



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Central Administration Support of Items Related to Schools
September 1, 2013 through February 28, 2014**

Issue Date: June 19, 2014



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Executive Summary

Background

We completed audits at Roosevelt High School, Garfield High School, Maple Elementary School, and Schmitz Park Elementary School for the period September 1, 2013 through February 28, 2014. Although each school was the focus of their own audit, our primary goal was to evaluate the overall system of controls and operations 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 help ensure that these key functions are being performed and are having their intended effect.

This audit highlights those areas where the schools may not have clear guidance on the procedures they are expected to perform, and it identifies those situations where the schools have not been provided adequate resources to perform these key functions properly. This audit is geared towards the support provided by central administration, whereas the individual school audit reports were aimed directly at the schools. In addition to the findings and recommendations noted in this report, the Office of Internal Audit is also using the knowledge gained from this audit and the school audits to develop an annual risk assessment that will be used to identify future audit areas.

Roles and Responsibilities

This audit is considered an extension of the school audits that were completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on September 10, 2013. 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 using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Objectives

To ensure that central administration is providing adequate guidance to schools in the following areas:

- Associated Student Body (ASB)
- Cash Handling and Receipting
- Disbursements
- Payroll
- Volunteers
- Risk Management
- Loss Reporting



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Scope of the Audit

September 1, 2013 through February 28, 2014

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, and Risk Management to ensure that we had a strong understanding of the District's compliance requirements.
- Interviewed school and central administration 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, central administration appears to be providing adequate guidance and support to schools in each of the objective areas, except for the items noted in this report. This report identifies recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the central administration and school staff for their assistance and cooperation during the course of the audit.

Andrew Medina

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Director, Office of Internal Audit



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Findings and Recommendations

1) Cash Receipting Systems and Locations

The District does not have a unified receipting system or district-wide expectation for how schools establish their cash receipting and accounting systems. Each school decides which receipting systems will be used to collect payments, where students will be allowed to make payments, and what accounting systems will be used to track funds.

The different receipting systems we noted during our audits include:

- Writing manual receipts.
- Entering receipts into a cash register.
- Depositing funds without receipting them.
- Using an attendance based system for funds collected by teachers in classrooms.
- Using different procedures for ASB and General Fund money, including:
 - Preparing an electronic deposit form for ASB money and a hardcopy deposit form for General Fund money.
 - Requiring a photocopy of checks over \$100 when preparing a General Fund deposit, but not requiring a photocopy of checks over \$100 when preparing an ASB Fund deposit.

The different receipting locations include:

- The main office.
- The fiscal office.
- The student store.
- Various classrooms.
- Various departments throughout the school, such as the activities office and the athletics office.

The different accounting systems include Microsoft Excel, Destiny, or EPES Accounting. In previous school audits we noted schools that use QuickBooks and manual ledger systems.



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During our school audits, we noted the following:

School	Receipting Systems Used at the School	Receipting Locations at the School
Roosevelt HS	5	20+
Garfield HS	4	20+
Maple ES	2	5+
Schmitz Park ES	2	5+

Each school is left to decide for themselves if all students will be required to turn funds into the fiscal office, or if they will be allowed to turn funds into one of the other receipting locations listed above. The lack of guidance and standardization of the receipting systems increases the likelihood of mistakes, theft, loss, and abuse.

In addition, the unique combination of systems used at each school makes it impractical for fiscal specialists to borrow a neighboring fiscal specialist during periods of vacation or sick leave, or to train a backup to operate the system when the primary fiscal specialist is unexpectedly unavailable. Currently, none of the identified schools have a backup fiscal specialist.

The *ASB Procedures Manual* does not provide adequate guidance to the schools on how to set up their cash receipting or accounting systems. The *ASB Procedures Manual* identifies the minimum compliance requirements necessary to properly account for funds, but it does not offer any best practices to the schools on how to implement an effective system of controls that will also allow the schools to work efficiently. As a result, all of the schools we audited this year received a finding related to cash handling and receipting.

We also noted that some schools offer payment plans to parents and students for ASB items, field trips, and District activities. The payment plans are tracked via Microsoft Excel spreadsheets by the Fiscal Specialists.

Recommendation

We recommend the District's central administration:

- Create a standardized receipting system for both elementary and secondary schools that will serve as a best practice for schools to follow.
- Establish a formal evaluation and approval process of the schools that choose to deviate from the standardized system.
- Unify the expectations and procedures related to cash receipting and accounting between the General Fund and ASB Fund to eliminate confusion, complexity, and risk.
- Require annual training for fiscal specialists, coaches, principals, ASB activity coordinators, athletic directors, teachers, and any other staff who may be responsible for cash receipting activities that focuses on the relevant state laws and District procedures



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governing cash handling and receipting procedures for both ASB and general fund activities.

- Add language to the *ASB Procedures Manual* specifically indicating that receipts must be written when checks are received by the school.



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2) Electronic Point-of-Sale System

The District does not have an electronic point-of-sale system. It relies solely on manual receipting systems to collect more than \$9 million annually in cash and checks from students, parents, and organizations across its 95 schools. The finding noted above, Cash Receipting Systems and Locations, is centered on the District's use of manual receipts, and would be largely eliminated by the implementation of an electronic point-of-sale system.

A manual system has more inefficiencies and weaknesses than an electronic point-of-sale system, such as:

- Schools are required to write by hand the date, amount, revenue/activity code, cash/check composition, and name of the depositor on every receipt issued. Schools can write hundreds of receipts a day. Writing manual receipts for each transaction increases the risk of errors and is time consuming.
- The manual system requires duplicate effort by District staff. At many schools the fiscal specialist will write a receipt for funds that were already recorded on a receipt when they were collected at a remote receipting location, such as a classroom or the main office. In addition, the Accounting Department has to manually enter receipt information into the general ledger system once the paperwork is received by central administration staff. Manual entries increase the risk of errors, and result in duplicate efforts that require additional staff time.
- The manual system delays the school's ability to access accurate and timely financial information. It currently takes up to six days for central administration to enter receipt information into the SAP system. It can take the school's fiscal specialist up to a month to manually post all transactions to the school's local accounting system and reconcile it with SAP. Therefore, activity advisors and coaches may have to wait as long as one month to receive accurate financial accounting of their group's activity.
- In order to establish an adequate receipting system, the school must account for all manual receipt numbers. This requires the fiscal specialist to track and reconcile all receipt books, in all receipting locations, to ensure that each manual receipt has been either deposited with the fiscal office, is intact in the receipt book, or has been properly voided. This can be extremely tedious and time consuming for schools that have more than a couple of receipting locations, such as Garfield and Roosevelt High Schools where there are more than 40 different receipting locations. A point-of-sale system will greatly reduce the need to write and track manual receipts, and will automatically account for all electronic receipts.
- Schools are unable to accept payments via credit/debit cards. Payments are only accepted via cash and checks.

A point-of-sale system is likely to result in money being deposited into the ASB fund more timely. The point-of-sale system will create a centralized receipting location for all funds and will eliminate the need for secondary teachers, activity advisors, and coaches to collect money from



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parents and students. This will not only free up valuable teacher time, but it will also reduce those instances where staff failed to deposit all funds with the fiscal office. During our school audits, we noted several deposits that were not made timely due to school staff holding funds for extended periods of time before depositing them with the fiscal office. A point-of-sale system will also greatly reduce the risk of funds being spent before they are deposited with the fiscal office.

In addition, we contacted six neighboring school districts of various sizes. Of the six contacted, none were still using a manual receipting system.

Recommendation

We recommend the District implement an electronic point-of-sale system. A point-of-sale system would eliminate the need for manual receipts, it would standardize the schools' receipting systems, and it would substantially address the concerns noted in the Cash Receipting Systems and Locations finding noted above. It would also be more efficient and would provide substantially greater accountability of school funds.



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3) ASB Activity Approval and Reconciliation Form

The “ASB Activity Approval and Reconciliation” form is essential in verifying that activities are properly approved by the ASB Council, and that the proper amount of funds have been collected and deposited into the school’s bank account. The reconciliation form allows schools to ensure that their actual profits are reasonable when compared to their planned activity, and to identify potential instances of missing revenue.

During our audits, we noted that the ASB Activity and Reconciliation form was not being consistently prepared by the schools. For some activities the form was completed, for some it was only partially completed, and for others the form was not used at all. We also found that the preparer and keeper of the form varied between schools. At some schools the Fiscal Specialist kept the completed form, at others the ASB Coordinator maintained the form, and some schools gave the form to the ASB Council.

Our audits also revealed that the schools are not using the form to its full potential. One of the biggest advantages of this form is that it identifies both the planned profits to be generated by a fundraiser, as well as the actual results of the fundraiser. Schools are not analyzing the completed forms to determine if their fundraisers were profitable, or if perhaps there are missing revenues or other anomalies that should be investigated. Schools generally lack understanding of who should be performing this analysis.

At the elementary level, we were informed that the form does not need to be prepared because elementary schools do not have an ASB Council. Instead, the principal of an elementary school has complete authority to act on behalf of the ASB. Therefore, the principal’s signature on any document will illustrate proof of approval by both the principal and ASB. The *ASB Procedures Manual* allows for exceptions regarding many ASB related requirements at the elementary level; however, it does not provide such an exception in regards to preparing the reconciliation form. In addition, the manual allows the principal to delegate their ASB authority to school staff. If ASB authority is delegated, and the reconciliation form is not prepared, an elementary school would be unable to demonstrate that ASB activities had been properly approved.

Recommendation

We recommend the District provide additional guidance and training on the use of the ASB Activity Approval and Reconciliation form, and designate responsibility for maintaining the form, as well as responsibility for following up on any variances identified on the form.

We also recommend the District update the *ASB Procedures Manual* to clarify when elementary schools are required to prepare the ASB Activity Approval and Reconciliation form. We further recommend the District either: 1) remove the ability of an elementary school principal to delegate their ASB authority if the form is not required, or 2) require elementary schools to prepare all ASB forms required of secondary schools when the principals delegate their ASB authority to staff.



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Management Responses

Response Received from Central Administration

We concur with the recommendations. The primary resolution depends on a Point of Sale system for the schools, and is dependent on funding becoming available. Procedures and trainings will be enhanced as recommended.