



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Schmitz Park Elementary School**

September 1, 2013 through February 28, 2014

Issue Date: June 19, 2014



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Executive Summary

Background

We completed an audit at Schmitz Park Elementary School for the period September 1, 2013 through February 28, 2014. Schmitz Park Elementary School is located in the Southwest Region of Seattle Public Schools. It is an inclusive, neighborhood school that has grown 87 percent the last five years and currently serves 590 K-5 students with over 40 staff. Schmitz Park is known for its strong, inclusive community and strong curriculum development. Schmitz Park Elementary School operates on an annual budget of \$3 million.

Although Schmitz Park 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 September 10, 2013. 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
- Volunteers
- Risk Management
- Loss Reporting



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Scope of the Audit

September 1, 2013 through February 28, 2014

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 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 intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at Schmitz Park Elementary 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 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 are not always counted in the presence of the depositor. During a surprise cash count conducted on March 26, 2014, we noted \$305.40 that had not been recorded on a receipt.
- Checks are not recorded on a receipt. During our testing, we noted eight checks totaling \$57,969.47 that were not recorded on a receipt.
- Funds collected by staff members are not always turned in to the fiscal office on the same day they are collected.
- Funds are not always deposited into a District bank account within one day of being collected.
- Checks are not always restrictively endorsed as soon as they are received.
- PTSA funds are collected by school staff and held at the school until the PTSA is available to collect the funds.

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 for public resources; reduce the risk of theft, loss, or abuse; and protect itself and its staff from unnecessary scrutiny, we recommend that Schmitz Park Elementary School:

- Complete a receipt in the presence of the depositor, immediately upon receipt of funds, 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



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envelope in a secure location. When the Administrative Secretary is ready to count the funds, another individual should be present. Both individuals should examine the envelope to ensure the seal has not been broken, and then count the funds together. The Administrative Secretary should sign and issue a receipt, and the other individual needs to initial the receipt to acknowledge his or her agreement.

- Write a receipt for all funds received by the school, including checks received in the mail.
- Instruct all staff members to promptly deposit any funds collected during the day with the Administrative Secretary prior to the end of the day.
- Deposit all funds collected into the District's bank account every 24 hours.
- Restrictively endorse all checks as soon as they are received.
- Do not handle PTSA funds, as required by the *ASB Procedures Manual*.

2) Risk Management

We noted one overnight field trip that was not properly preapproved by the Executive Director of Schools or the Risk Management Department of the District, as required by School Board Policy 2320 and Superintendent Procedure 2320.SP.C, "Field Trips & Excursions."

Recommendation

We recommend that the school immediately notify their Executive Director and the Risk Management Department of its overnight field trips and implement internal controls to ensure all future trips receive proper preapproval.

3) Payroll

During our testing of payroll, we noted instances where documentation was insufficient to fully substantiate payroll costs.

- Signed copies of the Extra Time Reporting Forms approved by the principal were not available for review.
- Documentation was not available to substantiate certain types of extra time, such as moving classrooms, professional development, and overtime.

We do not suspect that an actual loss of funds occurred; however, the current procedures prevent us from providing positive assurance that all disbursements by the school were properly approved and earned.



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Recommendation

We recommend that the school establish controls to ensure all extra time is reported using appropriate forms, and that approved copies of all Extra Time Reporting Forms are kept onsite.

4) Volunteers

Two volunteer applications lacked sufficient documentation to substantiate their status as an approved volunteer at the school.

- The first application lacked signatures from the school indicating that the volunteer had passed a background check and was approved to volunteer at the School.
- The second application lacked a photocopy of a driver's license or other form of identification acknowledging their status as a Washington State resident.

In addition, the school's current procedures for performing background checks do not adhere to the District's recent procedural changes related to volunteers.

Recommendation

We recommend the school establish controls to ensure all volunteer background checks are completed and documented. In addition, we recommend the school update its procedures to ensure it is in compliance with the District's updated volunteer procedures as outlined in the Volunteer Hand Book.



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Management Responses

Response Received from Schmitz Park Elementary School

We appreciate this opportunity to review our procedures and concur with the findings. During the period covered by the audit, we lost our long-time administrative secretary and a new administrative secretary started. This change has required a review of many of the same procedures covered by this audit, and many corrective actions have already been implemented. We will work diligently to correct all of the items identified within the required timeline.

For implementation with the new school year, we will implement the following corrective action:

- *Procedure for teachers to seal deposits in a signed, sealed envelope until a time later in the day when the teacher can be on hand to observe the counting.*
- *Ensure proper receipting of all deposits.*
- *Provide a separate drop-box for PTA deposits.*
- *Maintain hard copy records for all extra time reported.*
- *Verify all volunteer background check records.*

Thank you,

*Gerrit Kischner
Principal
Schmitz Park Elementary School*