

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHOOL INTERNAL FUNDS**

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2013

King & Walker, CPAs, PL

Certified Public Accountants

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**HOLMES COUNTY DISTRICT SCHOOL BOARD –
SCHOOL INTERNAL FUNDS**

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Independent Auditor's Report

To The Board of Directors
Holmes County District School Board

Report on the Financial Statements

We have audited the accompanying combining statements of fiduciary net assets of the Holmes County District School Board - School Internal Funds ("District") as of and for the fiscal year ended June 30, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Holmes County District School Board - School Internal Funds as of June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the Holmes County District School Board - School Internal Funds' basic financial statements taken as a whole. The accompanying Schedule of Cash Receipts and Disbursements is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Cash Receipts and Disbursements is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Cash Receipts and Disbursements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 on our consideration of the Holmes County District School Board - School Internal Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Holmes County District School Board - School Internal Funds' internal control over financial reporting and compliance.

Respectfully submitted,



December 11, 2013
Tampa, Florida

HOLMES COUNTY DISTRICT SCHOOL BOARD - SCHOOL INTERNAL FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2013

School	ASSETS		LIABILITIES	
	Cash in Bank	TOTAL ASSETS	Deposits Payable to Others	TOTAL LIABILITIES
Bonifay Elementary	\$ 101,847	\$ 101,847	\$ 101,847	\$ 101,847
Bonifay Middle	33,954	33,954	33,954	33,954
Holmes County High	78,034	78,034	78,034	78,034
Poplar Springs School	61,189	61,189	61,189	61,189
Ponce DeLeon Elementary	26,170	26,170	26,170	26,170
Ponce DeLeon High	14,654	14,654	14,654	14,654
Bethlehem School	52,372	52,372	52,372	52,372
TOTAL	\$ 368,220	\$ 368,220	\$ 368,220	\$ 368,220

The accompanying notes to financial statements are an integral part of this statement.

**HOLMES COUNTY DISTRICT SCHOOL BOARD –
SCHOOL INTERNAL FUNDS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Holmes County District School Board - School Internal Funds are maintained under the authority of the Holmes County District School Board as provided by Section 1011.07 Florida Statutes.

➤ **Basis of Presentation**

The Holmes County District School Board - School Internal Funds (Internal Funds) financial statements are comprised of the Combining Statement of Fiduciary Net Assets. The financial statements are prepared in accordance with generally accepted accounting principles applicable to governmental units, as prescribed by the Government Accounting Standards Board.

The Internal Funds are accounted for as an agency fund. The Internal Funds are used to administer moneys collected at the schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In the Internal Funds accounted for as agency fund, the measurement focus is custodial, because the fund is not involved with the performance of government activities. An agency fund has no revenues or expenditures and therefore, no net asset balance or need to measure the results of operations for a period.

➤ **Cash in Bank**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

**HOLMES COUNTY DISTRICT SCHOOL BOARD -
SCHOOL INTERNAL ACCOUNTS**

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
JUNE 30, 2013**

<u>School</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
Bonifay Elementary	\$ 91,127	\$ 95,788	\$ 85,068	\$ 101,847
Bonifay Middle	36,498	110,341	112,885	33,954
Holmes County High	59,766	291,258	272,990	78,034
Poplar Springs School	25,415	209,524	173,750	61,189
Ponce DeLeon Elementary	28,013	75,649	77,492	26,170
Ponce DeLeon High	22,832	182,726	190,904	14,654
Bethlehem School	43,643	245,019	236,290	52,372
TOTAL	<u>\$ 307,294</u>	<u>\$ 1,210,305</u>	<u>\$ 1,149,379</u>	<u>\$ 368,220</u>

See Independent Auditor's Report

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On An Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Holmes County District School Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying combining statements of fiduciary net assets of the Holmes County District School Board - School Internal Funds ("District") as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying *Schedule of Audit Findings and Other Matters* as item 13-1 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and other guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Audit Findings and Other Matters* as items 13-2 through 13-4.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive style.

December 11, 2013
Tampa, Florida

**HOLMES COUNTY DISTRICT SCHOOL BOARD –
SCHOOL INTERNAL FUNDS
SCHEDULE OF AUDIT FINDINGS AND OTHER MATTERS
June 30, 2013**

SIGNIFICANT DEFICIENCY

13-1 – Segregation of Duties:

During our audit, we identified a control deficiency in internal control over financial reporting that exists at each school in the District. As noted in the prior audit and again in the current audit, our review disclosed that the bookkeeper at each school has the primary responsibility for most of the accounting duties. As a result of this lack of segregation of duties, internal controls are weakened, increasing the risk that a misappropriation of the school's assets could occur and not be detected in a timely manner. There are compensating controls that bolster the effect of the controls in place over financial reporting, such as the monthly review and approval of the bank statements, reconciliations, and financial reports by the principal. However, the District needs to be aware that this condition exists and when practical should consider adding personnel, and reassigning some of the key accounting duties in order to provide an adequate segregation of duties. We recommend that the bank accounts be reconciled by a person other than the person charged with the receipt and disbursement of funds.

OTHER MATTERS

An effective system of internal control should be maintained in order to monitor compliance with policies and procedures established by management. Pursuant to Florida Statutes, Section 1011.07, the District is responsible for the administration and control of all local school funds in the District, including the activities accounted for in the Internal Accounts of each school site. The Statutes further provide that the Florida Department of Education (Department) is responsible for adopting regulations governing the procedures for recording receipts, expenditures, deposits, and disbursements of the internal funds.

The Department, by reference in Rule 6A-1.001, Florida Administrative Code, pursuant to the requirements of Section 1011.07, has incorporated the Financial and Program Cost Accounting and Reporting for Florida Schools (commonly referred to as the Red Book) as the official guide to Florida school districts for topics including chart of accounts, governmental accounting standards, program cost accounting and reporting, and school internal funds. Chapter 7 of the Red Book addresses guidelines for the handling of school internal funds and in addition the District has established written procedures to provide for the proper accounting and control of school internal funds.

During our audit, we noted that the District's schools could make enhancements in controls over Internal Accounts to improve compliance with the above policies and procedures as follows:

13-2 – Cash Balances:

As noted in the prior audit, and again in the current audit, instances were noted whereby individual activity accounts at one school held negative balances at fiscal year end. Chapter 7 Section I (10) of the Red Book states that purchases from internal accounts shall not exceed the resources of the applicable student activity/project account. While the individual activity

**HOLMES COUNTY DISTRICT SCHOOL BOARD –
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SCHEDULE OF AUDIT FINDINGS AND OTHER MATTERS
June 30, 2013**

accounts held negative balances, sufficient funds were available in the general fund to cover these deficits. We recommend that management monitor the ongoing activities of each individual activity account to ensure that sufficient funds are available prior to purchase commitments.

13-3 – Cash Receipts:

Each school is responsible for receiving, recording, and depositing funds from various sources. Collections in the form of cash and checks were made for fundraisers, donations, vending commissions, athletic events, field trips, and other miscellaneous activities and fees. Section III. A.4 of the District's Internal Funds Procedures and Chapter 7, Section III, #1.4(a) of the Financial and Program Cost Accounting and Reporting for Florida Schools (Red Book) requires that all money collected by the schools be substantiated by pre-numbered receipts, consecutively numbered class receipt records, reports of monies collected, pre-numbered tickets, reports of tickets issued and sold or other auditable records. Our review of the collection and cash controls at the schools disclosed the following:

- Incomplete Ticket Inventory. During our review of collections where tickets were sold to account for sales, it was noted that prenumbered ticket inventories were not always properly controlled, in that tickets were purchased from local office supply stores without documentation as to the beginning and ending ticket numbers. These tickets had varying sequences of numbers and without an independently controlled issuance of the total range of ticket numbers purchased and received by each school, we could not determine if collections were properly accounted for. In addition, we noted schools did not maintain a complete ticket inventory which showed the beginning and ending ticket numbers purchased. By not providing a proper accounting of pre-printed tickets, School personnel cannot be assured that cash collections and deposits from these events are complete and accurate.

As noted in the prior audit, and again in our current audit, the controls over cash receipts should be enhanced to assure all collections are adequately safeguarded and deposited to School bank accounts. Although the District has instituted procedures to require the use of pre-numbered receipts in order to reduce the risk of misappropriation of assets, our review disclosed instances, as noted previously, that contribute to an increased risk that errors or irregularities in cash collections could occur and not be detected in a timely manner. We recommend the District continue to monitor each school's practices and procedures in order to ensure compliance with District procedures.

**HOLMES COUNTY DISTRICT SCHOOL BOARD –
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SCHEDULE OF AUDIT FINDINGS AND OTHER MATTERS
June 30, 2013**

13-4 - Cash Disbursements:

Chapter 7 of the Red Book provides guidance for cash disbursements from internal funds. Our review of disbursement controls at the schools disclosed the following:

- Purchases Not Marked Received or Invoices Cancelled. Proper internal control over purchases requires that evidence of the receipt of goods or services be obtained before an invoice can be authorized for payment and that the vendor invoice be properly cancelled after payment is made. Results of our audit disclosed instances at three schools where vendor invoices were paid without obtaining documentation evidencing the receipt of goods or services prior to payment and/or invoices were not stamped paid or otherwise cancelled subsequent to payment.
- Disbursements Without Adequate Approval or Documentation. District procedures require an approved check requisition and an invoice prior to disbursement of funds. We noted at two schools, several disbursements were made without an approved check requisition form. Properly approved documentation is required in order to prevent duplicate payment and to ensure disbursements are for an allowable purpose.

We recommend that schools comply with cash disbursement procedures promulgated by the Red Book by obtaining a detailed original invoice supporting the purchase, documenting receipt of goods or services before paying vendor invoices, and properly canceling invoices after payment is made.