



Pasco County Schools

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Internal Audit

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DATE: April 18, 2016

TO: School Board of Pasco County

FROM: Mary Tillman CPA CIA, Director of Internal Audit

RE: Paul R. Smith Middle School Internal Accounts Audit 2014-15 – Part 2

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.

PAUL R. SMITH MIDDLE SCHOOL

• **ATHLETICS**

➤ Gate Receipts and Ticket Inventory

❖ Football

- Unused tickets from the first two (2) football games were not logged in the Ticket Distribution Sub Log when returned. Unused tickets from an event should be returned to the custodian within 24 hours and logged in the Ticket Distribution Sub Log for accountability purposes.
- The Ticket Taker for the 10/21/14 game signed the Report of Tickets Sold but did not date it.

❖ Girls' Basketball

- Three (3) of the four (4) Reports of Tickets Sold were missing the Ticket Taker or Designee's signature.
- The tickets from the game on 12/3/14 were not logged in the Ticket Distribution Sub Log. These tickets were included in the FY14 Year End Ticket Reconciliation and should have been logged in for accountability purposes.

➤ Change Funds

❖ Football

- The change funds used at the games on 10/7/14 and 10/21/14 were not logged in the Change Fund Sub Log. Cash given out for change should be tracked for accountability purposes.

➤ Athletic Participation Fees

❖ Football

- Participation fees for twenty-one (21) students were paid and deposited two (2) months after the first football game. Participation fees are required to be paid by the student before the student participates in the first game of the season to avoid any liability to the school in case of accident.
- One (1) of the Monies Collected Forms did not include an official receipt number.
- Three (3) students who paid the appropriate participation fee were released from the Team for bad behavior. No supporting documentation was provided to support the students' release from the Team.

❖ Girls' Basketball

- No collection date was included in one (1) of the seven (7) Monies Collected Forms used.
- No evidence of payment was found for one (1) of the students.
- Three (3) of the twenty-six (26) students overpaid a total of \$30, and one (1) student underpaid \$30. No explanation was provided, but it appears that the students that overpaid did so as a donation to help out the student in need. This practice of making a direct contribution for a specific student, rather than contributing to a hardship fund at the school, is not allowed by FHSAA rules. A hardship fund can be set-up at the school to accept donations for students in need. The committee in charge of the hardship fund can vote on how the donations are used.

➤ Analytical Review

❖ Gate Receipts

- Football gate receipts in FY 2014 were \$4,216 compared to \$2,669 in FY 2015, a difference of \$1,547 in ticket sales which may be explained by the fact that there were four (4) football games in FY14 as compared to three (3) in FY15.
- Gate receipts for Girls Basketball were \$1,128 in FY 2014 compared to \$1,024 in FY 2015, a difference of \$104 for a total of four (4) games. This change in ticket sales is reasonable.

❖ Concessions

- Concessions for football in FY 2014 were \$1,944 compared to \$1,225 in FY 2015, a difference of \$719 which may be explained by the fact that there was an extra football game in FY14 as compared to FY15.
- Concessions for Girls Basketball were \$690 in FY 2014 compared to \$691 in FY 201

- NON-ATHLETICS
 - Fundraising Revenues & Expenditures
 - ❖ Cookie Dough Fundraiser (schoolwide)
 - Two (2) of the ten (10) Cookie Dough collections tested were not remitted to the Bookkeeper within 24 hours.

- PAYROLL
 - Time and Attendance
 - ❖ Payroll Run 511
 - Three (3) of the thirty-seven (37) employees tested did not sign in or out on their timesheets.
 - One (1) employee signed out 1.50 hours early on 10/31/2014, but no exception time was deducted from the employee's leave balance.
 - One (1) employee's leave balance was overcharged .50 hours of sick time on 10/30/14.
 - One (1) employee's leave balance was undercharged .50 hours of sick time on 10/29/14.

 - ❖ Payroll Run 517
 - The leave balance for one (1) of the thirty-six (36) employees tested was overcharged .25 hours on 1/22/15.
 - A total of two (2) hours of leave time entered on the timesheets of three (3) separate employees was not deducted from their leave balances.

 - ❖ Payroll Run 522
 - One (1) of the thirty-five (35) employees tested did not sign in or out on 4/1/15 and 4/2/15 and no exception time was deducted from the employee's leave balance.
 - The leave balances of two (2) employees were overcharged a total of one (1) hour of leave time.
 - One (1) employee left 1.50 hours early on 3/31/2015 but no leave time was deducted from the employee's balance.
 - One (1) of the thirty-five (35) employees tested did not initial the hours worked on the timesheet.
 - The time entered by one (1) of the employees on 4/3/2015 was not legible.
 - The leave balance for one (1) employee was undercharged .25 hours on 4/7/2015.

 - Overtime
 - ❖ Payroll Run 517
 - The Food & Nutrition Services "Request for Approval of Overtime" form was signed but not dated by the Food & Nutrition Services Manager.

- FIXED ASSETS
 - The Duplex Hydro-washer did not have a secondary form of identification as the equipment was still in its original box. We recommend that an engraving pen be used to identify the equipment as District property regardless of whether it has been in use or not.

Principal's Response:

As a new Principal at Paul R. Smith Middle School, I am working with staff to review all district procedures to ensure correct implementation. In some cases, procedures were not clear to staff and in other cases further training and support were needed. I have worked with this staff to correct these issues. In particular, I am working with the school bookkeeper to ensure that we are correctly implementing all accounting procedures as well as best practices. We meet daily for check in and weekly for more formal financial reviews. We have also begun new procedures for more strategic purchasing practices. In particular, we are reviewing invoicing and P-Card practices to ensure correct procedures are followed in all cases. We have a new business manager and I am working with her on correct procedures.

I am also working with our NNB and staff on payroll documentation as well as sign in and sign out procedures for staff. We are also working to improve fundraising procedures to ensure compliance. Finally, we are working to improve leave of absence requests to ensure correct procedures are followed.

*Thank you,
Mr. DiVincent*

Joel DiVincent, 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