



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Washington Middle School**

September 1, 2011 through January 31, 2012

Issue Date: June 12, 2012



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Executive Summary

Background

We completed an audit at Washington Middle School for the period September 1, 2011 through January 31, 2012. Although Washington Middle 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. This audit 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 using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Objectives

To ensure compliance and strong financial internal controls in the following areas:

- Associated Student Body (ASB)
- Cash Handling and Receipting
- Disbursements
- Payroll
- Risk Management
- Facility Usage
- Equipment Tracking
- ORCA Cards
- Personal Service Contracts
- Loss Reporting

Scope of the Audit

September 1, 2011 through January 31, 2012



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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.
- 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

Although we did not identify any specific instances of missing funds, the lack of adequate internal controls relating to cash handling and receipting prevents us from providing positive assurance that all funds were properly recorded and deposited into a District bank account. Based on the procedures performed for the other objective areas, the school appears to have adequate controls, except for the items noted in this report. This report identifies several recommendations that are applicable to both the school and the central administration, that are intended to improve the overall accountability and transparency of the objective areas.

The Principal and the Fiscal Specialist at Washington Middle School have made significant efforts to improve fiscal accountability at the school, and we are encouraged by their general desire and effort to improve the District. We extend our appreciation to the staff at Washington Middle School for their assistance, cooperation, and coordination efforts during the course of the audit.

Andrew Medina

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



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Findings and Recommendations

1) Cash Handling and Receipting Procedures

During the course of our audit we identified the following concerns related to cash handling and receipting. Although some instances were specific to ASB funds and some were specific to general funds, the following issues represent basic cash handling and receipting problems that apply to all funds:

- Funds collected by staff members are not always turned in to the fiscal office on the same day that they are collected.
- The Fiscal Specialist does not always count funds and prepare a receipt in the presence of the depositor or another individual.
- Not all receipts used by the school are prenumbered.
- The general fund receipts supplied by the District warehouse do not provide a space to record the breakdown of cash and checks received.
- Multiple receipt books are used at one 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 within one day of being collected.

The current procedures do not provide adequate documentation, and they increase the risk of theft, loss, and abuse. We do not suspect that an actual loss of funds occurred; however, the current procedures prevent us from providing positive assurance that all funds received by the school were properly deposited into a District bank account.

Recommendation

In order to ensure accountability and to protect itself, and its staff, from unnecessary scrutiny, we recommend that the 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.
- Immediately complete a receipt in the presence of the depositor, 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 needs to be present. Both individuals need to examine the envelope to ensure that the seal has not been broken, and then count the funds together. The Fiscal Specialist or Administrative Secretary needs to sign and issue a receipt, and the other individual needs to initial the receipt acknowledging his or her agreement.

The school should make every effort possible to count funds and prepare a receipt in the presence of the depositor. Any alternative procedures implemented should only be used in those rare instances when this is not feasible.

- Account for all receipt numbers 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 and safeguarded against inappropriate usage.
- Deposit all funds into the District's bank account within one day of being collected, as required by RCW 43.09.240.

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, and each receipt book should be used in its entirety before starting a new book.
- Receipts are to be completed as soon as funds are received by the fiscal office, 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.
- Deposits must be made with the bank within one day of being collected, 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 temporary location if they were collected before the fiscal office closes.

We also recommend that the District:

- 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



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noted in the District's *ASB Procedures Manual*, inclusive of the above recommended enhancements.

- Alter the general fund receipts available through the District's 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.
- Continue training Fiscal Specialists and Administrative Secretaries on proper cash handling and receipting procedures, and emphasize that it is in their best interest to strictly enforce these policies with their school staff members. In order to protect themselves against claims of mishandling money they need to strictly follow District procedures, and they need to maintain adequate supporting documentation.
- 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) Restrictive Endorsement

During a surprise cash count conducted on February 14, 2012, we discovered checks in the fiscal office that had not been restrictively endorsed immediately upon receipt, as required by the District's *ASB Procedures Manual*.

Recommendation

We recommend that all checks be restrictively endorsed immediately upon receipt in the school's fiscal office. This will reduce the risk of a check being deposited into a non-District bank account.

3) Student Store Change Fund

The student store change fund was established with personal funds provided by the Fiscal Specialist.

Recommendation

We recommend that all personal funds be removed from the student store change fund, and that the school follow the procedures outlined in the District's *ASB Procedures Manual* to properly establish and maintain all change funds.

We also recommend that the District make two changes to the *ASB Procedures Manual* regarding change funds that will reduce the risk of loss and abuse of District funds:



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- Checks should not be made payable to cash. Instead, the imprest check used to establish the change fund should be made payable to the employee that will take the check to the bank.
- All change funds should be counted at least monthly to ensure that all funds are on hand and accounted for.

4) Student Store Operations

The student store is operated by the Fiscal Specialist, and does not involve any students. This operation is not in line with the District's *ASB Procedures Manual* which states that, "The primary purpose of a student store is to help students learn how to operate a business enterprise, including all the record keeping, ordering, cash and inventory procedures."

Additionally, the current procedures create a situation where the Fiscal Specialist is individually responsible for authorizing, processing, recording, and reviewing a single transaction. This lack of segregation of duties is also prohibited by the District's *ASB Procedures Manual*.

Recommendation

We recommend that the school alter its student store operation to ensure that it is in compliance with the District's *ASB Procedures Manual*.

6) Fundraiser Reconciliation

An "ASB Fund Raising Sales and Profit Analysis" form was not completed for each ASB fundraiser that occurred. This form, or an alternative reconciliation document, is essential in verifying that the proper amount of funds have been collected and deposited into the school's bank account.

Recommendation

We recommend that the school follow the fund raising procedures outlined in the District's *ASB Procedures Manual*, and complete an "ASB Activity Approval and Reconciliation Form," which was recently revised on March 27, 2012, for all ASB activities occurring at the school.

7) ORCA Cards

Funds collected from students for lost ORCA cards were not immediately deposited with the school district depository account as required by the District Finance Department Policy entitled, "General Fund Cash Handling Procedures." Instead, funds from lost ORCA cards were sent to the Transportation department through unsecured inter-office mail. The school indicated that this was the procedure they were instructed to follow by the Transportation Department. The school also indicated that they never received any instructions from the Transportation Department on how to properly safeguard and track the ORCA cards issued to the school.



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Recommendation

We recommend that all funds received by the school, regardless of the source, be deposited directly into a District bank account within one day of receipt.

We also recommend that the Transportation Department review the ORCA card procedures to ensure adequate accountability and safeguarding.



Management Responses

- **Response Received from Washington Middle School**

May 24, 2012

*Andrew Medina
Internal Auditor
Seattle School District*

Mr. Medina,

Thank you for the opportunity to review your findings and to meet with your to discuss concerns raised or answer questions that resulted from the audit. While we did feel a bit singled out in some of the language or the findings, we also recognize that the goal is to help the entire district improve fiscal practices, and to ensure public trust is grown. On our end, we will undertake the following actions beginning with the fiscal year opening in September 2012:

- *Develop specific schedules for staff to make deposits with our Fiscal Office, and communicate this, along with the deposit expectations that all staff are to follow, during the August and September training dates*
- *Look into the purchase of five bank deposit bags which will allow us to better handle cash or checks brought to the Fiscal Office outside of expected hours or during evening events.*
- *Offer to be part of a pilot for the “point of sale” system referenced in the audit that will link with the new information software SPS is exploring*
- *Work with the ASB and Accounting staff to ensure that all of our team is aware of basic accounting practices and any new regulations or procedures, including updates to our staff handbook*
- *Train our Head Secretary and one Administrator how to do receipts, deposits, etc. in the event our Fiscal Specialist is out for an extended time, or an emergency deposit is necessary.*

Per our conversation with you, we do ask that you help ASB and Accounting staff at SPS ensure that all middle schools and high schools follow the same procedures, especially with regards to ASB and booster activities, and that a manual be developed that is written so any principal, not just a Fiscal Specialist, can handle the basic procedures all of us are expected to know. Not only are we requesting this to ensure uniformity in the district, but also to ensure the job responsibilities, as defined by the current negotiated job descriptions are in alignment with the work that we are asking our Fiscal and Admin staff to complete.

As I shared with the auditor, with the review team, and in our meeting with you, without the daily support and effort of our Fiscal Specialist, a school of our size and complexity would



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not be able to meet the fiduciary requirements we know are so important. Anything you can do to work with central budget and staffing staff to ensure that Fiscal Specialists are part of the allocations at the middle school level (based on total enrollment or better, at every school) will be a strong step in the right direction of ensuring fiscal stability and accountability.

Sincerely,

A handwritten signature in black ink that reads "Jon Halfaker".

Jon Halfaker, Principal

Washington Middle School

CC: Fiscal Specialist

Executive Director Central Cluster Schools

- **Response Received from the Finance Department**

Washington MS Audit:

The Finance Department concurs with the findings and will enhance the ASB Procedures manual and General Fund Cash Handling procedures to provide better guidance to our schools. We will continue providing on-going training to the Fiscal specialist and Administrative Secretaries focusing on areas of high risk and will partner with the Executive Director of Schools and School Principal to support Washington Middle School as they take corrective actions on their audit issues.

In addition, the Finance Department and the Department of Technology are evaluating technology solutions which will help automate the cash handling functions in our schools. Such technology solutions will be prioritized along with other projects competing for our limited resources.