



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Ballard High School**

September 1, 2011 through April 30, 2012

Issue Date: September 11, 2012



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Executive Summary

Background

We completed an audit at Ballard High School for the period September 1, 2011 through April 30, 2012. Although Ballard 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. 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
- Loss Reporting

Scope of the Audit

September 1, 2011 through April 30, 2012

Audit Approach and Methodology

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



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- 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

Ballard High School is making a strong effort to ensure accountability of funds, and we applaud them for receipting funds as soon as they are received into the fiscal office, and for accounting for all receipt numbers issued to the school. Based on the procedures we performed, the school appears to have adequate controls in each of the objective areas, except for the items noted in this report. This report identifies several recommendations that are applicable to both the school and central administration, that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at Ballard High School for their assistance and cooperation during the course of the audit.

Andrew Medina

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



Findings and Recommendations

1) Cash Handling and Documentation Procedures

Although Ballard High School is doing an excellent job of preparing a receipt as soon as funds are received by the fiscal office, their depositing and documentation procedures prevent us from providing positive assurance that all funds received by the school were properly deposited into a District bank account. We do not suspect that an actual loss of funds occurred; however, we did note the following concerns with both ASB funds and general funds:

- Funds are not always deposited into a District bank account within one day of being collected.
- The name of the individual that deposited funds with the fiscal office is not always recorded on the receipt.
- The third copy of the receipt is not retained in the receipt book.
- All three copies of voided receipts are not retained in the fiscal office.

Recommendation

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

- Continue to receipt funds as soon as they are received in the fiscal office, and continue to account for all receipt numbers issued to the school.
- Deposit all funds into the District's bank account within one day of being collected, as required by RCW 43.09.240.
- Record the name of the person depositing funds with the fiscal office on the receipt.
- Retain the third copy of each receipt in the receipt book.
- Retain all three copies of voided receipts in the fiscal office, ensuring that "Void" has been written on all three copies.

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



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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 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.

We also recommend that the District's central administration:

- 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*, inclusive of the above recommended enhancements.
- 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) ASB Budget and Preapprovals

The school did not prepare an activity budget for each ASB activity included in its ASB budget. Furthermore, the school did not document preapproval of its fundraising efforts prior to March 2012.

Recommendation

We recommend that the school prepare individual activity budgets in accordance with the District's *ASB Procedures Manual* and the WASBO *ASB Procedures Manual*. We also recommend that the school continue to use the "ASB Activity Approval and Reconciliation Form," which it started using in March 2012, to pre-approve and reconcile all ASB activities occurring at the school.

3) Checking Account Disbursements

The school has online bank accounts for its two checking accounts; the ASB Imprest Fund Checking account and the General Fund Site-Based Checking Account. While the online accounts allow the school to avoid monthly service fees, they do not provide them with a paper statement that includes images of canceled checks. The school prints a copy of the bank statement each month, but they do not print copies of the canceled check images, and the images are not available beyond six months. As a result, we were unable to verify that all payees on the canceled checks matched the payees identified on the supporting documentation.



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We also noted that one of the authorized check signers approved a Payment Order Form authorizing reimbursement to herself, and also signed the accompanying check made payable to herself.

Recommendation

We recommend that the school print all canceled check images each month when they are preparing their monthly reconciliation. These images should be attached to the monthly bank reconciliation that is approved by the Principal.

The school should also implement procedures so that check signers do not sign checks when they are also the payee.

We also recommend that the District update the *ASB Procedures Manual* to address the following concerns:

- The authorized check signers should be specifically instructed to not sign a check until they have verified that the supporting documentation matches exactly what is recorded on the check. This procedure will help to prevent a check custodian from obtaining check signatures before the payee and amount fields are complete.
- Canceled check images should be included with all bank statements or printed from an online account, and should be attached to the monthly bank reconciliation that is approved by the Principal. This procedure will help to prevent and detect a check that is written for personal purposes.
- Authorized check signers should be instructed not to sign checks made payable to them. Each check requires two signatures, but the schools should have three authorized signers available to accommodate these situations.

4) Risk Management

We noted three overnight field trips that were not preapproved by the Risk Management Department, as required by School Board Policy 2320, "Field Trips & Excursions."

Recommendation

The school should immediately notify the Risk Management Department of its overnight fieldtrips, and implement a control to ensure that all future trips receive preapproval.



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Management Responses

- **Response Received from Ballard High School**

August 2nd, 2012

We appreciate the thoroughness of the audit of Mr. Medina and we are pleased that he found the great 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, etc.), we will do everything we can at the building level to make the corrections necessary.

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

Cash Handling

- *Remind all staff, parents and students that collect money that it must be either counted and verified by two individuals before it is deposited with the fiscal specialist or it must be counted by the fiscal specialist at the time of deposit with the person making the deposit still present.*
- *In lieu of District pick up, travel to the bank each day to make the daily deposit.*
- *Follow all three recommendations regarding the receipt books identified in the report.*

ASB Budget and Preapprovals

- *Continue to use the ASB Activity Approval and Reconciliation Form.*
- *Require an annual budget submission for all activities, even though we are fully aware that these budgets will be highly inaccurate due to the lead time required and the ever changing work of our Clubs and Teams.*

Checking Account Disbursements

- *Print images of canceled checks on a monthly basis and attach these images to the reconciliation form.*
- *Continue to have an alternate signer approve and sign any checks and/or check requests, so that the signer is not also the payee.*

Risk Management

- *Direct the school administrator in charge of Field Trips to not approve any overnight trips until proof of Risk Management's approval has been provided.*

Prepared and submitted by Keven Wynkoop, Principal



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- **Response Received from central administration**

The Finance Department concurs with the findings and will enhance 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 focusing on areas of high risk and/or needing improvement and will partner with the Executive Director of Schools and School Principal to support Ballard High School as they take corrective actions on their audit issues and as we make this fiscal 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.