

Internal Audit Report

Management of Student Activity Funds

Honey Island Elementary School

January 8, 2021

St. Tammany Parish School System

Office of Internal Audit

Background

Honey Island Elementary (HIE) School is located in Slidell, Louisiana and provides services to approximately 520 second and third grade students. The St. Tammany Parish School Board (STPSB) employs individuals to work at HIE. The management structure of HIE includes a Principal and an Assistant Principal with the bookkeeper reporting to the Principal.

Public schools in Louisiana are supported primarily by state and local taxes. In addition to this funding, individual schools generate additional revenues from other sources such as fundraisers, day care, and other school activities. These revenues, known as Student Activity Funds, supplement the instructional program and contribute to the educational experiences of the students and benefit the general welfare of the school.

The management of the Student Activity Funds is decentralized with oversight at the level of the Principal. Financial policies and procedures governing the management of the Student Activity Funds have been developed by the STPSB and are updated annually and promulgated to all key school personnel.

Audit Objectives

The objectives of the audit were to:

- Determine the adequacy of the internal control environment over the school's accounting function at HIE.
- Review the school's compliance with STPSB School Finance Handbook (Administrative Guidelines/Best Practices for School Activity Funds Accounting).

Audit Scope

For FY 2020, a limited review was performed of the financial records of HIE. The purpose of the review was to determine if the school's financial records, policies, and procedures were maintained in accordance with the STPSB School Finance Handbook and Louisiana Revised Statutes. This review included tests of the accounting records and other auditing procedures deemed necessary.

The school's current bookkeeper was hired in September 2020. The findings from this review occurred prior to her appointment as bookkeeper but she has been tasked with providing the corrective action.

Scope Limitations

To achieve audit objectives, supporting documentation for expenditures and deposits of funds selected in the sample were requested. For some selections, the documentation for some receipts (8) and disbursements (2) selected could not be located. Conclusions were reached based on testing of selections for which documentation was available.

Testing Method

Key members of management, accounting and bookkeeping staff at HIE were interviewed to gain an understanding of the financial management of the school. In addition, financial policies and procedures contained in the STPSB Finance Handbook Guidelines related to the management of Student Activity Funds were reviewed.

Procedures included the assessment of controls for each in-scope audit area. Documents that were reviewed during testing included supporting documentation for a combined 66 transactions. This documentation included but was not limited to invoices, receipts, bank records, purchase authorization forms, bank reconciliations, and bank statements.

Transactions tested for FY 2020 were as follows:

- \$ 87,037 in receipts
- \$ 80,601 in disbursements

Audit Observations/Results:

1. Compliance With Fund Expenditure/Purchasing Policy and Obtain Proper Approval Prior To Purchasing School-Related Items

Observation:

As part of the disbursements testing, a sample of thirty-two disbursements were reviewed to ensure the approval process was appropriate. A review of the school's Purchase Request forms indicated that the majority of the school's Purchase Request forms were either incomplete (missing receipts/supporting documentation, Principal approval, business purpose, bookkeeper review) or did not contained the required **prior** approval needed in order to request and purchase items for the school's operation. In addition, two of those disbursements tested had no Purchase Request Form supporting the disbursement.

The STPSB School Finance Handbook indicates that expenditures require prior approval of the Principal with "an amount not to exceed, or exact total" provided on the Purchase Request form. The Principal's approval confirms that (a) the related account funds are available to cover the expenditure, (b) the person requesting the expenditure is authorized to do so and (c) that the disbursement is in accordance with LSA-RS 17:414.3(B)(3).

An additional observation included a separate situation where the Principal's travel expense form was paid without either a Supervisor's approval or complete supporting documentation. In order to maintain an environment with appropriate internal controls, the travel expense form should be approved by someone at a higher level of authority above the requestor (Principal); which in this case was the Principal's Curriculum and Instruction Supervisor. In this instance, the travel expense form was not approved by anyone.

Recommendation:

The school should follow the STPSB's School Finance Handbook that requires that the School Purchase Request form be completed **prior** to any purchase and that all documentation supporting the purchase be retained and provided as support for the purchase. Also, except in rare situations, the Principal should not originate a purchase request. All travel expense reports of Principals must be approved by a Supervisor before the travel expense report is processed and

paid. Expenditures require the prior written approval of the Principal on the Purchase Request form.

Management Action Plan:

As of September 2020, the requirement that all purchases contain prior written approval has been reemphasized. The Principal and bookkeeper are committed to assuring compliance exists with this requirement. Regarding the Principal initiating a purchase request, except upon rare occasions, the Principal will not originate any purchase requests in the future. If the Principal must originate a purchase request or a travel expense form, that purchase will be approved by the Principal's Supervisor or someone at a higher level.

2. Compliance With Purchasing Policy On Purchases over \$1,000

Observation:

The STPSB purchasing policy indicates that any purchase over \$1,000 requires that the school obtain three separate vendor quotes prior to making the purchase. On three separate occasions, HIE purchased items over \$1,000 from a shirt screen printer but failed to comply with the STPSB purchasing policy of obtaining quotes. In addition, on two of the three purchases, the Principal's approval was never obtained for the Purchase Request form.

Recommendation:

Any employee requesting the disbursement of school funds should comply with the STPSB School Finance Handbook that requires three quotes be obtained for any purchase over \$1,000.

Management Action Plan:

The need to comply with the purchasing policy found in the STPSB School Finance Handbook was reemphasized to all HIE staff; specifically that any purchase over \$1,000 will only be approved after acquiring three quotes.

3. Compliance With Fund Collections and Deposit Policy and Maintain Appropriate Receipt Documentation

Observation:

Eight of the thirty-four deposits selected for review did not contain either the supporting documentation/bank-validated deposit slips for the receipts in MUNIS software or were not included in the stored records. This documentation is important in order to evaluate compliance with the fund collections process that ultimately confirms that all funds receipted were actually deposited intact to the school's bank account.

Recommendation:

The school should follow the STPSB's Finance Handbook for fund accountability. This process begins when funds are first received by a school employee. Any staff handling funds are required to maintain accurate records (supporting documentation) of all funds collected. All amounts collected should be recorded and receipts provided. All funds collected must be provided to the

school's bookkeeper and the daily totals must remain intact and equal the daily deposits made to the school's bank account.

Management Action Plan:

The Principal will ensure that the appropriate fund collections, receipt documentation and deposit policy will be complied with on a daily basis.

4. Ensuring That All Technology-Related Purchases Are Completed or Approved By the Information Technology (IT) Department Prior To Purchasing

Observation:

A tech-related purchase was completed and installed without the approval of the STPSB IT Department.

Recommendation:

All technology purchases must be approved by the STPSB IT Department and must be purchased through the purchase order system.

Management Action Plan:

Approval will be obtained from the IT Department prior to any technology-related purchases in the future.

Audit Opinion:

The internal audit opinion is based on several components: (a) the results of testing and observations obtained and their impact on the schools financial records and (b) the level of existing internal controls over the school's financial records.

For FY 2020, internal controls over the school accounting records appeared to be unsatisfactory. This opinion is supported by the level of compliance with the STPSB School Finance Handbook in general and the level of supporting documentation maintained relating to the school's daily operations. The specific findings and recommendations are included in this report.