



Office of Internal Audit

Report to the Principal,
Pacific Beach Middle School

December, 2015

PACIFIC BEACH MIDDLE SCHOOL

FLASH REPORT

Processing and Security of Associated Student Body (ASB) Assets

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective action to be taken will be made by the appropriate San Diego Unified School District officials.

Abbreviations and Acronyms Used

Administrative Assistant	AA
Associated Student Body	ASB
San Diego Unified School District	District
Office of Internal Audit	OIA
Pacific Beach Middle School	Pacific Beach
Physical education	PE
Principal's Discretionary Account	PDA



28 December 2015

Kimberly Meng
Principal
Pacific Beach Middle School
4676 Ingraham Street
San Diego, CA 92109

Subject: *Processing and Security of Associated Student Body (ASB) Assets at the Pacific Beach Middle School*

This report describes the weaknesses that we observed for the processing and security of cash receipts and inventory at the Pacific Beach Middle School (Pacific Beach) that in the opinion of the Office of Internal Audit (OIA) require immediate attention to ensure the security of the cash receipts and inventory and protection of the ASB Fund assets. This report contains a summary of our observations, comments, and recommendations for corrective action.

OIA recently conducted a review of the use of the Pacific Beach's Principal's Discretionary Account (PDA) within ASB Fund. During our fieldwork, we identified conditions that adversely impacted the security for the ASB Fund's assets. These conditions included Pacific Beach: (i) lacked a financial clerk;¹ (ii) collections were not receipted and deposited timely; (iii) did not provide a secure location that the receipts could be held until deposited; (iv) physical education (PE) uniforms and clothes were stored in a location that lacked appropriate restrictive access. These conditions resulted in the absence of controls and accountability for the ASB Fund assets and the increased risk that the ASB Fund's assets could be lost or misappropriated; with only a minimal chance of detection by the Pacific Beach staff within the course of their duties.

The balance of this report discusses the conditions that we observed and our recommendations for corrective action by the Principal, Pacific Beach.

Observations

The process for receiving, processing and depositing the ASB Fund cash receipts, at Pacific Beach, is a material weakness in the system of internal controls for the ASB Fund. A material weakness is "A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis."² Pacific Beach was unable to obtain the necessary reasonable assurances that all cash receipts were adequately receipted, accounted for, and safeguarded. Additionally, while the ASB Fund's inventory of PE uniforms and clothes were maintained in a secured room; Pacific Beach could not provide us with a reasonable assurance that only authorized individuals had access to the inventory.

¹ The Principal indicated that she initiated with Human Resources a search process for a financial clerk. At the time of our fieldwork this search process had recently commenced.

² American Institute of Certified Public Accountants; *AICPA Professional Standards as of June 1, 2015*; AT 501.07; New York, NY; June 2015.

Collections Not Receipted and Deposited Timely

The former Pacific Beach Administrative Assistant (AA) performed the functions and duties of the financial clerk as collateral duties. On 1 October 2015, the former Pacific Beach AA accepted a position at another school and transferred leaving Pacific Beach without an individual able to perform the financial clerk's duties. The AA did not prepare any receipts or deposit funds to the bank account prior to their departure, allowing a large amount of funds to accumulate.

During our work at Pacific Beach, we noted that ASB Fund collections were not receipted or processed for deposit timely. This amount included collections from August through October 2015. Pacific Beach's failure to receipt, account for, and deposit funds increased the risk of misappropriation or loss of the funds.

Secured Storage

Coupled with the failure to deposit funds timely, the school stores the funds in a lockable filing cabinet overnight. This filing cabinet is located in the main office and the Pacific Beach staff and others have unrestricted access to this area. The cabinet locks are standard filing cabinet locks which do not provide the necessary security for the funds. Pacific Beach does have a lockable safe within the financial clerk's office in another portion of the school. Storing the funds in the safe was considered inconvenient as the financial clerk's office was not located in the main office but in another portion of the school. Storing funds in the safe required the staff to leave the main office and go to the financial clerk's office to secure the funds. According to the Pacific Beach staff, requiring the courier wait for the AA to go to the financial clerk's office to obtain the funds that were to be deposited was disruptive and adversely impacted the courier's schedule.

Also, we observed that receipts from the sales of PE uniforms and other clothes sold were not deposited with the AA or the main office daily. The receipts and the change fund are stored in a box within a locked file cabinet. The locks on the cabinets and the "cash box" do not provide the necessary security for the cash receipts. Additionally, we determined that the storage and security for the PE uniforms was not sufficient to ensure that the uniforms were only available to authorized staff. Pacific Beach stored the uniforms in a locked room that is accessible by a number of the Pacific Beach staff.

Sound internal control and business practices restrict the access to cash and inventory to only those individuals whose job responsibilities require it. As cash receipts are fungible it is necessary to provide heightened physical security for the receipts, including lockable and non-movable safes provide the necessary security for assets such as cash receipts. While we did observe that the PE uniforms and clothes inventory was held in a locked room, multiple staff members had access to this room breaking the evidence and custody trail for the uniforms. The Pacific Beach staff was unable to provide us with a reasonable assurance that only authorized individuals had access to the PE uniform inventory.

Recommended Actions

We recommend that the Principal, Pacific Beach take the remedial actions for the conditions cited in the observations.

1. Direct that all collections should be receipted and deposited on the same day as received by the assigned Pacific Beach staff;
2. Prohibit the holding of cash receipts in any filing cabinets and require that all receipts be held in the financial clerk's safe;
3. Store PE uniforms in a secure location that can only be accessed by authorized staff responsible for the sales of the uniforms; and
4. Periodic inventory of the PE uniforms and clothes should be taken periodically throughout the year and not just at year-end to ensure that accountability is maintained. We recommend that the Principal consider quarterly inventories.

Corrective Action Plan

We provided a draft report to Principal, Pacific Beach for review and comment on the recommended corrective actions. The Principal generally concurred with our four recommendations and the response provided planned and ongoing corrective actions. In our opinion, the corrective actions outlined by the Principal are effective in addressing the conditions and recommendations cited in this report. We included a copy of the Principal's response to this report as Attachment I.

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We are issuing this flash report to notify both you and the District's management of the issues that we observed related to the internal controls and physical security for the ASB Fund's cash receipts and inventory so that immediate action can be taken. We visited the school as part of a review of the use of the Principal's Discretionary Account by selected schools. While we have not completed this review, we wanted to bring these issues to your attention. Our review of the use of the PDA account will address other issues regarding the use and controls of the PDA.

Copies of this final report will be provided to the: Board of Education, Audit and Finance Committee, Superintendent of Public Education, General Counsel, Chief of Staff, and the Area Superintendent, Area

3. A copy of the report will be placed on the District's webpage at:
<https://www.sandiegounified.org/audit-reports>

Should you have any questions regarding this report or need additional information, please contact Ines Abitria at jabitria@sandi.net or at 619.725.5695 or John Cashmon at johncashmon@sandi.net or at 619.725.5696.



John M. Cashmon
Director, Internal Audit



TO: John M. Cashmon, Director, Office of Internal Audit

FROM: Kimberly Meng, Principal, Pacific Beach Middle School *Kimberly Meng 12/10/15*

DATE: 10 December 2015

SUBJECT: **Response to review the Flash Report on the Processing and Security of Associated Student Body (ASB) Assets**

The following memo outlines the plan of action instituted at Pacific Beach Middle School in response to the Flash Report on the Processing and Security of Associated Student Body (ASB) Assets.

At the time of the audit, PBMS was without a financial clerk and an administrative assistant. The site did not have a trained staff member to complete deposits, issue checks, and other financial duties. A financial clerk was hired on December 1, 2015. Since that time, the clerk attended ePro training, shadowed the financial clerk at MBHS, contacted Anna Day, Senior Financial Accountant, for support with ASB banking, met with Susan Weinshanker to review SSC responsibilities, read the ASB banking material found on the district web-site, and will attend P-card training next week.

Corrective Action Plan

1. Direct that all collections should be receipted and deposited on the same day as received by the assigned Pacific Beach staff;
 - Faculty/staff/students are being directed to submit checks/cash directly to the financial clerk for timely receipting and deposits. The financial clerk receipts the monies and prepares deposits daily.

2. Prohibit the holding of cash receipts in any filing cabinets and require that all receipts be held in the financial clerk's safe;
 - The safe is located in the financial clerk's office where the clerk would work alone. This is a concern in that there would be no direct supervision of the financial clerk and persons submitting cash. A work order will be created to move the safe into the main office. In the meantime, a filing cabinet with 4 keys on site (BSS, Principal, TOC Administrative Assistant, and Financial Clerk have the keys) has been placed in a smaller office within the main office. All cash receipts have been moved to this location. Any large deposits that miss daily collection will be transferred by the financial clerk and one other employee (BSS, Principal, TOC Administrative Assistant) to the safe for overnight or weekend storage.



3. Store PE uniforms in a secure location(s) that can only be accessed by authorized staff responsible for the sales of the uniforms

- The PE uniforms will be moved to a secure room in the financial office in January.

4. Periodic inventory of the PE uniforms and clothes should be taken periodically throughout the year and not just at year-end to ensure that accountability is maintained. We recommend that the Principal consider quarterly inventories.

- Inventory will be completed in January, prior to the move, and done on a quarterly basis.