



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Franklin High School**

September 1, 2017 through May 31, 2018

Issue Date: September 4, 2018



Internal Audit Report Franklin High School September 1, 2017 – May 31, 2018

Executive Summary

Background

We completed an audit at Franklin High School for the period September 1, 2017 through May 31, 2018. Franklin High School is located in the Central Region of Seattle Public Schools. It is a comprehensive high school with approximately 1,190 students and 100 staff, and operates on an annual budget of \$11.7 million. Franklin High School offers Advanced Placement courses, in addition to operating a variety of support programs for math, reading, and writing.

Although Franklin 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 they 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.

This audit was performed at the request of the Accounting Department due to concerns they identified regarding cash handling and receipting activities at Franklin High School. In addition to following up on the concerns identified by the Accounting Department, this audit also includes procedures to follow-up on relevant cash handling and receipting findings and recommendations made during a prior internal audit of the School. Our prior report dated March 15, 2016 can be found on the District's website. We consider an issue resolved if management implemented our recommendations or took other appropriate action to resolve the issues. This is the second internal audit of Franklin High School.

The findings and recommendations identified in this report are not intended to highlight individual shortcomings, but rather are intended to guide employees on correct procedures. We appreciate the School's understanding of the internal audit process, and their desire to work with us on continuous improvement.

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 5, 2017. District Management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test the internal 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.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

Audit Objective

To evaluate the School's compliance and internal controls related to cash handling and receipting.

Scope of the Audit

September 1, 2017 through May 31, 2018

Audit Approach and Methodology

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

- Planned the audit in cooperation with central administration staff from Accounting to ensure that we had a strong understanding of the District's compliance requirements.
- Reviewed applicable District policies, administrative procedures, and written guidance provided by departments in central administration.
- Reviewed the prior audit workpapers and audit report to gain an understanding of relevant audit issues.
- Reviewed the corrective action plan created in response to the recommendations included in the 2016 audit to gain an understanding of the corrective actions implemented by the school.
- Conducted a surprise cash count in order to observe operations in their normal environment.
- Interviewed school staff knowledgeable of the objective area.
- Analyzed available data to corroborate the information obtained.
- Examined accounting records and tested supporting documentation.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

Conclusion

Based on the procedures performed, Franklin High School appears to have adequate controls over cash handling and receipting activities, except for the items noted in this report. This report includes recommendations that are intended to improve the overall accountability and transparency of the objective area.

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

Andrew Medina

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



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

Findings and Recommendations

1) Use of the SchoolPay Automated Point-of-Sale System

The District implemented an automated point-of-sale system called SchoolPay at the beginning of the 2017-2018 school year. The SchoolPay system is intended to improve accountability and efficiency at District schools in response to prior concerns noted with cash handling and receipting. The new system reduces the risk of theft, loss, and abuse, and provides additional benefits, including standardization of the schools' receipting systems, timely financial reporting, and the ability for District families to make credit and debit card payments.

During the audit we learned that the School is not using the SchoolPay automated point-of-sale system as it was intended to be used. With SchoolPay, manual receipts should only be required when there is a power outage or the system is otherwise unavailable. However, the School continues to prepare manual receipts for all funds collected at the Fiscal Office, and enters them into SchoolPay at a later point in time. This process negates the benefits of the SchoolPay system and increases the risk of errors and irregularities. The current practice provides an opportunity for funds to be misappropriated since transactions are not promptly recorded in the system.

Due to improper use of the system, we noted the following concerns:

- Funds are not always deposited with the bank on a timely basis.
- Manual receipts are not always recorded in the SchoolPay system.
- Deposits with the bank often exceed the amount receipted.
- There is a lack of supporting documentation to explain voided transactions and other variances.

Although receipts are not always recorded into SchoolPay, we do not suspect that there is an actual loss of funds because the School also has frequent deposit overages.

The current procedures do not provide adequate documentation to safeguard and account for District resources. The School's procedures increase the risk of theft, loss, and abuse and prevent us from providing positive assurance that all funds received by the school were properly deposited into a District bank account.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

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 the School:

- Ensure all funds collected by fiscal staff are immediately recorded into SchoolPay, and use manual receipts in the fiscal office only when the system is unavailable.
- Periodically reconcile all manual receipts to SchoolPay to ensure that each receipt has been properly recorded into SchoolPay, is intact in the receipt book, or has been properly voided.
- Contact the Accounting Department to receive additional training on the use of SchoolPay and proper receipting and depositing procedures.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

2) Cash Handling and Receipting

In addition to not using the SchoolPay system correctly as noted in the previous finding, we identified the following concerns related to cash handling and receipting. These concerns are basic requirements that apply to both the General and ASB Funds. These are recurring issues that were previously noted in our audit report dated March 15, 2016.

- Funds are not always deposited into a District bank account once every 24 consecutive hours, as required by the ASB Procedures Manual and State law.
- Funds collected by staff members and students are not always turned in to the fiscal office on the same day they are collected.
- The Fiscal Specialist writes receipts from multiple receipt books, including those that were, or will be, issued to locations outside of the fiscal office. In addition, receipts issued to locations outside of the fiscal office are not issued in chronological order. This practice creates a situation where auditors cannot determine if they have been provided with access to all the receipt books used by the School, which means we cannot verify that all funds have been properly deposited into a District bank account.
- Receipts that contain edits or that were completed incorrectly are not always investigated or followed-up on to determine the validity of the edits or the reason for the inaccuracies, or to educate the individuals on proper receipting techniques.
- Checks are not always restrictively endorsed as soon as they are received.

Recommendation

We recommend that the School:

- Deposit all funds collected into the District's bank account every 24 hours. Funds collected after hours at the end of the work week or during the weekends should be deposited by the next workday.
- Instruct all staff members to promptly deposit any funds collected during the day with the Fiscal Specialist prior to the end of the day.
- Issue receipts in chronological order and require that each receipting location only use one receipt booklet at a time.
- Train staff and students on proper receipting procedures, including editing and voiding receipts.
- Investigate any receipts containing edits or errors, and maintain documentation supporting the investigation results.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

- Restrictively endorse all checks as soon as they are received.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

3) Change Funds

During the audit, we noted that the School allows people to make change at the fiscal office, and that it does not have an established change fund in accordance with District guidelines.

- We noted that the quantity of bills deposited with the commercial bank changed from the initial quantity of bills we identified during a surprise cash count. We were informed this was due to the School using the money from the cash count to make change. The ASB Procedures Manual states that funds may not be used for personal convenience, such as making change or cashing checks.
- The School accumulated lost and found money over time to establish the school's change fund. The ASB Procedures Manual states that lost and found money should be receipted and deposited in the District's ASB fund. The funds used to establish the school's change fund were never receipted or deposited into a District account. In addition, new lost and found money that has been received by the School since the change fund was established, is accumulated for a period of time before it is deposited into the School's InvestEd account.

Recommendation

We recommend that the School:

- Discontinue the practice of making change at the fiscal office. Funds should not be used for personal convenience and a change fund should only be established for short-lived ASB activities such as ticket sales, fundraising events, or the daily receipting and collection activities of the ASB.
- Properly establish all change funds in accordance with District policies and procedures.
- Implement controls to ensure that all money collected at the School is deposited timely into the appropriate District controlled account, including unmarked money found on school premises.



**Internal Audit Report
Franklin High School
September 1, 2017 – May 31, 2018**

Management Response from Franklin High School

1) Use of the SchoolPay Automated Point-of-Sale System

- *FHS staff will transact funds through SchoolPay. We will only use manual receipts when the SchoolPay system is unavailable.*
- *The Franklin administrator charged with oversight of the fiscal clerk and activities coordinator will meet at least once quarterly with fiscal clerk and activity coordinator to ensure accounts are being properly reconciled. The fiscal clerk will produce an overview of budgets for the activity coordinator and athletic director monthly.*
- *Franklin administrative staff will ensure both the activity coordinator and the fiscal clerk receive additional training in School Pay as well as establish greater clarity/training for all staff, clubs, teams, and staff who receive monies to ensure adherence to procedures.*

2) Cash Handling and Receipting

- *FHS fiscal specialist will strictly adhere to the 24-hour deposit expectation. Principal will formally review this expectation with fiscal specialist and administrative team.*
- *All staff receiving funds will follow building/district procedures and deposit funds with the fiscal specialist prior to the end of the day or with an administrator to be placed in the safe should event take place in the evening when a fiscal specialist is not present.*
- *The Principal will ensure that fiscal staff is sufficiently trained in proper receipting methods. The principal or designee will perform a periodic review of receipt books to ensure all receipts are accounted for including voided transactions. The review will include verification that one receipt book at a time is used at each location and that receipting errors or edits were authorized.*
- *The Principal will ensure that fiscal staff is sufficiently trained in proper receipting methods. The principal or assistant principal designee will train staff/students on receipting protocols. The principal or designee will perform a periodic review of receipt books to ensure all receipts are accounted for including voided transactions. The review will include verification that one receipt book at a time is used at each location and that receipting errors or edits were authorized.*
- *The principal or administrative designee will establish protocols for reporting errors on receipts in a timely fashion. The principal or administrative designee will investigate the errors and ensure protocols are followed. Any breach of protocols or errors will be reported immediately.*
- *FHS fiscal staff will endorse all checks as soon as they are received.*

3) Change Funds

- *We will no longer make change for students or staff.*
- *FHS will properly manage all change funds in accordance with District policies and procedures.*
- *FHS staff administrative staff will work with appropriate staff to ensure that all money collected at the School is deposited per protocol timely into the appropriate District controlled account, including unmarked money found on school premises.*