

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

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2011

King & Walker, CPAs, PL

Certified Public Accountants

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

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KING & WALKER, CPAs, PL
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Holmes County District School Board

We have audited the accompanying combining statements of fiduciary net assets of the Holmes County District School Board - School Internal Funds as of and for the fiscal year ended June 30, 2011. These financial statements are the responsibility of the Holmes County District School Board's management. 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 *Government 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In addition, 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, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2011, on our consideration of the Holmes County District School Board - School Internal Funds' internal control and our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts and grants, and other guidelines included under the heading ***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***. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



November 30, 2011
Lutz, Florida

HOLMES COUNTY DISTRICT SCHOOL BOARD - SCHOOL INTERNAL FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

School	ASSETS		LIABILITIES	
	Cash and Cash Equivalents	TOTAL ASSETS	Deposits Payable to Others	TOTAL LIABILITIES
Bonifay Elementary	\$ 81,860	\$ 81,860	\$ 81,860	\$ 81,860
Bonifay Middle	40,395	40,395	40,395	40,395
Holmes County High	54,436	54,436	54,436	54,436
Poplar Springs School	25,334	25,334	25,334	25,334
Ponce DeLeon Elementary	28,214	28,214	28,214	28,214
Ponce DeLeon High	40,287	40,287	40,287	40,287
Bethlehem School	43,860	43,860	43,860	43,860
TOTAL	\$ 314,386	\$ 314,386	\$ 314,386	\$ 314,386

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, 2011**

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 and Cash Equivalents**

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. Funds held in certificates of deposit are considered cash equivalents.

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

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
JUNE 30, 2011**

<u>School</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
Bonifay Elementary	\$ 81,248	\$ 84,301	\$ 83,689	\$ 81,860
Bonifay Middle	41,217	103,979	104,801	40,395
Holmes County High	37,696	233,652	216,912	54,436
Poplar Springs School	18,839	170,768	164,273	25,334
Ponce DeLeon Elementary	25,387	69,904	67,077	28,214
Ponce DeLeon High	41,482	185,068	186,263	40,287
Bethlehem School	54,255	211,045	221,440	43,860
TOTAL	<u>\$ 300,124</u>	<u>\$ 1,058,717</u>	<u>\$ 1,044,455</u>	<u>\$ 314,386</u>

See Independent Auditor's Report

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**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 the accompanying combining statements of fiduciary net assets of the Holmes County District School Board - School Internal Funds (öDistrictö) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon included under the heading *Independent Auditor's Report*. 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 *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the District's financial statements for the fiscal year ended June 30, 2011, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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. We consider the deficiency described in the accompanying *Schedule of Audit Findings and Other Matters* as item No. 11-01 to be a significant deficiency in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

We noted certain additional matters which are discussed in item Nos. 11-02 through 11-06 in the *Schedule of Audit Findings and Other Matters* section of this report.

This report is intended solely for the information and use of the District School Board of Holmes County, its management, the Florida Department of Education, the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specific parties.

Respectfully submitted,

Handwritten signature in cursive script that reads "King & Walker, CPAs".

November 30, 2011
Lutz, Florida

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

**SCHEDULE OF AUDIT FINDINGS AND OTHER MATTERS
June 30, 2011**

MATERIAL WEAKNESS

11-01 – 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.

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.

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:

11-02 – Written Procedures Manual:

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. Part of that responsibility includes the development and adoption of regulations governing the procedures for recording receipts, expenditures, deposits, and internal funds disbursements. Further, responsibility for the establishment of written internal fund procedures is promulgated by the Financial and Program Cost Accounting and Reporting for Florida Schools Section I 1(a) which requires the adoption of written rules governing the receipt and disbursement of all internal funds.

During our audit, it was determined that the District had not provided written guidance to the school bookkeepers to ensure compliance with the policies and procedures established by the Florida Statutes and Chapter 7 of the Red Book. Written procedures encourage consistency and standardization in accounting and reporting practices at the various schools and provide a reference for accounting practices

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

SCHEDULE OF AUDIT FINDINGS AND OTHER MATTERS

June 30, 2011

to be followed in the handling of school internal funds. We recommend that the District establish written procedures and provide the schools guidance regarding internal fund accounting transactions.

11-03 – Cash Management:

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 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.

11-04 – Sales Tax:

Our review of cash receipts during the year included a review of collections from concession sales and fundraising activities held on school property. In certain instances, such sales may be subject to the Florida Sales and Use Tax. Guidance concerning the Sales and Use Tax is provided by Florida Statute Chapter 212.08 and Florida Administrative Code Chapter 12A-1. Inquiry into the procedures used at each school to assess the taxability of collections and to file and pay any applicable sales tax determined that such procedures varied from school to school and no written guidance concerning the handling of sales tax had been provided by the District.

It is important for the District to adopt a district-wide written sales tax procedure in order to provide a consistent approach to the sales tax issue. The determination of what type sales are taxable in the functioning of a school's internal fund activities is a complex issue. We recommend that the District request technical guidance from the Florida Department of Revenue concerning the individual school's responsibility for collecting, filing and remitting the Florida Sales and Use tax.

11-05 – 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. 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:

- Cash Counts and Transfer Documentation. When cash is collected at outside events or in the classroom, it is important to ensure that signed transfer documents are used to evidence the transfer of cash. The transfer of all funds to the bookkeeper is documented by the preparation of a Report of Monies Collected and/or a Report of Tickets Sold or Admissions. Signatures of the individuals involved in cash transactions are required on these Reports. This should involve the counting of cash collected by two individuals and the signing of the applicable reports to verify the agreement of the amount being receipted. Our review disclosed instances at two schools where Event Activity Reports or Reports of Monies Collected were not signed by both parties involved in the cash

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SCHEDULE OF AUDIT FINDINGS AND OTHER MATTERS

June 30, 2011

collection transactions. Signed transfer documents help to affix responsibility should collections become lost or stolen.

- 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.

11-06 - Cash Disbursements:

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

- Purchases Not Marked Received or Invoices Cancelled. Proper internal control over purchases requires that receipt evidence 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 five 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.

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.