



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Hazel Wolf K-8 School**

September 1, 2017 through May 31, 2018

Issue Date: September 4, 2018



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Executive Summary

Background

We completed an audit at Hazel Wolf K-8 School for the period September 1, 2017 through May 31, 2018. Hazel Wolf K-8 School is located in the Northeast Region of Seattle Public Schools. It has approximately 750 students and 60 staff, and operates on an annual budget of \$6 million. Hazel-Wolf is one of the District's larger K-8 schools. The School runs a Science, Technology, Engineering, and Mathematics (STEM) program based on environmental learning.

Although Hazel Wolf K-8 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 Hazel Wolf K-8 School.

As one of the District's larger K-8 schools, the office staff often take on additional roles and responsibilities that are typically fully staffed by multiple individuals at middle or high schools. The School does not have a dedicated fiscal specialist or registrar position. Instead, the responsibilities of these functions are built into the normal job duties performed by the School's Administrative Secretary. We acknowledge that the limitation in resources presents challenges to the School's operations. 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.



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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.
- 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 performed, Hazel Wolf K-8 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 Hazel Wolf K-8 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) 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.
- There is a lack of supporting documentation to explain variances.
- The same User-ID and password were being used by multiple office staff members to process receipts in SchoolPay.

Although receipts are not always recorded into SchoolPay, we do not suspect that there is an actual loss of funds.

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.

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:



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- 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.
- Each staff member who will be accessing SchoolPay should request to have their own unique User-ID and password from the Accounting Department. These should not be shared with any other staff members to ensure that appropriate responsibility is assigned for each transaction entered into the system.
- Contact the Accounting Department to receive additional training on the use of SchoolPay and proper receipting and depositing procedures.



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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.

- 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 may not always be turned in to the fiscal office on the same day they are collected.
- Funds turned into the fiscal office are not always receipted immediately and in the presence of the depositor.
- Supporting documentation is not required for money collected by non-fiscal staff.
- Receipts booklets used by the Administrative Secretary and issued to locations outside of the fiscal office are not issued in chronological order, and there is no system to track the receipts to ensure that all receipt numbers are accounted for. 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.
- 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 Administrative Secretary prior to the end of the day.
- Immediately receipt all funds collected in the presence of the depositor.
- Require supporting documentation for money collected from non-fiscal staff. The amount received should be reconciled to the supporting documentation to ensure that the proper amount is being deposited.
- Issue receipts in chronological order and require that each receipting location only use one receipt book at a time.



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- Create a log to keep track of all receipt numbers issued to the School, document which receipt booklets and receipt numbers are issued to staff members, and periodically verify that all receipts have been accounted for.

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



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Management Response from Hazel Wolf K-8 School

Hazel Wolf K-8 appreciates the feedback which was provided to our program regarding some of our processes and procedures as they relate to the audited areas. I will be working with my administrative staff and teachers to address the areas highlighted based on the findings. I am confident that we will be able to develop a strong corrective action plan and implement it.