



City Auditor's Office

Charter School Authority Best Practices

Report Issued: October 16, 2018

Audit Report No. 18 A-2



TO: Mayor and Council Members
Chairperson and Charter School Governing Board Members

FROM: Andrea R. Butola, City Auditor 

DATE: October 16, 2018

SUBJECT: Charter School Authority Best Practices Audit

The City Auditor's Office has completed the audit of the Charter School Authority Best Practices. The review was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to the Charter School and City management and staff for the courtesy, cooperation and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Butola at 242-3380.

C: John Szerlag, City Manager
Jacquelin Collins, Charter School Superintendent
Connie Barron, Interim Assistant City Manager
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Victoria Bateman, Financial Services Director
Michelle Hoffman, ITS Director
Lisa Sonogo, Human Resources Director
MaryAnne Moniz, Business Manager Charter School
Audit Committee

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EXECUTIVE SUMMARY

The City Auditor's Office conducted an audit of the best practices recommended to the City Council and Charter School Authority (Charter School) in April 2017, and certain areas of Charter School Internal Funds agency accounts. This audit was an addition to the FY2018 audit plan as a need for an independent evaluation of the progress of implementation of recommended best practices and follow up necessary based on the results of the Internal Funds consulting engagement performed by Clifton Larson Allen, LLP, (CLA) the City's external auditors.

Overall, significant work remains to ensure proper administration of the Charter School functions to fully implement recommended best practices and provide appropriate governance of Charter School administrative operations. For those recommendations which are not feasible currently due to budgetary or personnel restrictions, it is our recommendation that every effort be made to incorporate acceptable procedures to provide oversight that will safeguard City and Charter School assets.

For details of the status of the best practices see Appendix A. For details on the findings and recommendations see Findings and Recommendations. No material control deficiencies were noted.

BACKGROUND

Chapter 26 of the City's Ordinance established the Cape Coral Charter School Authority (Authority). According to the Ordinance,

The Authority was created for the purpose of operating and managing on behalf of the City of Cape Coral, all charter schools for which a charter is held by the City.

The Authority currently has four municipal charter schools

- Christa McAuliffe Elementary
- Oasis Elementary
- Oasis Middle
- Oasis High

The Governing Board oversees the Authority. The Board consists of nine members and must include:

- One City Council Member
- One member of the business community
- One member of the education community
- Four members of the community at large
- One parent from each of the charter schools

From September through June of each school year, the Board is required to meet at least once quarterly. They can meet more frequently if it is deemed necessary.

In December 2016, the City Council requested the City Manager and the City Auditor to research best practices and examine the administrative interactions between the City and the Authority. The results of the research were presented at the April 21, 2017 City Council Regular meeting. Best practices were recommended for administrative service oversight from the City Clerk's Office, Financial Services, Human Resources, and Information Technology Services. In addition to this research, on February 21, 2017, the City Auditor's Office (CAO) issued an audit of the Charter School Internal Funds, which resulted in 21 recommendations. CLA performed a limited review which entailed follow up procedures concerning these audit recommendations. CLA's report, issued in December 2017, noted exceptions in their testing for several recommendations.

AUDIT OBJECTIVES

The audit objectives were as follows:

- Provide independent verification of the status of implementation of Charter School Best Practices.
- Determine if Charter School implemented recommendations for exceptions noted during CLA's limited review.

SCOPE AND METHODOLOGY

The audit scope focused primarily on determining the implementation status of recommended best practices. In addition, we completed additional testing for exceptions noted during the CLA follow up and other areas of concern. Testing focused on transactions and policies and procedures in place from July 1, 2017 through April 30, 2018.

Sample size and selection are based on the CAO Sample Methodology. Both random and judgmental samples were used.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

FINDING 2018-01: Internal Funds Money Handling and Deposits

Rank: (High)

CLA, the external auditors for the City, noted exceptions during their testing of samples from Christa McAuliffe Elementary School (CMES) and Oasis High School (OHS). As a result, we selected a sample of 20 deposits and five deposit corrections for internal funds made from 7/1/2017 through 4/30/2018 for CMES and OHS. We noted the following exceptions to our testing:

- Eight deposits were not deposited within five business days.
- Four deposits did not have the appropriate approval signatures or initials present with supporting documentation.
- Forms for one deposit were not completed sufficiently to include all pertinent information required by deposit policies and procedures.

In addition to deposit testing, we gained an understanding of teacher compliance with money handling guidelines through an anonymous survey. The Superintendent sent 186 questionnaires and received 72 responses to the following question:

*Scenario: A student presents you with cash or a check for a donation or fund-raising effort. Please briefly (**no more than 4-5 sentences**) describe what you do with the funds. Be sure to include any information you gather from the student and what you do with the funds after receipt.*

Overall responses indicated procedures included in the policies¹ were not fully followed, such as providing receipts to students. Six respondents stated they would not accept any funds as process was confusing or constantly changing and they were there to teach the children.

Money handling and deposit policies and procedures are necessary to ensure proper controls are in place to minimize misappropriation and enhance accountability. Non-compliance with these policies and procedures can be attributed to the fact they are confusing and, in some instances, vague. Insufficient training also contributes to non-adherence to the policies and procedures. Adherence to the current policies and procedures is not monitored sufficiently or enforced.

Deposit procedures should be streamlined to ensure compliance and minimize the risk of misappropriation of funds. The manual should include a section(s) that clearly define processes including money handling, preparation of bank deposits, posting of journal entries and completion of bank reconciliations. As part of the revisions, the Check Collection Form should

¹ Charter School Policies include School Internal Funds Operating Guide (rev. 12/2017), *Florida Department of Education Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book), *Internal Funds Purchasing and Money Handling Guidelines 2017-2018*

be revised to include a receipt date which will enable staff to comply with the five-day deposit requirement. Adherence to revised procedures can be enhanced by providing training to all personnel prior to the start of school year and as needed throughout the year for new employees.

RECOMMENDATIONS:

- 2018-01 a. Develop one comprehensive manual for money handling which clearly defines roles and responsibilities for all Charter School employees involved in the process (e.g. teachers, coaches, cash custodians, bookkeepers, school secretaries, accountants).
- 2018-01 b. Develop a monitoring process to ensure compliance with stated policies and procedures.
- 2018-01 c. Conduct training at least annually, prior to the start of each school year to ensure compliance with updated policy and procedures.

Management Response and Corrective Action Plan:

2018-01 a. The Authority and the City are going to evaluate the current process and possibly introduce responsibilities for the Middle and High School cashiers to accept funds, using MySchoolBucs or RecTrak, instead of teachers collecting the funds. We will review the process at the Elementary schools to define the process and who is responsible. A manual will be developed to define the process.

2018-01 a. Responsible Person: Penny Faulkner, Charter School Bookkeeper

2018-01 a. Anticipated Completion Date: March 31,2019

2018-01 b. Will identify positions responsible for monitoring compliance

2018-01 b. Responsible People: Victoria Bateman, City Finance Director and Jacquelin Collins, Superintendent

2018-01 b. Anticipated Completion Date: March 31,2019

2018-01 c. Training is currently conducted by City’s Cashier’s office. Will propose videotaping a training and putting it on SABA for every day access.

2018-01 c. Responsible Person: Penny Faulkner, Charter School Bookkeeper

2018-01 c. Anticipated Completion Date: June 30, 2019

FINDING 2018-02: General and Internal Fund Expenditures

Rank: (High)

We sampled expenditures from internal funds and the general fund to determine if purchases were made in accordance with applicable policies and procedures. When we inquired of

Charter School Personnel which policies applied to a specific sample, responses given referenced one or more of four sources².

We noted the policies were applied inconsistently depending on the type of expenditure or the funding allocated. We also noted a policy applicable for treatment of general fund expenditures embedded in a section of the *Internal Funds Standard Operating Guide*. Procedures do not clearly indicate roles and responsibilities for individuals involved in purchasing and expenditure processing such as the individual responsible for approving purchase orders.

Internal Funds Expenditures: We tested 25 randomly selected and seven high dollar value transactions paid with Internal Funds. We noted the following exceptions which represent deviations from policy:

Of the 25 randomly selected transactions:

- Five were unallowable expenditures according to the *(Red Book)*
- Five had incomplete or incorrectly completed forms³
- One was charged to the wrong account code
- One had two purchase orders (PO's) completed for one invoice (One PO was for the deposit and the second PO was for the final payment)
- Five had PO's dated after the invoice date

Of the seven high dollar value transactions:

- Five PO's were dated after the invoice date
- One lacked proper supporting documentation

General Fund Expenditures: We tested 25 randomly selected transactions paid with General Funds. This resulted in 17 Invoices and 8 Journal Entries. We noted the following exceptions for the invoices (17) tested which represent deviations from policy:

Of the 17 invoices:

- Three had PO's dated after the invoice date
- One didn't have the required Request for Purchase form completed
- Two had the Request for Purchase Form dated after the invoice date
- Five Request for Purchase Forms were missing information such as the Fund Balance or "As of" date
- One amount paid did not agree to the PO amount

Policies and procedures require certain forms are completed and expenditures be charged to the correct account code. In the case of Internal Funds, these policies and procedures delineate allowable expenditures. Noncompliance with numerous, vague or incomplete policies for

² *School Internal Funds Standard Operating Guide* (revised 12/2017); *Internal Funds, Purchasing, and Money Handling Guidelines 2017-18*; NEOLA policies; City Policies and Procedures.

³ Forms such as PO's, Pre-Approval form, Request for Purchase form, Amazon Authorization form, Fundraising form

purchases and expenditures results in insufficient management and governance over the purchasing and finance functions.

Expenditure processing procedures should be streamlined to ensure compliance and proper accounting. The manual should include a section(s) that clearly defines the process including definitive operating procedures for purchasing from purchase order generation through payment. These recommendations will enable appropriate fiscal accountability and management by the Charter School.

RECOMMENDATIONS:

- 2018-02 a. Develop an all-encompassing policy and procedure manual for general fund and internal funds purchasing to eliminate ambiguity in processing and clearly define roles and responsibilities throughout the expenditure process.
- 2018-02 b. Develop a monitoring process to ensure compliance with stated policies and procedures.
- 2018-02 c. Conduct training at least annually, prior to the start of each school year to ensure compliance with updated policy and procedures.

Management Response and Corrective Action Plan:

2018-02 a. The Authority will follow the City's policies and procedures. The Authority and City will note where there may be exceptions just for the Charter School. In the end, it will be one set of policies and procedures.

2018-02 a. Responsible Person: Danielle Jensen, Charter School Procurement Director

2018-02 a. Anticipated Completion Date: June 30, 2019

2018-02 b. Both the Authority Business Manager and Director of Procurement will review all purchase requests to ensure proper procedures are followed. In addition, the City's Procurement Manager will sample procurements for compliance.

2018-02 b. Responsible People: Mary Anne Moniz, Business Manager; Danielle Jensen, Charter School Procurement Director; Wanda Roop, City Procurement Manager

2018-02 b. Anticipated Completion Date: December 31, 2018

2018-02 c. Although CAB Training is performed by City Procurement, this training will be expanded to cover both internal and general fund expenditures. In addition, the City Procurement will be present to assist. Items will include purchasing limits, required forms completion, change orders, etc. We will work with HR to videotape the training and place it into SABA for everyday reference.

2018-02 c. Responsible People: Danielle Jensen, Procurement Director, Wanda Roop, City Procurement Manager

2018-02 c. Anticipated Completion Date: June 30, 2019

FINDING 2018-03: Finance Policies and Procedures

Rank: (Medium)

Based on our inquiry of City and School personnel regarding the status of implementation of Finance best practices⁴, we determined cash flow forecasting and investment balance review, although occurring, are not formally documented. In addition, the City still performs Charter School cash position analysis and the process is not documented formally. Currently, no individuals at the Charter School or City Finance Department has performed any audit of accounts receivable balances. The only review of accounts receivable is done annually as a part of the CAFR audit performed by the external auditors.

Best practices for Finance recommended fiscal accountability and certain procedures be performed by the Charter School such as cash flow forecasting, investment balance review and audits of accounts receivable.

Lack of documented procedures with clearly delineated roles and responsibilities for these processes results in insufficient management and governance of finance functions and lacks fiscal accountability.

RECOMMENDATIONS:

2018-03a. To enable appropriate fiscal accountability and management by the Charter School, develop and implement a manual to include finance policies and procedures that establish clear roles and responsibilities and provide definitive guidance for:

- Cash forecasting
- Investment balance review
- Cash position analysis
- Audit of accounts receivable
- Refund policy

2018-03b. Conduct training at least annually, prior to the start of each school year to ensure compliance with updated policy and procedures.

Management Response and Corrective Action Plan

2018-03 a. The Authority will follow the City's financial policies and any exceptions specific to the Authority will be noted.

2018-03 a. Responsible People: Heather Muniz, City Accountant; Mary Anne Moniz, Business Manager; Jeanette Kreuz, Charter School Senior Accountant; Laura Tanner, City Senior Accounting Manager

2018-03 a. Anticipated Completion Date: March 31, 2019

2018-03 b. A review of current financial policies and procedures will be done annually.

⁴ See Appendix A Best Practices 9.1, 11.1, 22.1

2018-03 b. Responsible People: MaryAnne Moniz, Business Manager; Monte Vavra Deputy Financial Services Director

2018-03 b. Anticipated Completion Date: June 30, 2019

FINDING 2018-04: Internal Funds Budget

Rank: (Medium)

The Charter School currently does not compile a budget for Internal Funds. *The Florida Department of Education Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book) specifically addresses budgeting for Internal Funds in Chapter 8⁵. Not budgeting for Internal Funds results in poor administration and lack of fiscal accountability for internal funds.

RECOMMENDATION:

2018-04 Develop a budget for Internal Funds as required by *The Florida Department of Education Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book) in accordance with the same procedures and timeline in place for the City's budget.

Management Response and Corrective Action Plan:

2018-04 The City and the Authority's Budget personnel will work to develop an initial budget for the internal funds and then refine the new process based upon lessons learned.

2018-04 Responsible People: MaryAnne Moniz, Business Manager, Chris Phillips, City Budget Administrator

2018-04 Anticipated Completion Date: June 30, 2019

⁵ Chapter 8, Section 1.9. Each school organization should operate within a budget formulated by the organization members. The format of the budget shall be prescribed by the principal, if not prescribed by district school board rules.

Chapter 8, Section III 2.3b. The sponsor of each school club or organization is responsible for providing adequate financial documents and records to the principal and is responsible for retaining duplicates of said documents and records. These records may include an organization budget; duplicate receipts for all income from dues, fundraising activities, entertainment, assessments, and donations; and approved requests for payment.

APPENDIX A

Department	April 2017 Presentation recommendation #	Description	Best Practice Status
Finance	6.2	Treat Charter School like any City department with regards to fiscal accountability and processes	Not Implemented
Finance / Accounting	10.2	Review with Charter School staff the ability to automate GL revenue posting	Not Implemented
Finance / Debt / Treasury	11.1	Perform a cash position analysis	Not Implemented
Finance / AP	12.1	Ensure proper invoice is attached to check request before submittal to AP	Not Implemented
Finance / On site Accounting	22.1	Perform audit of accounts receivable process	Not Implemented
Human Resources	23.2	HR not currently supporting the following areas: Overall disciplinary policies and practices; performance review policies. Recommend HR perform a systematic review of current Charter School personnel policies.	Not Implemented
Human Resources	24.1	Upgrade to Kronos time keeping system or purchase a software system to calculate Affordable Care Act (ACA).	Not Implemented
Human Resources	25.1	Increase services to a Full HR functional independent on-site department. Full service onsite HR would require 3 additional HR/Labor FTE's.	Not Implemented
Human Resources	27.1	City provide pay structure and classification system to assist in providing a market driven standardized classification system at the Charter School.	Not Implemented
Human Resources	28.1	Employee Relations needs analysis on process, policies, consistencies to identify any possible enhancements or centralization. As suggested under HR Administration, recommend a systematic review of personnel policies at the Charter School.	Not Implemented
IT / Admin	29.2	Conduct Annual External Security Audit – There would be an annual cost to perform the audits and potentially additional costs to address any findings.	Not Implemented
IT / Admin	29.3	Conduct a periodic IT Governance / General Controls Audit – If City Auditors are used, then no outside expenses would need to be incurred. Most findings from this type of audit can be addressed by improving processes and procedures, but some may require hardware or software investments.	Not Implemented

Department	April 2017 Presentation recommendation #	Description	Best Practice Status
IT / Business Application	31.1	Purchase software as determined. There is a need for Kronos Timekeeping (IVR and clocks) at the Charter Schools, and for ACA IT software to manage their ACA Employer Shared Responsibility. – Costs would include clocks, Kronos licensing and annual license support.	Not Implemented
City Clerk	2.1	Minutes should be completed as quickly as possible following meeting, so they may be approved at the next meeting.	Partially Implemented
City Clerk	4.4	Review current staffing to ensure sufficient coverage	Partially Implemented
Finance	9.1	Cash flow forecasting and investment balance review on a monthly basis	Partially Implemented
Finance / Procurement	14.1	Require conformance with City's procurement regulations (Certified Agency Buyer).	Partially Implemented
Finance / Procurement	16.3	Require conformance with City's procurement regulations.	Partially Implemented
Finance / Procurement	17.1	Require conformance with City's procurement regulations (General Procurement)	Partially Implemented
Human Resources	23.1	Would require a needs analysis and assessment of current overall HR policies / procedures / practices.	Partially Implemented
IT / Admin	29.1	Create an IT Steering Committee with representatives from: School Administration, School IT Support, & City IT staff – The purpose of the committee would be to review the current and planned CS IT projects, suggest new projects and make decisions about priorities.	Partially Implemented
City Clerk	2.2	Original minutes should be signed and submitted to City Clerk's Office for retention at the conclusion of the meeting where/when approved.	Implemented
City Clerk	2.3	Utilize NovusAGENDA to create agenda for Charter School	Implemented

Department	April 2017 Presentation recommendation #	Description	Best Practice Status
City Clerk	3.1	City Clerk's Office recommends providing Charter School access to public meeting calendar to add/change their own meetings.	Implemented
City Clerk	4.1	Charter School should adopt procedures for extensive fee calculations.	Implemented
City Clerk	4.2	Identify record keeping entity for Charter School Records (i.e. personnel records, financial documents, emails etc.)	Implemented
City Clerk / IT	4.3	Update email archiving system to accommodate record requests	Implemented
City Clerk / IT	4.5	Use City's enterprise email system in lieu of standalone system	Implemented
City Clerk	5.1	Confirm legal records custodial for all charter school records.	Implemented
City Clerk	5.2	Develop comprehensive listing of records and retention schedules.	Implemented
City Clerk	5.3	Confirm location of all records and storage locations (in-house and external).	Implemented
Finance	6.1	Accountant should be full time. Business Manager should be internal control person for separation of duties. Train CABs not administrative assistant.	Implemented
Finance	7.1	Train Staff on A/P procedures to safeguard school resources	Implemented
Finance / Budget	8.1	Recommend Charter School Budget be presented similar to all other city departments	Implemented
Finance / Budget	8.2	Recommend City have preparation responsibility, oversight and responsibility for the budget and Charter follow city's budget policy start of next school year. (July vs October)	Implemented
Finance	9.2	Documented review of monthly financials by Charter Administration	Implemented

Department	April 2017 Presentation recommendation #	Description	Best Practice Status
Finance / Accounting	10.1	Scope of duties should be reviewed, defined and redistributed for proper segregation of duties and internal controls.	Implemented
Finance / Procurement	15.1	Require conformance with City's procurement regulations (Year end encumbrances)	Implemented
Finance / Procurement	16.1	Ensure there are proper checks and balances to mitigate items such as personnel in procurement positions serving multiple roles (i.e. existing position procurement in accounting.)	Implemented
Finance / Procurement	16.2	Buyer should not be receiver/ and receiver should not be invoice approver.	Implemented
Human Resources	26.1	Install SABA recruitment software to upgrade from NeoGOV along with the City or utilize another teach based hiring software product. City will not be using NeoGOV beyond summer of 2017.	Implemented
Human Resources	26.2	Map Charter School internal recruitment work flow for efficiencies.	Implemented

APPENDIX B

Finding Classification

Findings are grouped into one of three classifications: High, Medium or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.