimal.

There are no recommendations for this procedure.

2. There are some issues relating to the deposits

Discussion with staff disclosed some issues with the bank deposits. Some instances were reported when the school has written over the micr coding on the deposit slip. The armored company cash count staff is not able to determine which school code to record the deposit and the district has to “guess” which school it is from in order to post to SAP.

Some instances were reported where deposits did not contain all of the checks or currency listed on the deposit slip. One reason given by district staff for this issue was lack of training. Another reason given was that there does not appear to be communication from the district staff to the schools to note these issues and assist in correcting.

RECOMMENDATION

- The district should consider a training requirement for school staff handling money.
- The district should consider a procedure for communicating problems with deposits to school staff.

3. Issues due to the time required to post receipts to the school accounting system

Deposits are made daily to the bank. Two separate procedures are used to record these deposits in the SAP accounting system.

An *ASB Daily Summary of Cash Deposit* form is prepared for ASB money and sent by email to the district office. The ASB Trust Analyst extracts the data from the electronic report and posts to SAP. However, this posting has taken up to 45 days after the deposit. The schools report that this late posting has occurred most of the year.

The General Fund deposit is a paper General Fund Deposit Summary form prepared and sent via district mail to the district office. Photo copies of checks over \$99 are to be included along with a copy of the deposit slip. The Cash Office Coordinator manually posts the data from the deposit form to SAP. The standard procedure of the Cash Office is to have all deposits entered and reconciled by the 10th of the following month.

School staff must be able to reconcile these deposits in a timely manner for good control procedures. The staff at the schools noted that the delay in posting of receipts makes it more difficult to reconcile. Timely reconciling enables the ability to resolve differences.

In addition, the late posting causes delays in using the money since it cannot be spent until it is recorded. For example, one school received a grant for purchasing iPads for the library. However, they report that it took from December 8, 2015 to January 14, 2016 for the deposit to be posted to SAP before they were able to purchase the iPads.

RECOMMENDATION

- District management should review the daily deposit process. A determination should be made if it is reasonable to have two different processes.
- A review of the workload of the individuals responsible for posting daily receipting to SAP may disclose some reasons for the posting delay.
- Installing a point of sale system could enable posting transactions automatically, thus eliminating the need for manual posting.
- Establishing standard monthly closing dates may facilitate timely posting.

4. School staff follows district procedures in receipting and depositing money

From observation and inquiry of staff in the schools visited, they use the standard receipt books and procedures. Staff is knowledgeable about making timely deposits and not leaving money in classrooms overnight. There are variations of receipting for field trips, sales of yearbooks, required classroom supplies and student stores. However, they appear reasonable. Staff exhibited a conscious effort to double check red bags to ensure they were locked when handing to the mail driver. While most schools visited have safes, some are quite old and it is unknown when combinations may have been changed. Individual school daily deposits, excluding nutrition services, ranged from \$3.00 to \$115,391 (mostly checks).

There are no recommendations for this procedure.

5. There are software issues in the schools for accounting for these funds

The schools visited use Quicken, Quick Books, Excel, EPES and Herf-Jones software to account for the various accounts they maintain for the students. The SAP system does not provide sufficient detail for the schools. The high schools can have 60 accounts for which they are accountable. They use Excel and the other software programs to be able to report the revenue, expenditures and balances to the various organizations on a timely basis.

The schools also write manual three part paper receipts. As a result, they are not able to answer parents' questions about the various school costs for their children. A manual search of individual receipts would be required to determine this amount.

Updating to current computer software systems would enable preparing computer generated receipts. They could also be electronically posted to the school activity account as well as recording individual student financial activity.

RECOMMENDATION

- The use of computer software for student accounting system should be investigated and implemented.
- The schools report there are many requests for the use of debit cards or credit cards. Computerized point-of-sale systems would allow for such use.

Management Response

We concur with the recommendations. The primary resolution is dependent on the Point of Sale system which has been recently funded. Procedures and training will be enhanced as recommended.