



Internal Audit Communication

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TO: Don Rundall, Principal
Nicole Thorn, Chief Financial Officer
Michelle Jahr, Executive Director of Finance
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FROM: Roman Gray, Internal Auditor

DATE: October 6, 2017

SUBJECT: Final Audit Report: Jefferson High School
Audit #17.002.1

INTRODUCTION

Internal audit procedures were conducted recently at Jefferson High School. This report summarizes the findings and conclusions of those procedures, and includes the auditee's response to the audit recommendations.

SCOPE

The scope of the audit was for the period of 7/1/2016 – 4/30/2017. The internal auditor met with the following personnel at Jefferson to obtain an understanding of the systems and controls in place at the school for the management of financial processes:

Principal Don Rundall
Financial Technician Paula Crossno
Athletic Director Mike Armato

Information presented in this audit report was gathered in conversations and interviews with staff from the District Finance department, and the Legal department. Information was also found during testing performed on 25 randomly-selected transactions, and as discovered haphazardly while looking through files for information on the selected transactions. Documentary guidance was obtained from District Administrative Regulations, the Finance Department, and where available, from school personnel. Please note that the current Athletic Director has only been at Jefferson for the second half of the school year.

This audit was performed as a component of an ongoing District-wide audit of assets, school activity accounts, and cash management.

SUMMARY OF FINDINGS

Audit findings are summarized below, and described in greater detail in the next section.

1. Segregation of duties: Finance Tech receives payments, opens mail and processes as needed, creates deposits, and oversees disbursement activities.

2. The InTouch receipting program allows some fees to be modified when initially entered into the system. There is no supervisory review process for identifying or monitoring any such changes if they occur.
3. Handwritten checks (as opposed to system-generated) were created at times, to vendors that were not yet approved by District Finance.
4. In sixteen of 25 checks randomly selected for testing, no documentation other than the check request form was submitted to substantiate the transaction.
5. Checks were created to pay charges according to a written quote, with no invoice to substantiate the transaction.
6. A duplicate payment occurred during the year that was corrected a month later (prior to the audit) by the Finance Technician.
7. Invoices are not being stamped PAID, there is no standard for marking items as RECEIVED, and there is no indication that balance due is being recalculated prior to payment.
8. In one out of 25 selected transactions, there was no authorization signature on the disbursement request form.
9. In one of 25 transactions selected, it was noted that the date the check was cut was 3 days prior to the date of the approval on the authorization form.
10. The internal "School Purchase Order Form" number is being entered into InTouch in the place of the invoice number when disbursements are made. This is not functional to deter payment of invoices in duplicate.
11. There are no systems in place for tracking items purchased, such as student athletic wear, yearbooks, school athletic equipment, fundraising items, etc.
12. In one transaction where 30 gift cards of \$100 each were purchased for distribution to student recipients, documentation was reviewed substantiating that 28 of the cards were distributed to students. The other 2 cards were not able to be located, and no documentation was available concerning whether they had been given to students. There are no formal procedures for the purchase, safeguarding, and tracking of gift cards.
13. There are no procedures currently in place for accountability over student fundraisers.
14. For the 2016-17 school year, out of 315 yearbooks received from Jostens in May 2017, only 270 are accounted for. These books cost \$52 each, and were sold for \$65 (early bird) and \$75 each. Yearbooks are tracked only by the Yearbook teacher.

DISCUSSION

It is important that the District and individual schools manage their activities in a way that reduces the risk of inappropriate activity to an acceptable level. The following general principles should be followed:

Segregation of Duties: A single individual should never have access or responsibilities that allow him or her to "steal" and "conceal" without being detected. A general rule is that the following duties should be segregated between different individuals:

- Custody of assets (including cash)
- Authorization of transactions
- Recording of transactions
- Reconciliation of accounts

Detection, Monitoring and Review Activities: In the event that the ideal segregation of duties is not possible, procedures should be in place to identify potentially undesirable activity. Examples of such procedures are supervisory review, reconciliation of accounts, and computer logs or software tools.

Typically, prevention controls (segregating duties and limiting access) are more efficient and effective than monitoring controls. For example, it is generally more efficient to lock a door (prevention) than to leave the door open and keep track of who goes in and out (monitoring); however, normal business may be such that locking a door creates too much of a disruption, and monitoring controls are the preferred solution.

A system of internal controls should be designed to minimize the risk of undesirable activity, while causing as little interference as possible. These controls should be implemented at the District level for areas common to the schools in general, and at the school level for activities specific or unique to the school. Controls also must be implemented as established procedures that must be adhered to, rather than just being "good ideas" that are followed when possible.

DETAIL OF AUDIT FINDINGS

Audit findings are listed below, and recommendations for improvement follow. Some recommendations are listed more than once (identified by an asterisk*), as they apply to more than one finding.

FINDING #1:

Condition: Finance Tech receives payments, opens mail and processes as needed, creates deposits, and oversees disbursement activities.

Criteria: Best practices are to segregate these activities, or to closely monitor them.

Cause: Existing policies and procedures do not address the condition.

Consequence: Inappropriate or undesirable activity, including fraud, could occur undetected.

Corrective Action: Procedure improvements are recommended to address the condition identified.

For example:

1. Mail should be opened by a designated individual other than the Finance Technician, preferably an office professional who has no regular accounting duties. All checks received in the mail should be recorded in a log before being distributed for processing.
2. The Principal or Assistant Principal should review all deposits after they are prepared by the Finance Technician.
3. A supervisor should review a system log of all payments received, or a log of all voids, refunds, and adjustments to standard fees, for appropriateness.*

RESPONSE: Create log sheet for all deposits, checks can be logged as well. Teachers/Coaches will log envelopes prior to putting in safe. OP can log checks in the same fashion. With the traffic in the main office the Finance Tech cannot be excluded from opening the mail if it is to be done on a daily basis. While the Academy clerical could come downstairs to sort mail they would not be able to log checks as money handling of any sort is not in their job description per the EOPA contract.

***See Deposit Log**

FINDING #2:

Condition: The InTouch receipting program allows some fees to be modified when initially entered into the system. There is no supervisory review process for identifying or monitoring any such changes if they occur.

Criteria: A schedule or listing of appropriately established fees should exist to authorize all fees charged. For miscellaneous fees not able to be managed in this way, which are assessed at the point of payment, processes should exist to ensure that the transactions are entered properly into the system.

Cause: Not due to InTouch system failure, as this functionality is necessary to conduct business. In this case, where prevention controls are not reasonable, strong monitoring controls should compensate. No such controls were observed.

Consequence: The possibility exists that fees could be entered incorrectly and funds received could be under-reported.

Corrective Action: Monitoring procedures are recommended: A supervisor should review a system log of all payments received, or a log of all voids, refunds, and adjustments to standard fees, for appropriateness.*

RESPONSE: Audit report will be used and signed off on once per month by the Principal.

FINDING #3:

Condition: Handwritten checks (as opposed to system-generated) were created at times, to vendors that were not yet approved by District Finance.

Criteria: An approved vendor listing is maintained by the District, which InTouch software accesses in order to authorize payment checks. This vendor listing is an internal control established to provide assurance that check payments are made to authorized recipients.

Cause: The Finance Technician has the responsibility of providing checks to vendors at the school level. In the event that there is no time to have a vendor added to the listing, and a payment is due to that vendor, the Finance Technician hand-writes a check to the vendor. Once the vendor has been added to the listing by District Finance, the Finance Technician enters the check into InTouch to account for the check.

Consequence: Control over check disbursements is compromised, increasing the risk that funds could be disbursed to unauthorized recipients.

Corrective Action: Policy and procedure changes should be made to the following effect:

1. Payment should not be made to vendors prior to their being added to the authorized listing.
2. Vendors should be notified that their first check could be delayed for administrative reasons, to allow for the time necessary to add them to the vendor listing.
3. Handwritten checks should not be allowed.

RESPONSE: We will work to follow the suggested recommended action.

FINDING #4:

Condition: In sixteen of 25 checks randomly selected for testing, no documentation other than the check request form was submitted to substantiate the transaction.

Criteria: Best practice is that a disbursement should not be approved without clear and detailed documentation that a transaction has occurred. This documentation should contain all information necessary to substantiate the details of that transaction.

Cause: Disbursements were made primarily to athletic officials for services provided in officiating school games; another such disbursement found during testing was for math and science awards.

Consequence: The appropriateness of disbursements is not clearly documented. There is elevated risk that undesirable disbursements could be made. The lack of documentation also creates difficulty in reviewing the transactions for administrative purposes.

Corrective Action: It is recommended that clear documentation be maintained of all transactions, including the original invoice for the transaction (not a copy). If the nature of a transaction is such that an invoice does not exist, then a document should be created, and it should be reviewed for appropriateness and signed by a supervisor not involved in arranging the purchase or the transaction. Payments to game officials should be based on a schedule of officials and events, each payment should have documentation showing which game(s) the payment is for, and officials should be required to sign the documentation at the time they are given their check. Similar arrangements should be adhered to for other similar scenarios.

RESPONSE: Athletic Director gets schedule from assignor of officials assigned for each game and gets emails for changes and updates. Sign in log created and the AD will have each official sign in prior to receiving their check.

FINDING #5:

Condition: Checks were created to pay charges according to a written quote, with no invoice to substantiate the transaction. After reviewing a transaction that was included in the audit sample, several other transactions with the same vendor were examined, and it was determined that this was common practice during the audit period.

Criteria: Due to being pending transactions (and not necessarily completed), quotes are not sufficient to authorize payment to a vendor.

Cause: Spreadsheets received from vendor, containing quoted prices in response to specific inquiries, were submitted to the Finance Technician by the Athletics department along with a request for a check.

Consequence: Undesirable or inappropriate activity can occur when payment is made prior to the transaction being finalized. Audit examination found that after a check was cut according to the quote, the price was changed and the invoice, which was received later, was for a higher amount. The difference was paid in a second check, and was incorrectly noted as "shipping charges".

During audit testing, the vendor was contacted for details about the transaction, and upon realizing the disparity between their quoted and actual charges, they discretely credited the school's account. This leaves a credit on the account that would allow a subsequent purchase with this vendor without the need for supervisor approval. It also could result in an unanticipated refund that, combined with the weakness noted in Finding #1, could be subject to inappropriate activity. [In a report from this vendor, it was noted that a refund of \$42.99 for an unrelated purchase was issued to the school in April 2017, so this scenario is clearly a possibility.]

Corrective Action: It is recommended that all requests for payment be accompanied by an invoice that clearly indicates that a transaction has taken place. It should be clarified to all individuals in the purchasing and payment process that a quote is not sufficient for authorizing payment.

RESPONSE: Payment made from an invoice is the ideal. Need a procedure for companies who require prepayment for items. This is often the case with Homecoming and Prom related items as well as some fundraisers. We will work with Finance on how to do this.

FINDING #6:

Condition: A duplicate payment occurred during the year that was subsequently corrected a month later (prior to the audit) by the Finance Technician.

In September 2016, 2 invoices were received for two separate transactions, for the amounts of \$58.00 and \$20.80. The first check issued was for \$58.00 to the vendor. Subsequently, a statement was received that listed these two invoices, and a check was issued for \$78.80. Both checks were requested by the same individual. The following month, the check for \$78.80 was voided, and a 3rd check was issued, for the correct amount of \$20.80.

Criteria: Payment was made in error.

Cause: A payment was authorized by an account statement instead of an invoice.

Consequence: Due to the error being caught (by either the Finance Technician, the individual who requested the checks, or the vendor), there was no lasting consequence in this case. But this control weakness shows that such errors do occur; it is a possibility that other transactions have occurred and have not been caught or corrected.

Corrective Action: It is recommended that it be clarified to those individuals in the disbursement process that payments should not be authorized by account statements, but by invoices. Additionally, it should be required that a vendor-created invoice number be entered into the District's InTouch software for disbursement transactions. The system would detect a duplicate invoice number, and would not allow a payment to be made to a single vendor for the same invoice number.

RESPONSE: We will follow the District's policy for entering invoice numbers as communicated at the FY18 training.

FINDING #7

Condition: Invoices are not being stamped PAID, there is no standard for marking items as RECEIVED, and there is no indication that balance due is being recalculated prior to payment.

Criteria: Annotations of some sort should appear on invoices, to indicate that payment has been made; and, since there is no separate process for the receiving of goods, indication that goods have been received should also be present on the invoice in order to process it for payment. Balance due, as presented on invoices, should be verified by recalculation prior to payment.

Cause: There is no clear policy addressing these areas.

Consequence: Invoices, especially those that have no vendor-created invoice number on them, could be erroneously paid in duplicate. Additionally, invoices not marked RECEIVED could be paid in cases where goods purchased are not properly accounted for. Failure to recalculate balance due could result in overpayment, unnecessary confusion, or payment of sales tax.

Corrective Action: All invoices should be stamped PAID, and should have a check number and “paid” date indicated. All invoices should be stamped and dated to indicate that items were RECEIVED, and the receiving individual should sign/initial and indicate the date. Balance due should be recalculated prior to payment, and initials and a circle or check mark on the amount should indicate that this has taken place.

In order for this process to function correctly to minimize the risk of duplicate payment, the following procedures should also be in place:

- *Only original invoices (not copies) should be paid*
- *Account statements should not be paid*
- *Unique vendor-created invoice numbers should be entered into InTouch*

In order to reduce the risk of inappropriate activity with respect to receiving, the individual responsible for validating that items were received should be independent of payment and custody duties.

RESPONSE: Finance tech often checks in items ordered through the building and then expedites to appropriate staff. Timeliness with having someone else responsible for all check in of items would be unreasonable. We are now stamping invoices as paid, and including the initials of the person receiving the items.

FINDING #8

Condition: In one case out of 25 items tested, a required approval signature was missing on the request for disbursement form used to authorize payment.

Criteria: All disbursements are required to be approved and authorized by the Principal or Assistant Principal.

Cause: Unknown.

Consequence: Possibility of unauthorized activity.

Corrective Action: Documentary evidence of Principal or Assistant Principal approval should be required for all disbursements.

RESPONSE: All payment requests go through the Principal or designated AP, if one was missed it would be an oversight as all checks must have their original signature.

FINDING #9

Condition: In one of 25 transactions selected, it was noted that the date the check was cut was 3 days prior to the date of the approval on the authorization form.

Criteria: Approval activities should take place prior to disbursement.

Cause: Unknown

Consequence: Disbursement was processed prior to approval. This increases the risk of undesirable or inappropriate activity.

Corrective Action: It is recommended that the required signatures and approvals be obtained and documented prior to disbursement.

RESPONSE: We will communicate to our Finance Tech that the approval must be obtained before the check is cut.

FINDING #10

Condition: The internal "School Purchase Order Form" number is being entered into InTouch in the place of the invoice number when disbursements are made. This is not functional to deter payment of invoices in duplicate.

Criteria: Unique vendor-created invoice numbers should be entered into InTouch software.

Cause: Established practice.

Consequence: An invoice that is incorrectly presented for duplicate payment would have a new disbursement form, which would have a different form number. Payment would be made in duplicate and would go unnoticed under this control.

Corrective Action: it should be required that a vendor-created invoice number be entered into the District's InTouch software for disbursement transactions. The system would detect a duplicate invoice number, and would not allow a payment to be made to a single vendor for the same invoice number.

RESPONSE: We will follow the District's policy for entering invoice numbers as communicated at the FY18 training.

FINDING #11

Condition: There are no systems in place for tracking items purchased, such as student athletic wear, yearbooks, school and athletic equipment, fundraising items, etc.

Criteria: Best practices for the proper safeguarding of assets are that a system for accounting for those assets should be maintained.

Cause: There is no clear existing policy.

Consequence: Items purchased could become unaccounted for, increasing the risk of theft or abuse. Lack of a tracking system also results in less information available to consider when reviewing program costs, and longevity of asset life.

Corrective Action: It is recommended that that a system and procedures be established for the schools to manage the purchase of assets for school use (not for resale). An example of such a system is as follows:

1. A threshold should be established to determine what assets should be tracked. *For example: All technology items, and all other assets over \$200.*
2. Items should be tagged with unique numbers for identification and tracking. This should be done when the items are received, and vendor payment should only take place after an authorized individual has signed or initialed the invoice (or other receiving documents) to indicate that the items have been entered into the tracking system.
3. A spreadsheet or software tool should be designated, with access limited to certain individuals, that tracks the following information:

- Name / Description
 - Tracking number
 - Location
 - Disposal date
4. A policy should be developed for keeping these records up-to-date. This would provide guidance when assets change location, or when they are disposed of.

The system for managing assets may be specific to the assets in question. Yearbooks, for example, would likely be managed differently than athletic equipment.

RESPONSE: On-going conversations are taking place in the building regarding methods of tracking, storage, and access.

FINDING #12

Condition: In one transaction where 30 gift cards of \$100 each were purchased for student recipients, two of the cards were unaccounted for.

Criteria: District assets should be accounted for at all times.

Cause: Unknown

Consequence: Possibility of fraud or abuse.

Corrective Action: Gift cards should be treated as a cash equivalent, and should be safeguarded as such. It is recommended that the District establish a policy for the purchase, safeguarding, use, and distribution of gift cards.

RESPONSE: On-going conversations are taking place in the district regarding methods of tracking, storage, and distribution of gift cards. Until the District establishes a guideline for this we will do the following:

1. We will store gift cards in a secure location with limited access.
2. We will make sure that all gift cards are signed for by the people receiving them.
3. We will keep records on file for the distribution of gift cards.

FINDING #13

Condition: There are no clear procedures for managing school fundraisers. Throughout the year, staff or students may sell candy, cookies, tickets, etc., for fundraising.

Criteria: Fundraising activities should be managed in a manner that reduces the risk of fraud or other undesirable activity to a minimum.

Cause: No existing policy.

Consequence: The risk of inappropriate activity is increased, such as theft of items for sale, or of sales proceeds.

Corrective Action: It is recommended that guidelines be established for fundraising activities, such as:

1. Procedures for event sponsors regarding receipt of funds from students or other workers, and deposit of those funds with the Financial Technician.
2. Procedures for the storage of items for sale, in order to limit the risk of theft, loss, or spoilage.
3. Procedures for safeguarding of cash prior to its being transferred to the Financial Technician
4. Procedures for counting funds at the point that they are handed from one custodian to the next, for accountability.

RESPONSE: We understand the district is developing a board fund raising policy. Until it is developed, we will follow existing District guidelines, and use our best judgement for managing fundraisers and safeguarding the funds.

FINDING #14

Condition: For the 2016-17 school year, out of 315 yearbooks received from Jostens in May 2017, only 270 are accounted for. These books cost \$52 each, and were sold for \$65 (early bird) and \$75 each. Yearbooks are tracked only by the Yearbook teacher.

Criteria: These items should be tracked in a responsible manner that minimizes the risk of loss or theft. Funds received for yearbook sales should be properly accounted for.

Cause: No existing policy.

Consequence: The risk of inappropriate activity is increased, such as theft of items for sale, or of sales proceeds.

Corrective Action: It is recommended that guidelines be established for the sale of yearbooks, and for other such items. The following are areas that should be considered:

1. Safeguarding: Valuable items should be safeguarded in a locked room or cabinet where they cannot be removed by unauthorized adults (parents, staff, custodians, etc.) or students.
2. Cash handling: It should be made clear that payment may only be made to the Finance Technician, who should not have custody of the yearbooks.
3. Students should not be responsible for taking custody of the items, receiving payment, or handing them out unsupervised.
4. There should be a strong system of managing the number of yearbooks purchased, sold, and available for sale.

RESPONSE: We will create a system to use to verify the number of books ordered, sold, and delivered. We have stressed to our yearbook teacher a need of strong controls and accountability.

CONCLUSION

It is not required that the above recommendations be implemented exactly as presented; departments have the latitude to fashion their own response to the internal audit findings. We encourage you to respond in the most efficient and effective manner to address the risks identified. It is understood that some of these findings may be addressed at the District Finance level, and some at the school level.

Please provide a response within 30 days of receiving this preliminary report, for inclusion in the final report. If you have any questions or concerns, or for further clarification, please feel free to Roman Gray, Internal Auditor.