



**Seattle Public Schools
The Office of Internal Audit**

Orca K-8 School Internal Audit Report

September 1, 2016 through March 31, 2017

Issue Date: June 13, 2017

**Internal Audit Report
Orca K-8 School
September 1, 2016 – March 31, 2017**

Executive Summary

Background

We completed an audit at Orca K-8 School for the period September 1, 2016 through March 31, 2017. Orca K-8 School is located in the Southeast Region of Seattle Public Schools. It is a progressive alternative school with over 300 students and 26 staff, and operates on an annual budget of \$3.4 million. The school offers a fully integrated sustainability, environmental science, and organic gardening program for all students.

Although Orca K-8 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 September 13, 2016. 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:

- Cash Handling and Receipting
- Risk Management

Scope of the Audit

September 1, 2016 through March 31, 2017

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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, and Risk Management 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

Based on the procedures we performed, the school does not have adequate controls in each of the objective areas. This report identifies several recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at Orca K-8 School for their assistance and cooperation 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

During the course of our audit we identified the following concerns related to cash handling and receipting. The following issues represent basic cash handling and receipting problems that apply to all funds:

- Funds are not kept in a safe, but instead are kept in a locked filing cabinet.
- The Fiscal Specialist does not always count funds and prepare a receipt in the presence of the depositor or another individual.
- Receipts are not prepared for all funds collected. In addition, receipts do not always contain all required information. The activity or purpose of the receipt is vague or not listed at all.
- Funds are not always deposited into a District bank account once every 24 consecutive hours, as required by the ASB Procedures Manual and state law.
- Funds collected by staff members and students are not always turned in to the fiscal office on the same day they are collected.
- Checks are not always restrictively endorsed as soon as they are received.

The current procedures do not provide adequate documentation to safeguard district resources, 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 for public resources; reduce the risk of theft, loss, or abuse; and protect itself and its staff from unnecessary scrutiny, we recommend that Orca K-8 School:

- Place all receipts in a locked safe in the school until deposited.
- Complete a receipt in the presence of the depositor, immediately upon receipt of funds, after both people agree to the amount of funds deposited.
- Write a receipt for all funds received by the school, including checks received in the mail.
- Ensure receipts contain all required information, including a description of the activity or purpose.
- Restrictively endorse all checks as soon as they are received.

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- Deposit all funds collected into the District's bank account every 24 hours.
- Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day.

2) Risk Management (Field Trips)

The School did not follow District policies and procedures related to field trips. Per Administrative Procedure 2320-A, Field Trips & Excursions, overnight field trips must be pre-approved by the appropriate Executive Director of Schools. Local trips should be requested 45 days in advance of the trip.

Field trip documentation for two overnight field trips were not submitted for approval in a timely manner. One travel request was submitted one day prior to the date of the trip and another travel request was submitted a week after the trip occurred.

Recommendation

We recommend that the School establish and maintain adequate controls to ensure that all field trips follow District policies and procedures. Specifically, it should ensure:

- All overnight field trips are pre-approved by the Executive Director of Schools.
- Documentation for all overnight field trips are submitted for approval with proper amount of advance notice.

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Response Received from Orca K-8 School

Official Response to the Performance Audit of SPS Internal Audit From Orca K-8 School

June 2, 2017

We appreciate the feedback provided to our school regarding some of our processes and procedures as they relate to the audited areas. I am confident that each of the areas in the CAP will be addressed in a timely manner.

1) Cash Handling and Receipting

We will ensure that we:

- a. Place all receipts in a locked safe in the school until deposited.*
- b. Complete a receipt in the presence of the depositor, immediately upon receipt of funds, after both people agree to the amount of funds deposited.*
- c. Write a receipt for all funds received by the school, including checks received in the mail.*
- d. Ensure receipts contain all required information, including a description of the activity or purpose.*
- e. Restrictively endorse all checks as soon as they are received.*
- f. Deposit all funds collected into the District's bank account every 24 hours.*
- g. Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day*

2) Risk Management (Field Trips)

We will ensure that:

- a. All overnight field trips are pre-approved by the Executive Director of Schools.*
- b. Documentation for all overnight field trips are submitted for approval with proper amount of advance notice.*

Orca K-8 School, June 2, 2017