



Charter School Authority Cash Process Audit


Report Issued: June 14, 2021

Audit Report No. 21-02

Auditor: Tim DiSano, CIA, CISA, CFE



TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor 

DATE: June 14, 2021

SUBJECT: Charter School Authority Cash Process Audit

The City Auditor's Office completed the audit of the Cape Coral Charter School Authority Cash Process. The audit 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 Charter School and City Finance Department management and staff for the courtesy, and cooperation extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380 or Tim DiSano at 242-3308.

C: Jacqueline Collins, Superintendent
Dr. Guido Minaya, Governing Board Chair
Rob Hernandez, City Manager
Connie Barron, Assistant City Manager
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Mark Mason, Financial Services Director
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Audit Committee

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EXECUTIVE SUMMARY

The City Auditor's Office conducted an audit of the Cape Coral Charter School Authority (CSA) Cash Process. This Audit was not part of the FY21 approved audit plan and was conducted at the request of Mayor Gunter based on events concerning an administrative staff member working at the CSA.

Based on the test work performed and the audit recommendations noted below, we concluded overall no funds were misappropriated. To ensure proper safeguarding of CSA funds received the following areas need improvement immediately:

- Follow City Cashier policies and procedures with only exceptions to address CSA specific items such as donations and fundraising
- Implement proper segregation of duties for money handling
- Improve process and oversight for fundraising activities

For further details on the findings and recommendations see the findings and recommendations section. Due to the high exception percentage in samples, significant control deficiencies were noted.

BACKGROUND

Chapter 26 City Ordinance 41-04 adopted on April 12, 2004 established the CSA. City Ordinance 41-04 states:

There is hereby established the Cape Coral Charter School Authority (the "Authority"), which is 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 "Cape Coral Charter Schools"). The powers of the Authority shall be exercised through a governing board, which shall be known as the Cape Coral Charter School Authority Board (the "Board") and which shall provide governance of the charter schools.

There are four municipal Charter Schools:

- Oasis Elementary North (formerly Christa McAuliffe)
- Oasis Elementary South
- Oasis Middle School
- Oasis High School

As part of school operations, fundraisers and donations are utilized to provide certain items and services to students. Fundraising efforts for the elementary and middle schools are also coordinated with the appropriate Parent Teacher Organization (PTO). Funds raised by the CSA are collected and deposited into the CSA's Internal Funds. Those funds raised by the PTO are deposited into their own accounts. The Florida Department of Education Bureau of School

Business Services Office of Funding and Financial reporting (Red Book) contains requirements for handling internal funds. The Red Book states:

The district school board shall be responsible for the administration and control of internal funds of the district school system and in connection therewith shall¹:

- a. Adopt written rules governing the receipt and disbursement of all internal funds and the accounting for property pursuant to Florida Statutes.*
- b. Provide for an annual audit of Internal Funds.*

CSA administrative staff and teachers handle, process, and account for the Charter Schools Internal Funds. According to the CSA Internal Funds Standard Operating Guide (SOG),

School internal funds are defined as all monies collected and disbursed by school personnel within a school, for the benefit of the school, or for a school-sponsored activity. Funds relating to all school-sponsored functions or activities are to be accounted for within internal funds. Financial transactions of school organizations shall be accounted for in the school Internal Funds. Funds shall be expended in the year collected to benefit the students who generated the funds. In some cases, up to \$1,000.00 of those funds can be carried forward to the next school year.

The chart below outlines Internal Funds Revenue by fiscal year:

Charter School Internal Funds Revenue by Fiscal Year		
FY19	FY20	FY21*
\$ 794,032.75	\$ 745,896.79	\$ 129,329.95
*Partial year 10/1/2020- 1/21/2021		
Source: City Finance Department		

AUDIT OBJECTIVE

The audit objective was:

- To determine if adequate controls exist over the money handling process to ensure the safeguarding of assets; the effectiveness and efficiency of the processes; compliance with applicable laws, regulations and policies, and the reliability and integrity of financial information.

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

¹ Source: Florida Department of Education Bureau of School Business Services Office of Funding and Financial reporting

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

The Charter School Authority bears the responsibility for the implementation of all recommendations in the following section. The City Financial Services Director shown in the following as the Responsible Person is only to oversee and coordinate the implementation of the recommendations because the control weaknesses noted are significant and represent a systemic reoccurring problem that needs to be addressed and remedied immediately.

FINDING 2021-01: Follow City Cashier policies and procedures

Rank: High

Condition:

CSA teachers, coaches, school secretaries, and accounting personnel are responsible for handling all funds collected and processed within the school internal funds. Cash handling operations are decentralized among the four Charter Schools. Funds are collected for items such as uniforms, apparel, event ticket sales, donations, fundraisers, year books, field trips and club activities. Funds can be cash, check, money order, or credit/ debit card payments processed through MySchoolBucks.

The CSA created the SOG as a result of findings from the Charter School Best Practices audit completed in 2018. After finalization of the manual, CSA accounting staff held training to review the updates and new processes for those individuals handling funds in August 2020.

As part of the audit, in order to review the controls in place over money handling, we selected a sample of 120 transactions processed in JD Edwards, (January 1, 2019- June 21, 2020) and 20 from the Tyler Munis (Tyler), (June 22, 2020- March 1, 2021.)²

Based on our testing, we identified several areas where processes and controls over cash receipts need to be strengthened. It is important to note that we had numerous exceptions for segregation of duties for transactions processed in JD Edwards. Although the exception percentage was lower in our Tyler sample of cash receipts, we still noted a lack of segregation of duties in other testing, such as deposits for fundraisers, where there were not three separate individuals handling the receipt, verification, and deposit of funds. These areas are noted below and include pre-numbered receipts, supporting documentation, refunds policy, approval and workflow and working with the PTO. While we noted a high exception rate for certain attributes tested from JD Edwards data, it is important to note several points:

- The Internal Funds SOG was not communicated nor was training provided to staff until August 2020. We did; however, consider the policies and procedures in place at the date of the transaction being tested.

² This scope was selected due to the recent arrest of the CSA Payroll Supervisor (previously Bookkeeper) to determine if any funds were misappropriated from the CSA

- We noted a decrease in exceptions for the smaller sample tested that was processed in Tyler.

The following issues were noted in the sample tested, after the newest SOG was in place in August 2020:

- *Pre-numbered receipts for cash-* The current policy in place at the CSA, is to only issue a pre-numbered receipt for cash received over \$50. This practice does not comply with Section III- 1.4a of the Red Book, which states a receipt must be presented for all money collected. Without pre-numbered receipts issued for all cash, there is currently no way to ensure all cash collected in the decentralized environment is properly and completely accounted for within the internal funds.
- *Supporting documentation-* Procedures do not specifically outline what should be attached as supporting documentation. We noted instances where supporting documentation did not include batch supporting documentation, deposit summary information for RDSO deposits, Bank of America (BOA) transaction summary, or MySchoolBucks (MSB) transaction detail. We noted eight (13%) instances in JDE FY19 testing and five (8%) instances from JDE FY20 testing where no information at all was uploaded into the financial system to support the journal entry.
- *Approval and workflow-* We noted three (6%) instances, totaling \$221.71, where journal entries did not agree to supporting documentation because of incorrect calculations and the information loaded into the system was not updated to reflect the change. If proper workflow and approval is followed these instances could be minimized. Changes made after batch creation leads to insufficient support in the financial system. It is important to note policies and procedures do not reflect current processes used in Tyler.
- *Timely deposit of funds-* Deposits are not always made within five business days as required in Chapter 8 Section 1.4c of the Red Book. We noted four (7%) instances from FY19 testing where deposits were not made within five days. One of these four was not made until 39 days after receipt. For FY20 testing we noted six (10%) deposits which did not comply with the five-day requirement. Of these six, two deposits were deposited to the bank prior to the dates listed on the RDSO form. It is not unusual for funds to be accumulated over a span of several days and recorded on a Monies Collected form, then the accumulated forms are combined into one batch and deposited to minimize bag fees. In addition, due to the process followed by the CSA when handling PTO funds, it can't be determined if those funds are being deposited in a timely manner, because of the lack of documentation provided by the PTO.
- *Refunds-* As part of the CSA Best Practices audit the school developed a refund policy because the previous process was decentralized and not formally documented. We reviewed a sample of refunds and found that the CSA was not adhering to their own recently developed policy. We noted 14 (67%) instances in our sample where documentation was missing or incomplete. We requested the information and were provided with all support per our request. This information should be attached in the financial system as support for the refund. There are no reports available to monitor refunds and the policy does not address refunds made through MySchoolBucks. We noted instances where deposits were offset by refunds within MySchoolBucks which does not comply with the requirements for deposits in the Red Book. Refunds are not specifically coded in Tyler but rather included in "free form" limited character comment fields. This makes tracking of refunds cumbersome and may lead to incorrect treatment.

Effective controls over money handling require developing comprehensive written policies and procedures, consistently following those procedures, and ensuring managers and staff understand the purpose of the controls. In a decentralized environment, such as the CSA with four separate schools and several PTO's handling funds, following strong policies and procedures are especially important to ensure funds are handled appropriately and accurately recorded. The City has a comprehensive Cashier Policy and Procedures Manual which should be utilized by the CSA in conjunction with an addendum to address any exceptions for Red Book requirements that are specific to the school. The City must also create clear and consistent procedures for processing journal entries in Tyler for the CSA to follow.

Criteria:

- CSA Internal Funds Standard Operating Guide (SOG) (August 2020)
- City of Cape Coral Cashier Policy and Procedures Manual
- City of Cape Coral Charter School Authority Cashier Policy and Procedures Manual (August 2019)
- Florida Department of Education Bureau of School Business Services Office of Funding and Financial Reporting (Red Book), Chapter 8 School Internal funds;
 - Section I – Principals: 12.0- An adequate system of internal controls shall be maintained in order to safeguard the assets of School Internal funds.
 - Section II – General Practices: 1.0- All employees responsible for handling and recording internal funds financial transactions shall be bonded through the school district.
 - Section III Standard Practices and Procedures; 1.4- Cash Collections and Deposits:
 - a. All money collected by the school must be substantiated by pre-number receipts, consecutively numbered class receipts records, reports of monies collected, pre-numbered tickets, reports of tickets issued and sold, or other auditable records.
 - c. All money collected must be deposited intact to a depository as frequently as feasible and as dictated by sound business practices. **In any event, funds collected must be deposited within five (5) working days.**
 - d. All deposits must equal the total amount of money taken in and recorded on receipts for the period covered by the deposits (do not offset deposits with refunds)
- Cape Coral, FL Code of Ordinances / Chapter 26: Cape Coral Charter School Authority, §26-15(a)(33) Powers and duties of Charter School Authority, Superintendent and City

Cause:

- Decentralized environment
- Limited to no oversight by City Finance department
- Non-compliance with policies and regulations
- Manual process/ lack of automated workflow
- Multiple policy and procedures manuals
- Undefined/ unclear workflow

Effect:

- Inaccurate/ incomplete accounting of funds
- Increased risk of theft or loss of money
- Potential reduced funds for school activities

RECOMMENDATION:

2021-01 Follow the City of Cape Coral Cashier Policy and Procedures manual and create an addendum to the City's manual to ensure adherence to the Florida Department of Education's Red Book and unique money handling situations specific to the CSA such as donations and fundraising.

Management Response and Corrective Action Plan:

2021-01 Financial Services recognizes the deficiencies and inconsistencies in how cash is handled at its Charter Schools. Financial Services is in the process of re-writing the cash handling policy, mirroring the City's strong policy and adding guidance regarding refunds and fundraisers. This will include training performed by the City's Cashier Supervisor in the same manner and frequency as is performed for City employees. Additionally, Financial Services recognizes that policies outlined in the Florida Department of Education's Financial and Program Cost Accounting and Reporting for Florida Schools document, known as the Red Book, are not being adhered to.

Finance proposes and will enact the following procedural enhancements:

- The Charter School will centralize cash handling as much as is achievable given the spread-out nature of the 4 different campuses. Ensure that cash handling personnel are clearly identified and only those personnel are utilized in the process.
- Ensure ALL cash payments are recorded and receipted with a 3-part, pre-numbered receipt.
- Launch a pre-2021-2022 school year informational campaign to parents and students that cash payments will no longer be accepted on campus. In the communication, the Superintendent will ask that any family that finds this policy to be a hardship contact school personnel.
- While utilizing the newly implemented Tyler-Munis financial system has proven to be more robust and user friendly than the previous system, staff will follow procedures regarding supporting documentation and workflow more diligently. Approval routing regarding error corrections will be utilized and backup support for corrections will be provided in the system.

- All deposits will be made no more than 5 days from the date received, regardless of how small the amount. Adherence to the Department of Education's Red Book on all best practices and guidance is required.
- The process for refunds will follow the already developed policy more diligently. This will include backup documentation to clearly record details surrounding the refund.
- The Cash Handling Policy will be written to mirror the City of Cape Coral's policy, with provisions written in for refunds and fundraisers. This will include the requirement for City staff led cash handling training for anyone approved to handle cash at the City's Charter Schools.
- City Financial Services staff will serve a larger role in the oversight of cash handling including on-site review and compliance affirmation.

2021-01 **Responsible Person:** Financial Services Director
2021-01 **Anticipated Completion Date:** July 23, 2021

FINDING 2021-02: Implement proper segregation of duties for money handling

Rank: High

Condition:

According to the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book), Control Activities Principle 10, proper segregation of duties is important to help prevent fraud, waste, and abuse. In the instances where segregation of duties is not practical, management must develop alternative control procedures to address the risk of fraud, waste, or abuse in the process. We noted that even when the CSA was fully staffed proper segregation of duties was not present.

The CSA journal entry process is an automated workflow that occurs in Tyler which includes the following steps:

- Journal entry is created by the CSA bookkeeper or CSA Senior accountant³
- Journal entry is approved by CSA Senior Accountant
- Journal entry is approved by City debt treasury manager
- Journal entry is approved by City accounting manager
- Any accountant, City or CSA, posts the journal entry to Tyler

For journal entries processed by City Finance staff, typically the entry is created by one individual and approved by another. The controls within Tyler to prevent the same individual from creating, approving, and posting a journal entry are not turned on. The process for

³ The CSA Senior Accountant serves a dual role and splits time between the CSA and the City Finance Department

creating, approving, and posting journal entries at the CSA differs from the City because of the dual role held by the CSA Senior Accountant who splits time between the CSA and the City. We noted the CSA Senior Accountant creates, Tyler auto approves based on the supervisory role, and posts the journal. In addition, the CSA Bookkeeper can also both can create and post the journal entry because approval occurs automatically in Tyler based on the supervisory role. When an individual performs more than one role in the process, changes can be made throughout the process which may not be properly reviewed and approved thereby leading to potential risk exposure and errors.

We selected a sample of 20 CSA transactions processed in Tyler to review for June 22, 2020 through March 1, 2021. We noted two (10%) instances where the CSA Senior Accountant created, approved as the supervisor, and posted the journal. In addition, we noted the CSA Senior Accountant, who splits time between the CSA and the City Finance department, provided both supervisory approval and posted eight of 20 (40%) journal entries.

It is important to note this workflow and approval exists for the City as well and must be addressed globally to ensure proper authorization and posting for journal entries.

Criteria:

- GAO Standards for Internal Control in the Federal Government (Green Book) Control Activities Principle 10: Segregation of Duties- 10.13 and 10.14
- CSA Internal Funds Standard Operating Guide (rev. 8/6/2020) Section 8.B Journal Entries
- Florida Department of Education Bureau of School Business Services Office of Funding and Financial Reporting (Red Book)
 - Chapter 8, Section I – Principles, 12: An adequate system of internal controls shall be maintained in order to safeguard the assets of the school internal funds.
- Cape Coral, FL Code of Ordinances / Chapter 26: Cape Coral Charter School Authority
 - Section 22 Provide for proper accounting
 - Section 33 Creating policies and procedures
- City Journal entry procedures⁴

Cause:

- Lack of segregation of duties
- Non-compliance with GAAP
- Non-compliance with City policies and procedures for journal entry posting

Effect:

- Funds are recording inaccurately
- Potential misappropriation of funds
- Fraud

⁴ City Journal Entry procedures are still in draft form as of the issue date of the report.

RECOMMENDATION:

2021-02 Adhere to GAAP segregation of duties, City journal entry policies and procedures and review and adjust permissions within Tyler Munis for the CSA to ensure appropriate segregation of duties and workflow approval for processing of journal entries.

Management Response and Corrective Action Plan:

2021-02 While journal entries can be created by the CSA bookkeeper or Sr. Accountant, it requires a workflow that passes through the City's Sr. Accounting Manager. City agrees that currently the creator can also be the poster of the JE, however it must pass through and be approved by the Sr. Accounting Manager. The City is in the process of taking a larger role in the day-to-day activities of the CS accounting functions and this process will be reviewed to incorporate another level of approval and ultimately be posted by someone other than the creator.

All local and state ordinance shall be followed as well as GAAP guidance for segregation of duties.

2021-02 Responsible Person: Financial Services Director

2021-02 Anticipated Completion Date: July 23, 2021

FINDING 2021-03: Improve process and oversight for fundraising activities

Rank: High

Condition:

The SOG states the determination of fundraising activities for a school shall be the responsibility of the Principal and be approved by the Superintendent. As part of the audit we requested a listing of all fundraisers for the current school year as the CSA did not formally track fundraisers. The CSA was not able to provide a complete and accurate list. The CSA Bookkeeper provided a list of fundraisers held in the 2020-2021 academic school year. We used this to select a sample of 43 fundraises for review. This represented 100% testing of the population provided.

We tested the following attributes based on the process described in the SOG:

- Completion of fundraiser approval form
- Principal and Superintendent Pre-approval
- Completion of the Fundraiser Financial Report

Overall, we noted accounting and documentation for fundraisers is disorganized and inconsistent. All the exceptions noted for missing pre-approval were for PTO fundraisers. According to the Senior Accountant, the PTO insists they do not need to follow CSA fundraiser policies and procedures; however, Section 4.3 of the Red Book states:

- a. A cooperative activity is one in which the school participates with outside groups such as the Parent Teacher Association (PTA) or booster clubs through planning, staging, or conducting school-related activities. Such activities may be held on or off

the school grounds and will usually take the form of fundraising events such as carnivals, paid entertainment, or food sales.

- b. Such activities must be approved by the principal and be beneficial to students. School district procedures shall be followed to provide appropriate accounting for funds and to ensure compliance with policies contained herein. If a share of the proceeds is to be disbursed to the cooperating group, a prior written agreement should be executed.

Because the PTO are representing fundraising for the CSA and specifically stating proceeds to benefit CSA, they should follow CSA policies and procedures. For these tested attributes see summary Table 1 below:

Table 1

Attribute Tested	Total tested	Total exceptions	Exception percentage
Fundraiser approval form not completed	43	0	0%
Fundraiser flyer not provided	43	12	28%
Principal did not pre-approve fundraiser	43	5	12%
Superintendent did not pre-approve fundraiser	43	5	12%
Fundraising Financial Report not completed	42	11	26%

For fundraisers that have inventory such as apparel, there is no consistent methodology to set prices and no monitoring of inventory stock. Policies and procedures concerning fundraiser inventory need improvement to ensure proper accounting and monitoring of the inventory. We noted on several occasions, shirts were provided to students or staff at no charge. In one instance, seven shirts were provided to staff and the cost of those shirts resulted in a loss to the overall fundraiser. Based on the recordkeeping for fundraiser inventory we were unable to reconcile inventory ordered to inventory sold as part of the fundraiser. We also noted that fundraiser financial reports are submitted well after the end of fundraisers, with insufficient supporting documentation and in some cases not at all; however, guidelines for submission are unclear. Overall fundraiser policies and procedures in the SOG are vague and need improvement to provide for accurate recordkeeping and accounting of funds received. For these tested attributes see summary Table 2 below:

Table 2

Attribute Tested	Total tested	Total exceptions	Exception percentage
Fundraising financial report submitted more than 30 days after event end	28	16	57%
Fundraising financial report was not approved by the Principal	31	3	10%
A difference exists between inventory sold versus purchased	11	10	91%

PARENT TEACHER ORGANIZATION (PTO)

The PTO participates in school related fundraisers. The Red Book and City Ordinance, Chapter 26, offer guidelines on PTO operations. During testing, we were unable to determine the total

amount collected equaled the total amount raised because financial reports were not provided by the PTO. In general, if teachers collect funds for PTO sponsored fundraisers (i.e. the Fall Festival), the money is accumulated and placed in the PTO mailbox at the school and picked up at a later time by the PTO. The PTO then expends the funds for supplies or items needed for the fundraiser and accumulates any excess funds in their account. At the end of the year, the PTO remits any funds over a predetermined amount to the CSA. CSA policies and procedures for PTO fundraising should be updated to provide clear guidance and define roles and responsibilities to eliminate confusion, ensure compliance with applicable regulations and clearly indicate prior written approval in accordance with the Red Book for cooperative activities (PTO fundraising).

Criteria:

- CSA Internal Funds Standard Operating Guide (rev. 8/6/2020)
 - Chapter 10: Fundraising Activities
- Florida Department of Education Bureau of School Business Services Office of Funding and Financial Reporting (Red Book) Chapter 8
 - Section 4.3: Cooperative Activities
 - Section 4.4: Fundraising
- Cape Coral, FL Code of Ordinances / Chapter 26: Cape Coral Charter School Authority
 - §26-15(a)(33):
 - In accordance with policies and procedures established by the city and in accordance with the Florida Statutes, adopt policies providing for fiscal management of charter schools with respect to purchasing, facilities, non-state revenue sources, budgeting, fundraising and other activities relating to fiscal management of Authority resources, including but not limited to the policies governing:*
 - *b: Sales by booster clubs; marathon fundraisers; and student sales of candy, paper products or other goods authorized by the Charter Authority.*

Cause:

- Manual workflow process
- Insufficient procedures
- Lack of monitoring procedures
- PTO non-compliance with CSA policies
- Incomplete/ inaccurate accounting of funds raised
- Lack of controls for fundraiser inventory

Effect:

- Over/understatement of funds
- Unapproved fundraisers
- Use of funds raised for unapproved items
- Excessive inventory
- Potential misappropriation/ theft of funds

RECOMMENDATION:

2021-03 Include an addendum to the City Cashier Policies and Procedures to account for CSA fundraising activities and require all schools and school organizations, such as the PTO, to adhere to updated policies. The policy addendum should clearly state workflow and approvals; necessary forms; fundraising procedures; deadline for form and report submission; inventory procedures; and roles and responsibilities for all parties including PTO participation.

Management Response and Corrective Action Plan:

2021-03 Management recognizes the lack of clear and concise procedures for fundraisers and specifically the lack of compliance from the Parent Teacher Organization. Part of the Cash Handling Procedures will include clear procedural guidance and rules required to conduct a fundraiser. Included in the guidance will be provisions for:

- A clear description of the fundraiser, its purpose, and the proposed funding source(s)
- A stated duration of the fundraiser with beginning and ending dates
- Workflow approvals from the Principal and Superintendent before activities begin
- A documented financial accounting of the activities within the CS financial software including timely deposits and periodic statements of activity
- Assurance that all City procurement rules and guidelines are followed
- Documented inventory (if applicable) including receipt of and sales of the inventory with a reconciliation to cost and count at the completion of the fundraiser
- The State of Florida's Department of Education guidance, per the Red Book, addresses the proper financial requirements with these types of cooperative agreements. It requires full cooperation from the fundraising party, including the PTO, which will include all guidelines listed above as well as a final closeout report and end of year reconciliation and report of the financial position of the PTO.

2021-03 **Responsible Person:** Financial Services Director

2021-03 **Anticipated Completion Date:** July 23, 2021

SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk phase, the audit covered the processes in place over money handling from January 1, 2019 through March 1, 2021. To evaluate the process in place over money handling, we reviewed policies and procedures, applicable laws, regulations, and associated processes. We interviewed Charter School, City Finance and Legal staff, completed walkthroughs of those processes, and reviewed available documentation to gain an understanding of the money handling practices.

To achieve the audit objective, we sampled transactions, reviewed supporting documentation, and evaluated processes in the following areas:

- Cash receipts
- Fundraising
- Refunds
- Inventory

Sample size and selection were based on the City Auditor's Office sample methodology. We used random and judgmental sampling methodology for sample selections and tested 100% of the population for transactions that we could identify for refunds and fundraising.

To achieve the audit's objective, we relied on information from the City's Accounting systems (JD Edwards, Tyler). The JD Edwards accounting system data was deemed reliable by external audits previously performed and no reliability testing was conducted. The current external audit was in process at the time of our testing and no data reliability testing was conducted so as not to duplicate external audit efforts. Tyler data was verified based on support provided or obtained.

APPENDIX A

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.