



October 23, 2017

MEMORANDUM

To: David Curry., Instructional Director
Cluster 5

Sabrina Jones-Smith
Principal, C. Elizabeth Rieg School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period November 1, 2015 to June 30, 2017

An audit of the financial records of **C. Elizabeth Rieg Regional School** was completed for the period November 1, 2015 to June 30, 2017. The audit results indicate that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within thirty **30** days, indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, Attention: Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org.

This report is intended solely for information and use of the Board Chair, Chief Executive Officer, and other parties specifically stated in this transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair
Kevin M. Maxwell, Ph. D, Chief Executive Officer
Monique Whittington-Davis, Ed. D., Deputy Superintendent
Raymond Brown, Chief Financial Officer
Carolyn Boston, Vice Chair, Board of Education
Raaheela Ahmed, Board Member
Denise Greene, Ed. D., Associate Superintendent, Area I
Erica Berry, Esq., Executive Director, Board of Education
Patrick Pope, Internal Auditor II

Internal Audit Report

C. Elizabeth Rieg Regional School
Student Activity Funds

For the Period Ended June 30, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of C. Elizabeth Rieg Regional School for the period November 1, 2015 through June 30, 2017. C. Elizabeth Rieg School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following findings:

- *Mismanagement of Funds Received,*
- *Mismanagement of Disbursements,*
- *Insolvent Principal Sponsored Activities Fund Account,*
- *Administration of Vending Contracts,*
- *Administration of Voided Checks, and*
- *Fundraiser Forms*

Individually or in the aggregate, these findings resulted in a material deviation from Board of Education (BOE) Policies and Procedures and the requirements of the Accounting Procedures Manual (APM) for School Activity Funds.

In our opinion, except for the deviations from the criteria described in the preceding paragraph, the SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended June 30, 2017.



Michele Winston, CPA,
Director Internal Audi

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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) of C. Elizabeth Rieg Regional School for the period November 1, 2015 through June 30, 2017. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures.

Detailed findings from the current audit are cited on the following pages with accompanying recommendations for corrective action.

OBJECTIVES

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school was in compliance with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit report focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

SCOPE

The audit was based on our review of selected bank statements, financial reports, cancelled checks and all voided checks. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period. Monetary Transmittal Form (MTF) envelopes for FY 2017 and FY 2016 were not provided for review. (*See finding 2018.01 regarding Mismanagement of Funds Received*).

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01: Mismanagement of Funds Received

The following exceptions pertaining to the management of funds received were identified:

- A. ***Incomplete and/or Inadequate Documentation for Receipts*** - There were 4 instances where the bookkeeper accepted MTFs that were incomplete or inadequately documented. Exceptions include incomplete sections on the MTFs, and not listing from whom the money was collected.
- B. ***Changes on MTF Not Initialed*** – There were 2 instances where changes on MTFs were not initialed.
- C. ***End of Year MTF Procedures Not Followed*** - End of year MTF envelopes could not be located for FY 2016 and FY 2017 and were not provided for review.

The APM provides the following guidelines regarding the administration of funds received:

- A. The MTF must be completed entirely with the following information: 1) who collected funds; 2) when it was collected; 3) from whom it was collected; 4) the amount and form of the collection; and 5) the reason for collection. If additional space is needed, a student remittance report, Excel spreadsheet, class list, receipts, or ticket/report stubs, can be used as an attachment.
- B. The top portion of the MTF states, “The bookkeeper will not accept this form if; a pencil or white-out is used, changes not initialed, etc.”
- C. Section 4.5.2.2, *Cash Receipts Procedures*, requires submission of pink and yellow MTF remittance copies in sealed envelopes by faculty and program managers with their signature over the seal to the designated administrator during the end of year check-out process.

Accepting incomplete MTFs and not ensuring they are properly completed were oversights by the preparer and the bookkeeper. The bookkeeper stated that the former principal who was in possession of the MTF envelopes was removed from her position prior to the end of the 2016/2017 school year and her belongings were packed up. The former principal is unaware of the location of the MTF envelopes.

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Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Inadequately completed MTFs, inadequate supporting documentation and the absence of sealed end of year MTF envelopes impact effectiveness of internal controls surrounding the cash collection process and removes audit evidence necessary to determine that collection of SAF were processed as required.

Recommendation: The following is recommended for the principal and bookkeeper to properly manage funds received:

- A. The principal and bookkeeper must design an internal control process that ensures staff members properly complete and support MTFs remitted to the bookkeeper and are educated about this responsibility. . The bookkeeper must be held accountable for ensuring that MTF packages are accurate and complete prior to acceptance and approval.
- B. The principal should develop and document specific procedures for the end of year MTF remittance envelopes submission, as well as designating an administrator responsibility for oversight of this process.

2018.02: Mismanagement of Disbursements

The audit revealed the following exceptions pertaining to the management of disbursements:

- A. ***Incomplete/Inaccurate Documents*** - There were **11** instances where the bookkeeper did not include the dollar amount in the "Funds Available" field on School Funds Expenditure Forms (SFEFs).
- B. ***Inadequate Principal Approval*** - There were **5** instances where SFEFs were not adequately approved by the principal. The principal approved SFEFs after the dates of expenditure as indicated on SFEFs.

According to the requirements for administration of cash disbursements, prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The bookkeeper determines if funds are available, initials, dates and records the amount available on the SFEF.

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The principal hastily approves SFEFs and does not include the approval date. Some staff members ordered items/made purchases for the school prior to obtaining the principal's approval. The bookkeeper reportedly stated that she was told by the previous auditor that a simple yes or no in the "*funds available*" field was sufficient.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Specifically, schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete the SFEF or obtain pre-approval. Lack of adequate documentation reduces assurance that purchases were made in accordance with BOE policy and procedures. The practice of approving check requests without assurance from the bookkeeper that the funds are available in a particular account can lead to several insolvent restricted accounts. The principal risks insolvency of the SAF if required procedures are not followed.

Recommendation: The principal and bookkeeper must perform the following to improve the administration of disbursements:

- A. The principal and bookkeeper should improve current controls, to include staff training, to ensure the principal's written pre-approval on the SFEF precedes purchases.
- B. The principal should sign and date every SFEF after review to provide evidence of timely approval of purchases.
- C. The bookkeeper should include the dollar amount in the funds available field to provide the principal adequate information for expenditure approval. The principal should not approve incomplete or inaccurate SFEFs.

2018.03: Insolvent Principal Sponsored Activities Fund Account

The Principal Sponsored Activities (PSA) fund account had a deficit of **(\$1,788.10)** as of June 30, 2017, which was also the beginning year balance. There was no activity (including transfers) in the PSA account during FY 2017.

The APM Section 9.6, *Principal-Sponsored Activities for Staff*, states that the PSA account is for discretionary expenditures incurred by the principal on behalf of school staff. These activities must be of a professional nature that enhances staff members' job performance. Expenditures for authorized PSA are restricted to 100% of faculty vending commission and 15% of school-wide fundraiser profits. If the PSA account has a deficit, funds are not available for this purpose and faculty spending must be ceased until the existing PSA deficit is resolved.

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The former principal failed to establish a system of internal controls to ensure compliance with Board policies and procedures as it pertains to funds being disbursed from the PSA fund account. As a result, the current administration inherited a deficit.

The deficit in the PSA constitutes noncompliance with the policy documented in the APM. Students may not receive the maximum possible benefit from the resources that should have been available to them.

Recommendation: The principal should work towards elimination of the PSA fund account deficit by continuing cessation expenditures from this fund account. The principal should also review fundraising profits and vending commissions periodically to ensure proper transfers are made to the PSA fund account to assist with eliminating the deficit.

2018.04: Administration of Vending Contracts

There are 2 vending machines located at the school; however, there is no approved vending contract for FY 2015 through FY 2017 on file.

Administrative Procedure 5135.2, *Principal's Contracting Authority*, requires the principal, as an agent of the BOE, to approve and sign all agreements and contracts entered into for all school activities. In addition, the APM, Section 9.8, *Vending Machine Sales*, states, "all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency that these commissions are remitted."

According to the bookkeeper, the former principal did not provide a signed copy of the contracts to be maintained on file at the school.

The lack of an agreement with the vending company may increase the risk of inadequate maintenance of the machines and insufficient commission revenue. Failure to have a formal contract in place constitutes non-compliance with BOE policies and procedures.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are established, adhered to, and maintained on file in compliance with BOE policies and procedures. The principal must either obtain a current vending contract or consult with Purchasing and Supply Services for identification of an alternate vendor.

2018.05: Administration of Voided Checks

The audit revealed an instance where a voided check was not supported by an approved SFEP or Void Check Proof Sheet (VCPF). Also, there were 2 instances in which voided checks could not be located.

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The APM requires accounting for all voided checks by retention of the physical check. A SFEF or a VCPF should also be completed and approved by the principal, noting the check was voided.

Failure to obtain a signature from the principal is an oversight of the bookkeeper. According to the bookkeeper the voided checks were either misfiled or misplaced.

The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. Lack of approval and maintenance of voided checks increases the risk of check fraud.

Recommendation: The bookkeeper must be reminded of the importance of administering voided checks as required by the APM. All voided checks must be properly supported by approved VCPSs or SFEFs and maintained in an orderly manner.

2018.06: Fundraiser Forms

The school has ongoing fundraisers that provide refreshments to staff with proceeds benefitting students. The fundraiser sponsors failed to complete the required forms and the principal failed to prepare the annual report summarizing the results of the fundraising event held during the audit period.

Administrative Procedure (AP) 5135.1 *Fund Raising* and AP 5135.2 *Principal's Contracting Authority* provide specific guidance concerning fundraising. First, the fundraiser must be formally approved by the principal using a Fundraiser Authorization Form. The purpose must be designated and communicated for each fundraiser. If a fundraiser involves a contract, the principal has limited authorization to execute such agreements involving the use of SAF.

The APM Section 7.2.2 states that at the conclusion of an event, a Fundraiser Completion Report must be prepared by the sponsor, reviewed and acknowledged by the principal. Additionally, an annual report summarizing all fundraising activities concluded during the year is also required.

The administrator responsible for ensuring staff members were compliant with the completion of fundraiser forms did not provide oversight for this process.

Financial records are not complete and profit/loss ratio of fundraisers conducted cannot be determined when fundraising forms are not prepared.

Recommendation: The principal must establish procedures to ensure completion of all Fundraiser Authorization Forms, Fundraiser Completion Reports and an annual report on the results of fundraising activities held during the school year. The principal should

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appoint responsible staff for ensuring that the required reports are completed and maintained on file for public and auditor review. Staff should be held accountable for compliance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for C. Elizabeth Rieg Regional School was issued for the period ended October 31, 2015. During that period, the bookkeeper was in her current position. The current principal's tenure began in July 2017. There were **9** findings reported in the previous audit and **5** were repeated in this report. The following findings were noted as a result of that audit and the current status is indicated below:

- **Mismanagement of Funds Received** – Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **Inappropriate Deposit Slips** – Controls appear to be working
- **Mismanagement of Disbursements** – Condition still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Administration of Checks** – Condition still exists. See **2018.05** regarding *Administration of Voided Checks*.
- **Transactions not Properly Posted** – Controls appear to be working.
- **Segregation of Duties** – Controls appear to be working.
- **Sunshine Funds** – Controls appear to be working.
- **Principal Sponsored Activities Fund Account Deficit** – Condition still exists. See **2018.03** regarding Insolvent *Principal Sponsored Activity Fund Account*.
- **Record Retention** – Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of C. Elizabeth Rieg Regional School for their cooperation and assistance during the audit.