



Seattle Public Schools Office of Internal Audit

**Internal Audit Report
Denny International Middle 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 Denny International Middle School for the period September 1, 2011 through April 30, 2012. Although Denny International 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 Scope and Objectives

The audit covers the period September 1, 2011 through April 30, 2012. The objective of the audit was to ensure compliance and strong financial internal controls in the following areas:

- Associated Student Body (ASB)
- Cash Handling and Receipting
- Disbursements
- Extra Time Reporting
- Risk Management
- Facility Usage
- Equipment Tracking
- Loss Reporting

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

Based on the procedures we performed, Denny International Middle School appears to have adequate internal controls in each of the objective areas, except for the items noted in this report. This report contains recommendations that are applicable to both the school and central administration and are intended to improve overall accountability and transparency in the objective areas.

We are encouraged by the general desire of Denny International Middle School staff to comply with District policies and procedures, and we extend our appreciation to the staff for their assistance during the audit.

Andrew Medina

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



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Findings and Recommendations

1) Extra Time Reporting

- The 2010 – 2013 collective bargaining agreement (CBA) for certificated non-supervisory staff contains negotiated extra time hourly rates and describes the activities that warrant these rates. Denny International Middle School pays one of these negotiated rates to teachers for one of its after-school tutoring programs. The hourly rate paid, however, does not appear consistent with the corresponding activities described in the CBA.
- Not all extra time activities fall into the negotiated rate categories listed in the CBA. The District does not have sufficient guidance to determine the proper extra time rates for activities outside those described in the CBA.
- The District allows some extra time to be reported via Employee Self Service (ESS) alone, but requests that other extra time be reported via both ESS and Extra Time Reporting Forms. The current guidance regarding which extra time needs to be supported by Extra Time Reporting Forms is unclear.
- Payroll does not perform procedures to ensure the extra time rates it pays are appropriate for the work performed. The Payroll Department relies on the schools to approve extra time and determine the correct hourly rate of pay.

Recommendations

We recommend Denny International Middle School work with the District to determine:

- The appropriate extra time rates for teachers who participate in its after-school tutoring program.
- The documentation required to substantiate the extra time for this program.

We recommend that the District's central administration:

- Provide descriptive, written policies to schools to assist them in determining the appropriate extra time rates for activities not listed in the CBA, such as after school tutoring.
- Clarify when per diem rates are appropriate for extra time worked.
- Clarify guidance regarding the use of Extra Time Reporting Forms, specifically when this documentation is required, and communicate this guidance to the schools.
- Consider implementing centralized procedures to monitor extra time and ensure the correct rates are paid for the work performed.

This finding reflects the information made available to us at the time of the audit.



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2) Cash Handling and Receipting Procedures

- Funds collected by school staff are not always turned in to the fiscal office on the same day collected.
- Funds are not always deposited into a District bank account within one day of being collected.

Recommendations

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 Denny International Middle 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.
- 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:

- 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.
- 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:

- Continue training Fiscal Specialists and Administrative Secretaries on proper cash handling and receipting, and emphasize that it is in their best interest to strictly enforce these policies with their school staff. 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.



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3) Risk Management

- An overnight field trip was not preapproved by the Risk Management Department, as required by School Board Policy 2320, "Field Trips and Excursions."
- Denny International Middle School did not submit monthly safety meeting minutes to Risk Management, as required by the District.

Recommendations

We recommend Denny International Middle School notify the Risk Management Department of all overnight fieldtrips, in advance, and implement a control to ensure that all future trips receive preapproval.

We also recommend that Denny International Middle School begin submitting safety committee meeting minutes to the Risk Management office each month.



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Management Responses

- **Response Received from Denny International Middle School**

Thank you to Ms. Fry and Mr. Medina for providing us with this report—feedback is always welcome and is appreciated. We agree with the audit results and are committed to implementing new procedures and training to ensure that we are following procedures going forward. Specifics next steps that have been—and will be—taken include:

Recommendation: We recommend Denny Middle School work with the district to determine:

- *The appropriate extra time rates for teachers who participate in its after-school tutoring program.*
- *The documentation required to substantiate the extra time for this program.*

Response: We look forward to this being clarified by Seattle Public Schools and once it has been, we will use the appropriate rate consistently.

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 Denny Middle 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.*
- *Deposit all funds into the district's bank account within one day of being collected, as required by RCW 43.09.240.*

Response: We will provide additional training for all staff in this area in September of 2012.

Recommendation: We recommend Denny notify the Risk Management Department of all overnight fieldtrips, in advance, and implement a control to ensure that all future trips receive preapproval.

Response: We have already held a phone conference with the Risk Management department to clarify exact procedures—we are committed to following these procedures consistently.

Recommendation: We also recommend that Denny Middle School begin submitting safety committee meeting minutes to the Risk Management office each month.

Response: Our safety meeting minutes will be submitted to the Risk Management Office two days after the conclusion of each meeting.

Written and Submitted by Jeff Clark, Principal, Denny International Middle School



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- **Response Received from central administration**

The Finance Department concurs with the findings and will enhance the Extra time reporting procedures, 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 and Time Keepers focusing on areas of high risk and/or needing improvement and will partner with the Executive Director of Schools and School Principal to support Denny Middle 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.