



State of Rhode Island and Providence Plantations
Office of Management and Budget
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February 26, 2018

Ms. Victoria A. Gailliard-Garrick
Director
William M. Davies, Jr. Career & Technical High School
50 Jenckes Hill Rd
Lincoln, RI 02865

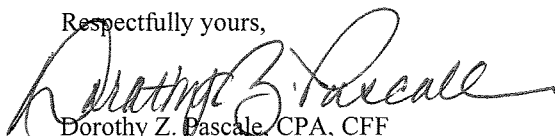
Dear Director Gailliard-Garrick:

The Office of Internal Audit has completed its audit of the William M. Davies, Jr. Career & Technical High School. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with the Rhode Island General Laws (RIGL) §35-7.1-1 – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7.1-10 (d), entitled *Annual and interim reports*, states that, “Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report...” Accordingly, management submitted its response to the audit findings and recommendations on February 16, 2018, and such response is included in this report. Pursuant to this statute, the Office may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the William M. Davies, Jr. Career & Technical High School (Davies) for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,


Dorothy Z. Pascale, CPA, CFF
Chief

c—Jonathan Womer, Director, Office of Management and Budget
Honorable William J. Conley, Jr., Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee
Dr. Ken Wagner, Commissioner Rhode Island Department of Education

AUDIT Executive Summary

Why the OIA Did This Review

The purpose of this engagement is to determine if the financial management processes and strategic mission initiatives at the William M. Davies, Jr. Career & Technical High School are operating efficiently and effectively in accordance with applicable laws, rules, and regulations.

Background Information

The William M. Davies, Jr. Career & Technical High School (Davies) is funded by the education funding formula. Davies provides students with a comprehensive high school education as well as specialized career training. Davies offers the following career technical areas:

- Automotive Collision Repair
- Bio-Manufacturing Technology
- Cosmetology
- Electrical and Telecommunications
- Graphics and Interactive Media
- Health Careers
- Hospitality Careers
- Machine Technology
- Pre-Engineering Technology

To Strengthen Controls Davies Should:

- Reassign responsibilities for Student Accounts to ensure adequate segregation of duties
- Implement a review and approval procedure for bank reconciliations
- Improve management oversight procedures over strategic plan
- Improve formally documented policies and procedures for:
 - Purchasing
 - Student Accounts
 - Strategic Planning

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Introduction

The William M. Davies, Jr. Career & Technical High School (Davies) provides high-school education and technical training for students in grades 9-12. Davies operates as a local education agency and is governed by a Board of Trustees, which acts as a school committee. Davies aims to provide students with the technical skillset for a future career in nine different career areas:

- Automotive Careers
- Electrical
- Machine Technology
- Pre-Engineering
- Biomanufacturing Technology
- Cosmetology
- Health Careers
- Hospitality Careers
- Graphics & Interactive Media.

As of state fiscal year (FY) 2012, Davies is funded through the education funding formula and is no longer funded directly through budget allocations by the State of Rhode Island. As a result, Davies receives money from both State general revenues and sending districts. This portion from the sending districts is calculated based on the amount of the local, per-pupil cost as established in RIGL § 16-7.2-5.

Recommendations and Management's Responses

Student Funds

The school performs various fundraising operation to raise money for student activities. Custody of these funds is maintained by Davies management on behalf of students as is standard practice in most school districts. Money is deposited in a standalone bank account and funds are recorded in an accounting system independent from the State accounting system.

The OIA reviewed receipt and disbursement processes for these funds and recommends the following changes to improve controls:

Redesign Reconciliation Procedures

Segregation of duties is a basic building block of internal controls and sustainable risk management. The principle is based on sharing key process responsibilities and critical functions among more than one person or department. Without this separation, the risk of fraud or error is heightened. Areas within Davies have personnel performing duties which significantly weakens the segregation of duties control. No one individual should have more than one of the following responsibilities:

- Initiation of transactions
- Approval of transactions
- Recording transactions
- Reconciliation of balances
- Custody of assets

The Office of Internal Audit recognizes that an optimum degree of segregation is not always possible due to limited staffing. However, in such circumstances compensating controls should be implemented.

There is currently inadequate separation of duties and compensating controls: a single party is responsible for both custody and recording responsibilities for student funds. This party also performs the cash reconciliations without oversight or approval by a supervisor.

The OIA reviewed six months of bank reconciliations and noted the following:

- Reconciliations have varying unreconciled variances;
- Reconciliations are performed by party with custody and recording responsibilities;
- Outstanding check register has many stale-dated checks;
- A check was removed from the outstanding check register without clearing the bank or being adjusted in the accounting system;
- Bank interest was incorrectly posted to the GL; and
- Bank interest was not posted timely and was incorrectly accrued on the reconciliation.

As of result of these errors and a historical lack of process oversight, there was an unreconciled difference of \$1,149.18 as of June 2017.

Recommendations:

1. Reassign responsibilities for cash receipt in accordance with best practices related to separation of duties in the cash receipt process.
2. Write-off historical reconciling items and perform a complete reconciliation each month.
3. Implement a procedure for documented review of student fund bank reconciliation by management personnel.

Management's Responses:

1. Davies administration appreciates the recognition by the OIA that a small fiscal staff makes it difficult for optimum segregation of duties in this area. Davies does have the following in place:
 - a. A procedure is in place for a 3-part receipt to be completed by anyone taking in cash. One copy goes to the payor, one copy is used as backup for recording the receipt entry into the ledger, and one copy remains in the receipt book.
 - b. The activity advisors (who bring cash to the business office to be deposited into the bank) are given a receipt, which provides a record to them of funds that should be deposited into their account.

Davies will implement an additional procedure of having an independent reconciliation performed between the deposit receipts and the subsequent posting of the deposit on monthly bank statements. The reconciliation will be performed by one of the following, who are not the persons responsible for the bank deposits:

*Fiscal Clerk

*Assistant Business Manager

*Business Manager

2. Davies fiscal staff has in fact begun the process of summarizing the write-off of historical items, and will make appropriate entries in the ledger to reflect so. Additionally, the bank reconciliation process will be performed monthly, which will be aided by the clean-up of the historical items as noted.
3. The Business Manager or the Assistant Business Manager will review and initial the monthly bank reconciliation.

Responsible Party:

1. Cheryl Carroll – Business Manager, and Shelley St. Pierre – Assistant Business Manager
2. Paula Carlton - Accountant, and Cheryl Carroll - Business Manager
3. Cheryl Carroll – Business Manager, and Shelley St. Pierre – Assistant Business Manager

Anticipated Completion Date:

June 30, 2018

Improve Cash Collection Procedures

The current Student Activities Account Policy requires all activity advisors to issue a receipt to any person they collect cash from and all funds are to be turned into the Business Office daily. No cash, checks or valuables are to be kept in desks, classrooms or offices.

The OIA reviewed the cash collections process and found in one student activities program:

- Receipts were not consistently provided to customers when cash was collected
- Cash deposits were not made on a timely basis per Davies' Student Fund Account policy
- An academic advisor with incompatible custody and recording duties
- Recurring discounted services not in accordance with published price listing
- Ineffective cash register reconciliation procedures

Based on these findings, the account policy is not consistently being observed and there are insufficient controls over custody and recording of cash. Also, there is currently no formal policy in place regarding discounted student services. Strong controls over cash collections would provide assurance to management that cash is secure and handled properly.

Recommendations:

4. Issue receipts to customers upon collection of cash per the Student Fund Account Policy.
5. Reassign responsibilities for recording student services performed in accordance with best practices related to separation of duties in the cash receipt process.
6. Develop a formal policy regarding discounted services provided throughout student programs.

Management's Responses:

4. The recommendation relates to a program that provides services to customers both internally and externally. Management will review the efficacy of adding a cash register into the front desk operation of the program. Doing so will allow for better capturing (and tallying) of daily revenue from services provided. A register will be the point of sale recording of revenue, instead of being reliant on an instructor to manually take in all cash received on a given day. Installation of a cash register will be an adequate means of providing receipts to customers, as a cash register receipt could be given at time of customer payment.
5. Currently all cash in the program is collected by one instructor. The instructors will be advised to train students on the register as part of the curriculum so that students learn the "front of the house" all the while having a tighter control over revenue from services.
6. We understand that discounted salon services were afforded in certain instances to groups such as Davies graduates and the elderly population at the local town Senior Center. However, the published price list for services did not reflect the existence of this long-standing practice that serves as an enticement to attract clients for student training purposes. Davies will update its pricing policy and price menu to reflect the discounts that the school offers and wishes to continue to offer to certain groups of salon clients.

Responsible Party:

Cheryl Carroll – Business Manager, and Adam Flynn – Assistant Director

Anticipated Completion Date:

August 31, 2018 (i.e. beginning of next school year)

Improve oversight of Student fund disbursements

The Student Activities Account Policy states that requests for the issuance of checks from the student activities account are required to be submitted to the Business Office. The business office has developed a Temporary Invoice Voucher, which is used by staff to request funds. This form indicates an academic advisor and the business officer should sign the form for authorization. The OIA reviewed 25 cash disbursements from the student activities account and found the following weaknesses:

- 3 disbursements were made without proper authorization from the Business Office
- 8 disbursements were made without proper authorization from the requesting academic advisor

The Student Activity Accounts Policy does not identify specific personnel who must approve disbursements. Also, there is no approved list of allowable and unallowable expenses. This may result in a disbursement made from the student activity accounts without permission of the appropriate academic advisor or without acknowledgement of the business office. Additionally, an approved list of allowable and unallowable expenses will prevent advisors from purchasing items that should not be reimbursed using student funds.

Recommendations:

7. Develop and implement a policy which details allowable and unallowable expenses that may be paid for using Student Activities Funds.
8. Enforce policy that no disbursements should be made without proper Business Office authorization and that each request must include the requesting advisor's signature prior to disbursement.

Management's Responses:

7. It is acknowledged that although the school has policies and procedures surrounding the collection, depositing and purchasing functions of Student Activities Funds, there is no formal policy statement listing and describing allowable and unallowable expenses. The Student Activities policy will be amended to include descriptive language for this purpose.
8. The recommendation is acknowledged and accepted.

Responsible Party:

Cheryl Carroll – Business Manager

Anticipated Completion Date:

August 31, 2018 (i.e. updated before the beginning of next school year)

Strategic Planning

Establish and Document Procedures for Completing Strategic Plan Action Items

A strategic plan is a management tool that records the decisions an agency has made with respect to its future strategy and is an important tool to help the agency move towards its defined goals.

Management must implement effective oversight and control mechanisms to ensure staff carry out the goals and objectives timely.

Management has prepared a comprehensive strategic plan in coordination with various state agencies to enable Davies to provide students with academic and technical instruction that will meet the needs of employers. This plan has outlined strategies for educational improvement and provides specific actions to be taken by Davies staff to achieve these objectives. Management has assigned each of these action items to staff within the school and developed a uniform action plan format to be used by responsible staff.

The OIA reviewed a sample of ten of these action items and found that:

- Seven did not yet have completed action plans and;
- Three completed action plans did not have documented evidence of management approval.

Management has not established standard operating procedures for the oversight of action plans.

Without consistent oversight, management lacks assurance that responsible staff are accomplishing these action items to fulfill their goals in timely manner.

Recommendation:

9. Improve management oversight procedures over strategic objectives by:

- Establishing and documenting submission deadlines for the submission of action plans
- Performing management approvals for action steps documented in the plans
- Following up on the progress of action plan completion at fixed intervals.

Management's Response:

Davies' Management agrees that oversight procedures over strategic objectives can be improved by developing standard operating procedures related to strategic plan action plans. As such, we are in the process of developing formal guidance that outlines clear submission deadlines for updated action plans in the 2018-2019 school year. These deadlines will be communicated to members of the Davies team who are the stewards of various action plans. Further, the action plan template has been modified in a manner that provides a space to memorialize the formal approval, rejection, or request for edits on each action plan upon submission. Finally, when developing the school calendar and management team meeting schedule for the 2018-2019 school year, Davies will include predetermined checkpoints that will provide a time and space for progress monitoring. As a result of these changes, we will gain assurance that responsible staff are accomplishing action plan items to fulfill their goals in a timely manner.

Responsible Party:

Adam Flynn, Assistant Director

Anticipated Completion Date:

Development of submission deadlines: in progress, anticipated completion July 2018.

Formal approval of submitted action plans: completed, January 2018.

Establishment of formal progress monitoring checkpoints: in progress, anticipated completion July 2018.

Purchasing & Capital Asset Acquisitions

Train Staff to Use MPA User Guides

Agencies are required to utilize Master Price Agreements to procure goods or services when there is an MPA available. The Division of Purchases develops user guides for MPAs to provide agencies with the terms of the agreements with the approved vendors. The OIA reviewed 25 purchases made during FY17. Of these purchases, staff did not solicit the requisite number of bids as defined by the MPA user guide or the Contract Purchase Agreement for **three** purchases. By not obtaining all the bids as required, Davies did not comply with Division of Purchases policy and may not have received the best price.

Recommendation:

10. Inform staff to review MPA User Guides and Purchase Orders prior to completing a requisition.

Management's Response:

The recommendation is acknowledged, however it is important to note this particular instance as one example of the challenges at the Agency operational level. There exists dozens of State MPA's, and the guidelines and procedures for each of them often vary from requiring three quotes, to allowing selection by the Agency of the best vendor for the need. Davies' staff and administration will certainly endeavor to fully interpret each particular MPA contract User Guide, as available, as well as to seek assistance from the Buyers at the Division of Purchases in all instances where it may be unclear as to requirement (or lack thereof) for multi quotes under the terms and conditions of the respective MPA.

Responsible Party:

Cheryl Carroll – Business Manager

Shelley St. Pierre – Assistant Business Manager

Anticipated Completion Date:

Effective immediately

Objective and Scope

The Office of Internal Audits (“OIA”) conducted an audit of the William M. Davies, Jr. Career & Technical High School. The purpose of this engagement is to determine if operations at Davies are being administered efficiently and effectively in accordance with applicable laws, rules, and regulations and if adequate controls are in place to ensure safeguarding of assets and accurate reporting.

Methodology

As part of our audit work we gained an understanding of the operations of the William M. Davies, Jr. Career & Technical High School. To address our audit objective, we performed the following:

- Interviewed personnel, including financial and administrative staff;
- Researched Rhode Island General Laws and departmental rules and regulations;
- Tested a sample of purchasing transactions for compliance;
- Reviewed a sample of local-share billings;
- Assess the implementation of strategic plan;
- Reviewed the student activity funds activity.