



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

**Internal Audit Report
Lowell Elementary School**

May 1, 2015 through October 31, 2015

Issue Date: June 21, 2016



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Executive Summary

Background

We completed an audit at Lowell Elementary School for the period May 1, 2015 through October 31, 2015. Lowell Elementary School is located in the Northeast Region of Seattle Public Schools. It is a K-5 elementary school with over 300 students and 30 staff, and operates on an annual budget of \$3 million.

Although Lowell 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 6, 2015. Lowell Elementary School was selected for an audit because a data analysis revealed a significant decrease in deposits over the past three years. 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

May 1, 2015 through October 31, 2015

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 surprise cash counts 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.
- Contacted Lowell families and the school PTA to verify payments made to the school.

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. We identified significant control weaknesses in the area of cash handling and receipting, that resulted in a loss of funds being reported to the Washington State Auditor's Office. This report includes recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the staff at Lowell 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 significant concerns related to cash handling and receipting. Although some instances were specific to the ASB Fund and some were specific to the General Fund, the following issues represent basic cash handling and receipting problems that apply to all funds:

- Funds collected by staff are not always turned in to the fiscal office on the same day they are collected.
- Funds received by the school are not counted and verified in the presence of the depositor or another individual.
- The school does not prepare a written receipt documenting the funds it receives.
- Supporting documents are often completed in pencil, which gives staff the ability to edit the documentation after it has been collected.
- Checks are not restrictively endorsed as soon as they are received.
- Funds are not deposited into a District bank account once every 24 consecutive hours, as required by the ASB Procedures Manual and state law.
- During a surprise cash count on January 25, 2016, we identified \$12,986.90 in the school's safe that had not been deposited with the District's bank account. The funds identified in the safe dated back to the 2012/2013 school year, and consisted primarily of student field-trip payments. Even though the school routinely collects funds from students to cover the cost of fieldtrips, the school had not deposited any of the fieldtrip funds with the bank since the 2011/2012 school year. The District's Accounting Department retrieved the funds discovered during the cash count and deposited them in the District's bank account.

The current procedures do not provide adequate documentation to safeguard district resources, and they increase the risk of theft, loss, and abuse. We cannot provide any assurance that the funds identified at the school represent all of the funds the school actually collected. In addition, we determined that a loss of funds occurred, which is summarized in the next finding.

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 Lowell Elementary School:



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- Instruct all staff members to promptly deposit any funds collected during the day with the fiscal office prior to the end of the day.
- 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.
- Restrictively endorse all checks as soon as they are received.
- Deposit all funds collected into the District's bank account every 24 hours.



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2) Loss of Funds

We identified a loss of funds totaling approximately \$6,387.50. Since the school did not issue receipts for the money it collects (see finding #1 above), the exact amount of the loss cannot be determined. In addition, due to the lack of supporting documentation available, we are unable to determine if the loss was due to a theft, or if it occurred by accident. The loss was reported to the Washington State Auditor's Office (SAO) in accordance with RCW 43.09.185.

The funds in question relate to an overnight fieldtrip that fifth grade students took to IslandWood Camp in December 2014. Students and chaperones attending the camp were asked to make a payment covering their camp costs. In order to ensure that any student who wanted to attend the camp could, the school's PTA would generously make a contribution to cover the cost of the students who were unable to make a payment. The estimated loss amount of \$6,387.50 includes a check from the PTA for \$2,517.50. The PTA confirmed that this check has not cleared their bank account. The remaining loss amount of \$3,870 ($\$6,387.50 - \$2,517.50 = \$3,870$) is the amount believed to be contributed by the students' families.

We were unable to identify any deposits associated with the December 2014 IslandWood Camp, nor were able to locate any funds associated with the 2014 IslandWood Camp during our surprise cash counts at the school. Payments from student families were collected by the two teachers that taught fifth grade students during the 2014/2015 school year. The teachers would then give the funds to the school's Administrative Secretary in the main office. The Administrative Secretary confirmed that the teachers turned the IslandWood Camp fees into the main office, and that the Administrative Secretary recalls receiving the funds from the teachers. Neither of the fifth grade teachers from the 2014/2015 school year are still employed by Seattle Public Schools, nor is the 2014/2015 school principal.

Since the 2012/2013 school year, the Administrative Secretary has been solely responsible for all funds received by the main office. The Administrative Secretary is also the only person who knew the combination to the school's safe. We interviewed several school staff members, including the Administrative Secretary, who all confirmed that the Administrative Secretary was the only one to handle funds once they were turned into the main office. Once informed of these issues, District management placed the Administrative Secretary on administrative leave while the Office of Internal Audit investigated the missing funds.

When funds were received by the main office, the Administrative Secretary would not prepare a receipt as required by District procedures. As a result, the exact amount of the loss cannot be determined. However, we discovered a spreadsheet prepared by the fifth grade teachers that identified which students paid for the camp, and how much each one paid. Although not an official accounting record, this spreadsheet serves as the best available document to quantify the amount of the loss. The spreadsheet identified 17 students who supposedly made \$3,870 in payments towards the December 2014 IslandWood Camp. We attempted to contact all 17 families by email, survey, and phone. The families contacted confirmed that payments were made to the school for the December 2014 IslandWood Camp, but most could not recall the exact amount paid due to the time elapsed since the camp. As a result, we can conclude that a loss occurred, but we cannot confirm the exact amount of the loss. In addition, none of the



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families contacted made a payment via check that has cleared their bank account. Several families recall paying by check, but they all indicated that their check has not cleared their bank account.

Since no known check payments were ever cashed, we cannot conclude that a theft has occurred. It is possible that only the cash payments were misappropriated and the check payments were discarded. Or, it is possible that all of the funds were simply lost or misplaced. In addition, even though the Administrative Secretary's failure to prepare receipts and make timely deposits likely contributed to the missing funds, we cannot conclude that the Administrative Secretary was directly responsible for the loss.

We received confirmation directly from IslandWood of how many students, teachers, and chaperones attended the camp from December 15 – 18, 2014. IslandWood also confirmed that they received payment for the camp. The District's payments to IslandWood are not being questioned. It appears as though the school was able to absorb the cost of the IslandWood Camp in their standard general fund budget.

Recommendation

The recommendations outlined in finding #1 above are intended to prevent these types of instances from occurring. The school should implement those recommendations, and the District should continue to train staff of proper cash handling procedures.

We also recommend that the District:

- Notify the Office of Internal Audit immediately if any new information regarding a loss of funds is discovered. It is possible that once this audit report is published and made public, that someone with new information will come forward. If new information becomes available, additional audit procedures may be necessary.
- Contact the school PTA and request that they re-issue the \$2,517.50 IslandWood check that never cleared their bank account.
- Implement procedures to monitor school deposits centrally in order to identify and respond to schools with unusual deposit activity. As mentioned previously, Lowell Elementary School was selected for an audit because our data analysis showed a significant decrease in deposits. The loss of funds may have been prevented if the District had these monitoring procedures in place.



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3) Risk Management (Field-Trips)

The school did not follow District policies and procedures related to field-trips. Per Administrative Procedure 2320-A, overnight field-trips must be approved by the appropriate Executive Director of Schools. The school has an annual overnight field-trip that was not approved as required.

In addition, we noted that the school was not using the proper forms to document their field-trips. The updated forms have been designed to ensure that all aspects of field-trips meet District expectations, including approvals, cost, activity, and number of chaperones. As a result of not using the proper forms, the school was unable to provide documentation illustrating compliance with these expectations.

Recommendation

We recommend that the school establish controls to ensure that all field-trips are properly screened and approved, as required by District policies and procedures.



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4) Volunteer and Chaperone Screening

During the course of our audit, we noted that the school's procedures related to volunteer and chaperone screening did not adhere to the District's recent procedural changes. Properly screening volunteers and chaperones is an important function of the school, as it helps to ensure the safety of students.

- School volunteers did not consistently complete all of the required elements of the volunteer application forms. These elements include 1) a completed Volunteer Application, 2) a passed Background Check, 3) a signed Volunteer Hand Book, and 4) viewing the Adult Sexual Misconduct Prevention video.
- Field-trip chaperones for were not consistently screened as required by District Administrative Procedure 2320-A.

Recommendation

We recommend that the school establish controls to ensure that all volunteers and chaperones are properly screened and approved as required by District procedures.



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5) ASB Activity Approval and Reconciliation Form

During the course of our audit, we noted that the ASB Activity Approval and Reconciliation form is not being completed as required by the *ASB Procedures Manual*.

The District utilizes the ASB Activity Approval and Reconciliation form to document that the activity was properly authorized. The District also uses the form to help reconcile revenue, expenses, and activity in an effort to reduce the risk of misappropriation.

Recommendation

We recommend that the school establish controls to ensure the ASB Activity Approval and Reconciliation form is prepared and reconciled for all ASB related activities.



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Management Response

Response Received from Lowell Elementary School on February 29, 2016

1) *Lowell agrees that the Cash handling and Receipting Procedures were not followed per the District's policy and procedural practices. Lowell will align with the school district's policies and procedures effective immediately and will include the following course corrections:*

- *All staff members will be instructed to promptly deposit any funds collected during the day with the fiscal agent/secretary prior to the end of the day.*
- *Receipts will be written in the presence of the depositor, immediately upon receipt of funds, after both people agree to the amount of funds deposited.*
- *All staff members will use a pen in completing District approved forms when documenting the amount of funds collected and/or deposited.*
- *Lowell will write a receipt for all funds received, including checks received in the mail.*
- *All checks will be restrictively endorsed as soon as it is received.*
- *Lowell will deposit funds into a District's bank account once every 24 consecutive hours.*

1a) *Lowell agrees with the auditor's comments that the school safe contained \$12,986.90 that had not been immediately deposited into the District's bank account. Lowell agrees that the funds identified in the school safe dated back to the 2012/2013 school year, and consisted primarily of student field-trip payments. The funds were turned over to the District's Accounting Department.*

2) *Lowell concurs that approximately \$3,900.00 has been unaccounted for from an overnight fieldtrip that occurred in December, 2014. Lowell understands that an additional audit will occur.*

3) *Lowell agrees with the auditors' findings that an annual overnight field trip was not pre-approved by the Executive Director and by Risk Management. In the future, Lowell will get pre-approval from the appropriate Executive Director and by Risk Management.*

3a) *Lowell agrees that the school was not using the proper forms to document their fieldtrips. In moving forward, Lowell will use District approved forms to document all aspects of field-trips, including approvals, cost, activity, and number of chaperones.*

4) *Lowell agrees that school's procedures related to volunteer and chaperone screening did not adhere to the District's recent procedural changes. Lowell will align with the school district's policies and procedures effective immediately and will include the following course corrections:*

- *All school volunteers will consistently complete all of the required elements of the volunteer application forms:*
 - *A completed Volunteer application;*



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- *A passed Background Check;*
- *A signed Volunteer Hand Book;*
- *Viewing the Adult Sexual Misconduct Prevention video.*

5) *Lowell agrees that the ASB Activity Approval and Reconciliation Form is not used as required by the ASB Procedures Manual. Effective immediately, Lowell will use the ASB Activity Approval and Reconciliation form to document that ASB activities are properly authorized, to help reconcile revenue, expenses, and activity in an effort to reduce the risk of misappropriation.*

Response Received from Central Administration on June 13, 2016

The District concurs with this finding. The District requires public funds to be deposited timely in accordance with RCW 43.09.240 per its accounting procedures. In addition the District offers annual training to all school administrators of procedures for proper stewardship of public funds. In 2015 the District revised its Associated Student Body manual to include more detailed instructions and offered training to school leaders and staff associated with ASB activities. Training is ongoing as the District recognizes the risks involved with a manual receipting process of small dollar transactions in a de-centralized environment.