



Pasco County Schools

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Internal Audit

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DATE: December 20, 2016

TO: School Board of Pasco County

FROM: Mary Tillman CPA CIA, Director of Internal Audit

RE: James W. Mitchell High Internal Accounts Audit 2014-15 – Part 2 - Central Region

INTERNAL AUDITOR'S REPORT ON COMPLIANCE

Pursuant to State Board of Education Rule 6A-1.087(2), Florida Administrative Code and School Board Policy #6830, an audit was conducted for James W. Mitchell High School for the fiscal year ended June 30, 2015. This audit was conducted to determine compliance with certain District policies and procedures as well as good business practices that ensure accurate financial reporting.

Although internal controls and compliance are reviewed during the regular school audits (Part 1), the purpose of a Part 2 audit is to make a closer examination at selected schools of certain categories of transactions that have higher risk potential of error, fraud or noncompliance. Specifically, the Part 2 audit includes the examination of athletic activities, including concessions, gate receipts, control of tickets, fundraisers and athletic participation fees. The Part 2 audit also includes other fundraisers and control over payroll, fixed assets and support organizations. Schools are selected for Part 2 audits based on prior audit experience and dollar value and volume of certain transactions.

For more information on the methodology of the audit process please view:

http://www.pasco.k12.fl.us/library/audit/AUDIT_METHODODOLOGY_INTERNAL_ACCOUNTS_2014-15.docxh

Financial statements for the schools' internal accounts may be found on page 122-123.

http://www.pasco.k12.fl.us/library/finance/cafr/Final_CAFR_Pasco_Schools_FY15.pdf

Notes to financial statements are found here:

http://www.pasco.k12.fl.us/library/audit/NOTES_TO_FIN_STMTS_INTERNAL_ACCOUNTS_2014-15.docx

A discussion of issues included in this audit report are listed below:

- Athletic Participation Fees
 - Students are required to pay a fee, which is approved annually by the Board, to participate in school athletics. It is the school's responsibility, usually through the athletic director, to make sure that these fees are collected. If the student is financially unable to pay the fee, there are a limited number of sources from which this fee can be paid. The school internal accounts and the school booster clubs may not pay the fee on behalf of a student due to FHSAA rules. Usually the fee must be paid by a parent or community member on behalf of the student.

- Coding
 - Account codes for internal accounts are provided by the Florida Department of Education in Chapter 6 of the Financial & Program Cost Accounting & Reporting for Florida Schools, otherwise known as the “Red Book”. Using the correct account codes is very important, both for financial review and analysis and for compliance with Department of Education rules.

- Collections
 - It is important for proper internal controls that two employees are involved in all collections. Therefore all collections are made initially by someone other than the bookkeeper. Collections documents are totaled, signed and dated by the employee making the initial collections. Then the collections are verified by the bookkeeper who then signs and dates the collection document. Collection documents are returned to the original collector with an official receipt number so that the original collector can compare the amount recorded and deposited to the amount originally turned in.
 - For the voluntary fees collected from students, the registration forms must be retained to support the amounts and types of fees collected.
 - Collections are required to be turned in to the bookkeeper within the same day of initial receipt when at all possible to reduce the risk of loss or theft.
 - Collections are required to be deposited to the bank within 5 working days of initial receipt to reduce the risk of loss or theft.

- Fixed Assets
 - All property items whether purchased through District or internal funds that meet the threshold for capitalization must be tagged and included in the school’s inventory. Any employee who uses property items off campus must complete and sign an Equipment Check Out form. This form is completed annually, includes the employee’s responsibility for the item and is also signed by the school principal.

- Fund Raising Activities
 - The person responsible for the fund raising activity completes a fund raising application, which is approved by the principal prior to the event. The application includes information about the activity including the purpose, dates, whether it is a catalog sale, dance, fair, walk-a-thon or other type of event. The application also includes a budget that shows estimated revenues, expenditures and profit. After the conclusion of the event, the recap portion of the fund raising application must be completed. The recap shows actual revenues, expenditures and profit so that an analysis can be made of the success of the activity.

- Payroll
 - All employees (including administrators) must complete a daily timesheet which shows the time that they start working, when they end the work day and their lunch time if they have an unpaid lunch period. Employees must total their hours worked for the biweekly pay period and sign the timesheet. If an employee takes leave during the pay period, he must note that on the time sheet. The employee responsible for payroll processing must enter the leave taken in Munis.

- Sales Tax
 - The District has a Consumer’s Certificate of Exemption that also covers the schools. The certificate states that the exemption applies only to purchases made by the schools for educational purposes when using a school check or P-Card. If an employee purchases an item for the school which would have been exempt if a school check or P-Card had been used with personal funds, the employee will not be reimbursed for the tax paid. School employees are encouraged to use P-Cards for exempt purchases. If the employee does not have a P-Card issued to him, there are school based P-Cards available for specific purchases.

- Tax exempt purchases include purchases for classroom activities and general school use as well as student/teacher recognition and purchases made for extra-curricular activities and events which include but is not limited to student clubs, band, athletics, etc.
- Items purchased with student/parent's personal funds are taxable. Schools cannot collect money from students/parents and use the District's tax exempt certificate when making purchases from vendors.
- Purchases made by Club dues that are increased to cover the cost of an item that the student will keep are not taxable. This is built into the cost of being part of the club and the increase in cost is an incidental portion of the club dues. Club dues should be standard for every student participating.
- If the item purchased is for resale, it will be taxed. This includes items sold at the school store and fundraisers. Schools will pay sales tax when purchasing the items for resale. Items for resale include taxable food, drinks, and serving supplies.
- Items purchased for sale in concession stands are taxable since these items are for resale. Sales tax will be paid when purchasing taxable food, drinks, and serving supplies rather than back the tax out at the point of sale.
- Support Organizations
 - Principals and presidents of support organizations such as booster clubs and PTAs must sign the Support Organization Agreement. Support organizations must complete fund raising applications to document principal approval for activities. Support organizations that operate outside the school internal accounts must submit quarterly financial reports to the school and an audit report at the end of the school year. School staff must not participate in the financial operations of the external support organizations, such as signing checks.
- Tickets/Ticket Logs
 - Pre-numbered tickets act as official receipts for collections for certain types of events such as dances, plays and sporting events. Ticket stock is held by the school bookkeeper. A printer's affidavit is included with newly purchased ticket roles and must be retained to document the ticket numbers received. Tickets are checked out to employees by the bookkeeper via a ticket log. Collections from ticket sales are recorded on a specialized collection document called a Report of Ticket Sold. After the event, the tickets are returned to the bookkeeper and the receipt is entered on the ticket log. At the end of the school year, the bookkeeper completes and inventory of the tickets on hand.

For more information on the audit process, please see the Internal Audit website.

JAMES W. MITCHELL HIGH

- **ATHLETICS**

- **Concessions**

- ❖ **Football**

- Sales tax was not paid on the purchase of concession supplies for the Home football side operated by Band Boosters.
- Concessions were run by Band Boosters and Girls Weightlifting as fundraisers, but no fundraising paperwork was prepared or approved. This arrangement has been an ongoing verbal arrangement among the parties involved, but should be established in writing and approved by the Principal as required by the Support Organization Agreement.
- Revenues from concessions were all coded to Fundraising Revenue (4914XXXX). Only one (1) of the five (5) purchases of concession supplies by Band Boosters was properly coded to Fundraising Supplies (5595XXXX), and only two (2) of the four (4) purchases by Girls Weightlifting were properly coded to Fundraising Supplies (5595XXXX). If concessions are treated as a fundraiser, then any supplies and expenses related to the fundraiser must be coded to Fundraising Supplies (5595XXXX) in order to match the fundraising revenues with the related fundraising expenses as required by accounting principles.

- ❖ **Girls' Basketball**

- Sales tax was not paid on the purchase of concession supplies.
- Concession revenue was coded to Fundraising Revenue 4914XXXX but no fundraising paperwork was prepared or approved.
- Concession supplies were coded to 5510XXXX Consumable Supplies rather than 5595XXXX Fundraising Supplies.
- There were only three (3) deposits for a total of eleven (11) games in the season. The first game of the season was on 11/11/14 and the last game was on 1/21/15. The Coach turned-in the deposits for the first two (2) home games on a timely basis but did not turn in any other deposits until 02/23/2015. It is not clear how many games were included in this third deposit of \$196.50.
- Money collected should be turned into the Bookkeeper within 24 hours of collection.

- **Gate Receipts and Ticket Inventory**

- ❖ **Football**

- The Ticket Inventory Report and the Ticket Distribution Sub-Log were either missing information or had incorrect information: ticket rolls issued to personnel working at the gate were not logged on the Ticket Inventory Report, there was a discrepancy with the starting # of the unused/unsold tickets between the Ticket Inventory Report and the Report of Tickets Sold received by the Bookkeeper, the date of return for one of the ticket rolls was missing, the date of return of another ticket roll was incorrect, and the name of the person a ticket roll was issued to was missing.
- Ninety-seven (97) blue tickets from the 8/29/14 varsity game were not accounted for on the Ticket Inventory Report. At \$5 per varsity ticket, the unaccounted tickets total \$485.
- One (1) of the thirteen (13) Reports of Tickets Sold showed that gate receipts were not remitted to the Bookkeeper within 24 hours of collection. The game took place on a Thursday, but the money was not turned in to the Bookkeeper until Monday.
- White-out was used on the Ticket Inventory Report to make a correction. When a mistake needs to be corrected, it should be crossed-out, initialed, and the correct information entered above to keep the audit trail.

- ❖ Girls' Basketball
 - The Ticket Inventory Report and the Ticket Distribution Sub-Log were either missing information (the starting ticket number of a new roll was not logged-in) or had incorrect information (the official receipt #'s were incorrect on two Reports of Tickets Sold).
 - One (1) of the thirteen (13) Report of Tickets Sold showed that gate receipts were not remitted to the Bookkeeper within 24 hours of collection.
- Fundraising Revenues and Expenditures
 - ❖ Athletic Fundraiser for Football-Tumbler Sales
 - The purpose listed on the fundraising paperwork, “for Spring football needs” is not specific as required. The reason for requiring a specific purpose on the fundraising paperwork is to make sure that the money collected from the fundraiser is used for a purpose that is in line with District policies and with the purpose approved by the Principal.
 - The date of the fundraiser was 4/1/15-6/30/15 but the collections were made from 5/8/15-5/12/15. Some of the football expenditures were made before any fundraiser collections were received which makes it difficult to determine whether the profit was used for the stated purpose of the fundraiser or whether it just rolled over to the next fiscal year to be used as needed.
 - Athletic Participation Fees
 - ❖ Football
 - There is no evidence of payment for eleven (11) students on the roster.
 - Three (3) of the eight (8) Athletic Monies Collected Forms did not have an official receipt #.
 - Ten (10) students paid the participation fee but were not on the roster.
 - One (1) of the eight (8) Athletic Monies Collected Forms is missing the date of collection.
 - ❖ Other
 - As part of the audit of athletic participation fees, the auditor reviewed the ABC activity report to determine whether ABC funds were used to pay for either Football or Girls Basketball participation fees and noticed that \$170 of ABC funds were used to pay participation fees for two (2) students, one in Girls Soccer and one in Softball. A uniform was also purchased with ABC funds for the student in Girls Soccer. The ABC Program Guidelines clearly disallow the use of ABC funds for these purposes.
- NON-ATHLETIC FUNDRAISERS
 - Fundraising Revenue and Expenditures
 - ❖ Non-Athletics Fundraiser-Homecoming
 - Two (2) of the fifty-one (51) collection forms for this fundraiser were coded to General Sales (4909XXXX) rather than to Fundraising Revenue (4914XXXX).
 - Fifty-three (53) tickets on the Homecoming Ticket Inventory Report were skipped. There is a discrepancy of twenty-two (22) tickets totaling \$620 between the Homecoming Ticket Inventory Report and the total deposits for homecoming on the Student Council Activity Manager Report.
 - Items and services purchased for the fundraiser were not coded to fundraising expense (5595XXXX). The items were coded to Supplies Expense (5510XXXX) and Security services. DJ services were coded to Professional & Technical Services (5310XXXX). Expenses for the fundraiser should be coded to fundraising expense to match with the fundraising revenue from the event so that the profit or loss from the event can be readily calculated
- PAYROLL
 - Time and Attendance
 - ❖ Auditor reviewed two-hundred fifty-four (254) payroll entries over four (4) payroll runs.

- A total of one hundred fourteen hours (114 hours) of exception time for fifteen (15) of the employees tested was not entered in Munis and not deducted from the employees' leave balances.
- Thirty one and a half (31.50) hours of exception time were deducted in error from the leave balances of six (6) of the employees tested.
- The administrators' timesheet for payroll run 507 was missing.
- Time entered on two (2) timesheets was not legible so the auditor could not determine whether the time paid was correct.
- Four (4) employees did not enter time on their timesheets.
- Eighteen (18) instances of timesheets missing employee initials.
- Exception time of twenty-three (23) hours was deducted from the leave balances of two (2) employees even though their timesheets showed that they were at work those days.
- The BCE student was overpaid 1.25 hours.
- One (1) Administrator did not sign the timesheet.

➤ Overtime

- The Food & Nutrition Services' "Request for Approval of Overtime" form for payroll runs 507 and 517 did not have the Director's approval signature. The FNS Manager worked overtime on both payroll runs without written approval from the Director of FNS. The Food & Nutrition Services' "Request for Approval of Overtime" forms for two (2) of the four (4) payroll runs sampled were missing the date next to the Manager's approval signature. The auditor could not determine if the overtime hours were approved before they were worked.
- Four (4) hours of overtime were not paid to FNS employees.
- The dates handwritten on the "Request for Approval of Overtime" Form for payroll run 517 are incorrect.
- Two (2) hours of overtime were paid without proper approval as the hours were manually added to the "Request for Approval of Overtime". There were no initials next to the manually added hours to show their approval.
- The Bookkeeper was underpaid 2.50 hours of overtime and .50 hours of straight time on payroll run 522.

➤ Pay Differential

- Eighty and a half (82.50) hours of differential pay were not paid to three (3) of the employees tested.

● Fixed Assets

- One (1) of the fixed assets sampled, a pair of soccer goals, was not tagged and did not have a secondary form of identification.

● Support Organizations

- The Band Boosters, an internal support organization, did not sign the Support Organization Agreement for Fiscal Year 2015.

Principal's Response:

We have made internal personnel and procedural changes so that these actions regarding payroll errors do not occur again as well as issues related to support organizations.

We are continuing to work with staff to make certain that funds are deposited and collected in a more timely manner and according to policy, as well as paperwork for activities and fundraisers.

All coding differences have been reconciled and completed according to policy.

We are monitoring and considering our procedure for athletic participation fees to ensure that errors will not occur.

All of the other issues have been addressed and resolved.

Jessica Schultz, Principal



INTERNAL AUDITOR’S REPORT ON INTERNAL CONTROL AND COMPLIANCE

Internal Control over Financial Reporting

In planning and performing our audit of the schools’ balance sheet amounts, we considered the schools’ internal controls over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for expressing our opinions on the balance sheet amounts reported, but not for expressing an opinion on the effectiveness of the schools’ internal controls. Accordingly, we do not express an opinion on the effectiveness of the schools’ internal controls.

During our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, except as noted below. However, additional material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the schools’ balance sheet amounts reported are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of balance sheet amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We reported our findings and recommendations to the School administration in a separate management letter. The Principal’s response is included in this report; however, their responses were not reviewed as part of our audit.

MATERIAL WEAKNESS

Segregation of Duties

During the audit, we identified a control deficiency in internal control over financial reporting. The bookkeeper at the School has the primary responsibility for most of the accounting duties. As a result of this lack of segregation of duties, internal controls are weakened increasing the risk that a misappropriation of the School’s assets could occur and not be detected in a timely manner. There are compensation controls that bolster the effect of the controls in place over financial reporting, such as monthly review and approval of the bank statements, reconciliations, and financial reports by the Principal. In addition, the School is required to submit these monthly reports to the Finance Services Department. Personnel at the Finance Services Department review these reports and any discrepancies noted are immediately researched and communicated to the School.

Prior Audit Follow Up

We reviewed last year’s findings and recommendations to ensure that the corrective action plans outlined in the principal’s responses were implemented by the School during this audit period. Except as noted below, our audit tests disclosed that the School had taken corrective actions for audit findings included in previous audit reports.

For more information on the Report on Compliance and Internal Control over Financial Reporting view:

http://www.pasco.k12.fl.us/library/audit/REPORT_ON_COMPLIANCE_INTERNAL_ACCOUNTS_2014-15.docx