



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

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**Internal Audit Report  
Kimball Elementary 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 Kimball Elementary School for the period September 1, 2011 through January 31, 2012. Although Kimball Elementary 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
- 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.

We are encouraged by the general desire and effort of employees to improve the District, and we extend our appreciation to the staff at Kimball Elementary School for their assistance and cooperation during the audit.

*Andrew Medina*

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



## **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:

- The total amount of funds collected from popcorn sales are not always recorded on a receipt.
- ASB funds received in the form of a check are not recorded on a receipt. ASB receipts are only prepared when cash is received.
- Receipts are not prepared for any general fund monies received.
- 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 school safe containing \$362.12 in unreceipted lost and found money was unlocked during our unannounced cash count conducted on February 13, 2012.

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:

- 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:
  - 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



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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 .
- Ensure that the school safe is locked anytime it is used to secure funds.
- Record all lost and found funds on a receipt and deposit them with the bank.

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



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- 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**

Checks received by the school are not restrictively endorsed as soon as they are received in the school office. Instead, the checks are endorsed when the deposit slip is prepared for the bank. The cash receipting section of the District's *ASB Procedures Manual* requires checks to be restrictively endorsed immediately upon receipt.

### **Recommendation**

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

## **3) Risk Management**

An annual overnight field trip was 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 fieldtrip, and implement a control to ensure that all future trips receive preapproval.

## Management Responses

- **Response Received from Kimball Elementary School**

*Kimball's Response to Audit Findings*

1) *We agree that the total amount of funds collected from weekly popcorn sales are not always recorded on a receipt. To improve the situation we will now record every Friday's intake of funds in our ASB receipt book.*

2) *Previously, instead of writing a receipt for every ASB check received, we photocopied the check and entered it into a log because it streamlined the process and saved valuable time for our fiscal agent/secretary. We agree that a receipt was not written for the checks because of this and we will now write receipts instead of photocopying checks and logging them in.*

3) *Kimball agrees that it does not always write receipts for general fund monies received before they are deposited with the district such as grants. In the future we will write receipts for all general fund monies received.*

4) *Kimball has old receipt books from the last 10 years stored in a cupboard. The audit found that some of the books still had blank receipts in them. We understand from the audit report that we need to note all of the unused receipts in those books so that there is no chance for them to be used and we are rectifying this.*

5) *We agree with the auditors' comments that funds are not always deposited into a District bank account within one day of being collected. We will correct this to the best of our ability.*

6) *We agree with the auditors' comments that the safe was unlocked during the unannounced cash count. However, it was unlocked because the fiscal agent/secretary was already counting money from the safe in the room with the safe. In an unusual situation, the other secretary was called to an emergency in another part of the building and the fiscal agent/secretary had to come out to the front to cover the office while she continued her money count. This is when the auditors arrived. This is not her normal procedure. We will be more cognizant of how we handle situations like this going forward, as we work to comply with the auditors' findings.*

7) *We agree with the auditors' comments that the safe contained \$362.12 in lost and found money accumulated over 20 years. This has been kept in response to the Emergency Plan to have some cash on hand in case of a natural disaster. However, we have now deposited the cash and have no cash on hand for a natural disaster to be in compliance with the audit.*



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8) *We agree with the auditors' comments that checks received by the school are not restrictively endorsed as soon as they are received in the school office and we are now implementing the practice of endorsing checks immediately upon receipt in the school office.*

9) *We agree with the auditors' findings that an annual overnight field trip was not preapproved by the Risk Management Department. Kimball has been going to Islandwood for ten years under four different principals and the issue of having it approved by the district has never come up. In the future, Kimball will get pre-approval from the Risk Management Department*

- **Response Received from the Finance Department**

*Kimball ES 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 Kimball Elementary 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.*