

Revenues

Internal Audit Report

June 23, 2020



**Orange County
Public Schools**

Internal Audit

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EXECUTIVE SUMMARY

Why We Did This Audit

This is a planned performance audit of the Revenue function. Our objectives were to determine whether revenues are deposited in a timely manner, recorded accurately, to the correct account, to the correct period, and with appropriate internal controls as well as in compliance with applicable Florida Statutes, district policies and sound business practices.

Observations and Conclusions

Our overall conclusion is that the revenue process is performing effectively by having adequate deposit procedures resulting in posting the correct amounts to the correct accounts in the proper period and in accordance with applicable laws, regulations, district policies, and with appropriate internal controls.

| Audit Results at a Glance | | | |
|--|----------------------|----------|----------------|
| | Risk / Impact Rating | | |
| Results and Observations | Significant | Moderate | Minor |
| IA - Internal Audit or M - Management | - | - | IA - 2 |
| D - Deficiency or O - Opportunity | - | - | O - 1 D - 1 |

Results and Recommendations

We placed emphasis on material revenue streams that were not normally audited by other audit authorities.

During our audit, we noticed instances of checks being turned in well after the check date. Finance did not follow-up with the departments or personnel to remind them of the requirement to submit checks for deposit within 24-48 hours of receipt. We recommended that Finance notify departments or personnel when checks are not deposited timely in order to encourage timely deposits in accordance with Finance direction.

We also identified a donation check for a school that was almost two years old and had not been deposited. This check was mistakenly included in the check listing for an OCPS deposit, but since the Payee was a school and not OCPS, it was forwarded to the school for deposit. A review of the school records by the school bookkeeper and Internal Audit found no evidence of the donation check being deposited. We suggested the school request a replacement check.

This report has been discussed with management and they have prepared their response, which follows.

DEFINITIONS:

Risk / Impact Ratings

| | |
|-------------|--|
| Minor | Low risk with a financial impact of less than one percent and/or an isolated occurrence limited to local processes (low impact and low likelihood) |
| Moderate | Slight to moderate risk with a financial impact between one and five percent and/or a noticeable issue that may extend beyond local processes (low impact and high likelihood or high impact and low likelihood) |
| Significant | High risk with a financial impact greater than five percent and/or a significant issue that occurs in multiple processes (high impact and high likelihood) |

Observations Categories

| | |
|-------------|---|
| Deficiency | A shortcoming in controls or processes that reduces the likelihood of achieving goals related to operations, reporting and compliance |
| Opportunity | A process that falls short of best practices or does not result in optimal productivity or use of resources |

Criteria for Observations Sourced to Management

- Internal audit was informed of the issue prior to starting detailed testing
- Management identified, evaluated, and communicated the issue to appropriate levels of the district
- Management has begun corrective action with clear, actionable plans and targeted completion dates

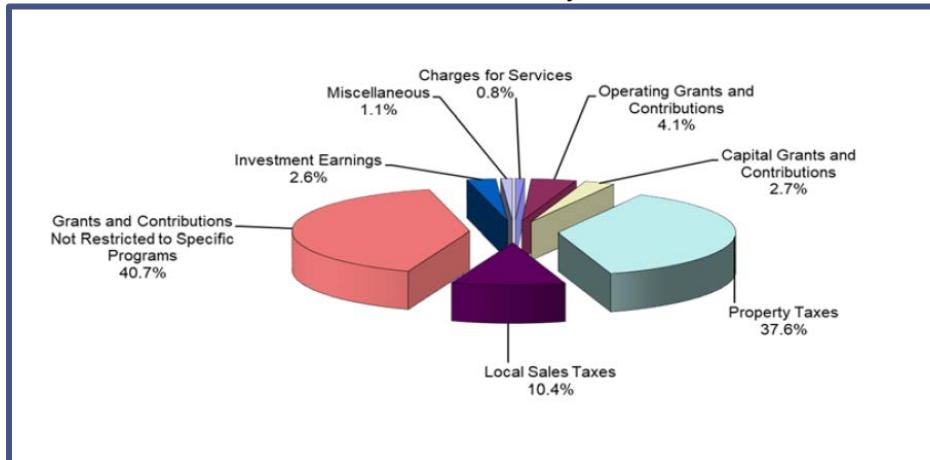
None of the observations resulting from this audit were sourced to management.

OCPS reported \$2.65B in total revenue for the year ended June 30, 2019.

BACKGROUND:

OCPS reported \$2.65 billion in total revenue in the Comprehensive Annual Financial Report for the year ended June 30, 2019. Sources of revenue include Federal, State, and Local governments as well as food service, tuition fees, facility rentals, extended day, printing services, interest income, finger-printing, grants, and other areas as noted in the chart below.

Exhibit 1: Revenues by Source



Source: FY19 CAFR prepared by OCPS Finance Department

Revenue is received in several ways: Electronic Funds Transfers (EFT's), checks, and cash. By volume, most revenue is received by EFT (over 99%). Checks usually come in the mail on a daily basis (which estimated to be a little over 0.5% of revenue received). Cash is the smallest portion (estimated to be less than 0.01%) of the three methods of payment.

*Revenue is received by:
EFT
Check
Cash*

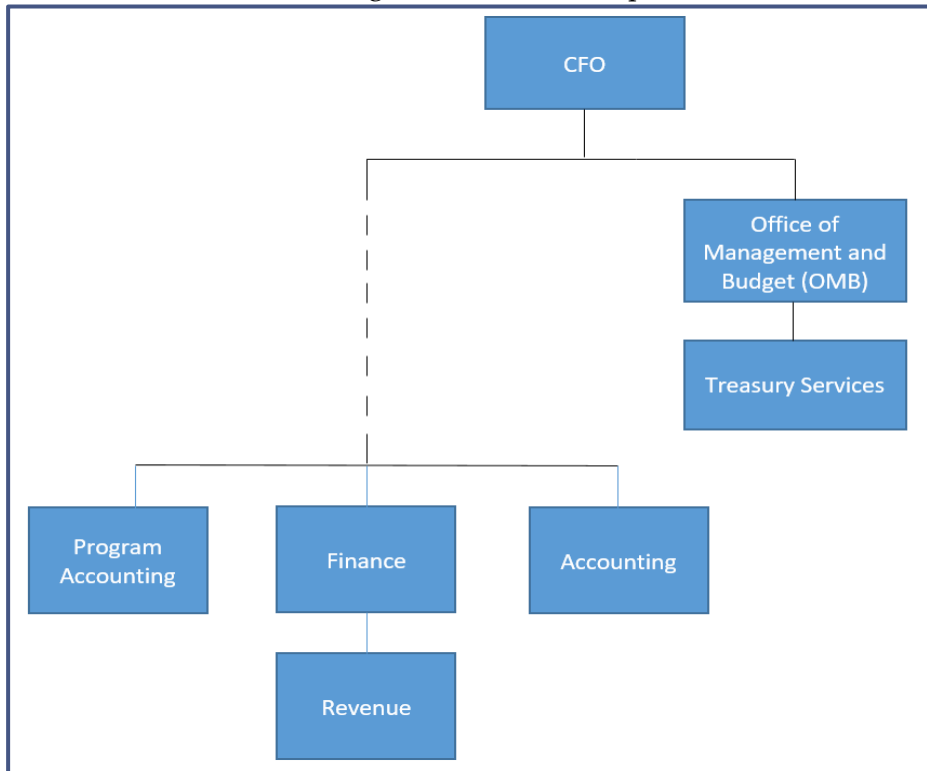
We reviewed the transactional data that was posted to the Master Incoming account in SAP and summarized by those categories. The totals of these transactions do not include the accruals and other adjustments performed for financial statement purposes and, therefore, do not necessarily agree with the Comprehensive Annual Financial Report (CAFR) totals.

Revenue Administration

The Revenue function is part of the Finance department. According to Finance policy and procedures, when cash and/or a check is received in person, a receipt is provided upon request. A "Daily Receipt Log" is

prepared listing all checks received each day, which includes the check amount, the check date, and the payer. These checks are deposited each day in the bank and posted in a holding account. The Office of Management and Budget department confirms the deposit the next day and a posting to the general ledger is made to the appropriate revenue account. Treasury Services prepares the journal entries to record EFT's. The Accounting area performs the bank reconciliation each month.

Exhibit 2: General Organization of the Departments Involved



Source: OCPS District Organization Chart

We identified eleven revenue streams that were over \$1M that we addressed in this audit. They are listed on the table on the next page.

Eleven revenue streams over \$1M were reviewed, representing 29.8% of total revenues.

Exhibit 3: Revenues Over \$1M by Source - FY19

| <u>Line</u> | <u>Revenue Type</u> | <u>% of Total FY19 Revenue</u> | <u>2019</u> |
|--------------|------------------------------------|--|-------------------------|
| 1 | County School District Tax | 18.4% | \$ 994,268,937 |
| 2 | School District Sales Tax | 5.0% | \$ 272,627,372 |
| 3 | Class Size Reduction | 4.4% | \$ 236,086,023 |
| 4 | Misc. Revenue | 0.8% | \$ 41,199,872 |
| 5 | Workforce Development | 0.6% | \$ 31,782,106 |
| 6 | School Recognition | 0.2% | \$ 9,368,582 |
| 7 | Medicaid Reimbursement | 0.2% | \$ 8,130,536 |
| 8 | Charter School Capital Outlay | 0.1% | \$ 7,531,789 |
| 9 | Voluntary Pre-Kindergarten Program | 0.1% | \$ 5,752,592 |
| 10 | Classroom Supply Assistance | 0.1% | \$ 4,022,542 |
| 11 | Vocational Fees | 0.1% | \$ 3,676,528 |
| Total | | 29.8% | \$ 1,614,446,879 |

OBJECTIVE, SCOPE AND METHODOLOGY:

Objective

The objective of this audit was to evaluate the efficiency and effectiveness of the revenue process. We were concerned whether all the revenues were collected, posted to the correct account and correct period.

This was a planned engagement derived from the annual audit risk assessment process. This audit was included in the 2019-2020 Annual Audit Plan.

Scope

The scope of the audit addressed the revenue receipt and posting process during fiscal year 2018-2019.

Methodology

We assessed the revenue receipt process, the recording process, and the posting process. Our audit methodology included:

- interviewing personnel of the Finance, Budget, and Accounting departments;
- comparing FY18 to FY19 revenues;
- observing the deposit process for checks;

Evaluate efficiency and effectiveness of revenue process

Assessed the revenue receipt process, recording process and posting process

- reviewing the deposit process for cash;
- reviewing the “Daily Receipt Log”;
- reviewing Receipt Books and Receipt Book Log;
- reviewing the bank reconciliations;
- reviewing SAP entries;
- reviewing the backup to revenue deposits; and
- contacting third parties for confirmation of the revenues.

For cash transactions, we reviewed only the cash transaction procedures. We were unable to review an actual cash deposit as this audit occurred during the work-from-home period and no cash transactions occurred during this time. As noted, cash made up less than 0.01% of revenue.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors and included such procedures as deemed necessary to provide reasonable assurance regarding the audit objective. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We are required to note any material deficiencies in accordance with Florida Statutes, School Board Policy and sound business practices. We also offer suggestions to improve controls or operational efficiency and effectiveness. For this audit, we noted no material deficiencies and made two recommendations which are described below.

RESULTS & RECOMMENDATIONS

The revenue posting process is operating effectively. The checks are deposited timely when received, there is adequate segregation of duties, the postings are performed timely and to the proper account and period, and the reconciliations are performed and reviewed in a timely manner.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing.

The revenue process is operating effectively.

*1. Revenue is not always transmitted to Finance in a timely manner. -
Minor*

We noted instances where checks were transmitted to Finance well after the check date. Finance did not follow-up in these instances with the departments or personnel to remind them of the importance of submitting checks for deposit within 24 – 48 hours of receipt. A memo by the Sr. Director of Finance in 2016 stated **“All cash receipts MUST be remitted to the Finance Department within 24 - 48 hours of receipt to help ensure all cash receipts are deposited into the District’s bank account in a timely manner.”**

We recommend that the direction in this memo be followed and that the Finance Department contact the transmitting department or personnel when checks are not submitted timely.

2. A check that belonged to a district school was misplaced. - Minor

During our review of the “Daily Receipts Log”, we noted a listing for a check dated 09/05/2018 from The Foundation for OCPs (Foundation) written to Tildenville ES for \$2,500.00. Because this check was made payable to Tildenville ES, it was sent to the school for deposit. A follow-up review of subsequent deposits and an inquiry of the school bookkeeper did not disclose any \$2,500 deposit through 12/31/2018. An inquiry of the Foundation disclosed that the check had not yet cleared their bank. We recommended that the school request a replacement check for this \$2,500 donation. The follow-up on this matter will be handled by the school and the Foundation.

We wish to thank the staff of the Finance, Treasury Services, Accounting and Budget for their cooperation and assistance.

We noted checks that were submitted well after the check date.

We recommend contacting department or personnel when checks are not timely submitted.

A \$2,500 check donation for Tildenville ES was never deposited.



| | |
|---|------------------------------------|
| Department / School Name | Finance Department |
| Administrator / Department Head | Catherine Nguyen Schuessler |
| Cabinet Official / Area Superintendent | Dale Kelly |

| Audit Result / Recommendation | Management Response Acknowledgement/ Agreement of Condition | Responsible Person (Name & Title) And Target Completion Date | Management's Action Plan |
|---|---|---|---|
| <p>Revenue is not always transmitted to Finance in a timely manner. A memo by the Senior Director of Finance in 2016 stated "All cash receipts must be remitted to the Finance Department within 24-48 hours of receipt to help ensure all cash receipts are deposited into the District's bank account in a timely manner."</p> <p>We recommend that the direction in this memo be followed and that the Finance Department contact the transmitting department or personnel when checks are not submitted timely.</p> | <p>Management agrees with recommendation and will contact department/personnel when checks are not submitted timely to Finance.</p> | <p>Carlos Colon Lopez – Senior Specialist Finance/Revenue 09/2020</p> | <p>Communications to department/personnel began 09/14/2020 and Finance will continue to contact any department/personnel that is not submitting checks to Finance for deposit in a timely manner.</p> |
| <p>Check that belonged to a district school was misplaced</p> | <p>The follow up on this matter is being addressed by the school.</p> | <p>Not applicable</p> | <p>Not applicable</p> |