




June 21, 2018

MEMORANDUM

To: Edward Ryans, Ed. D, Instructional Director
Cluster 15

Carla Furlow, Principal
Montpelier Elementary School

From: Michele Winston, CPA 
Director Internal Audit

Re: Financial Audit for Period February 1, 2015 to April 30, 2018

An audit was completed on the financial records of **Montpelier Elementary School** for the period February 1, 2015 to April 30, 2018. The audit results indicate that the school's internal controls are strong in many areas, but require improvement to ensure full compliance with board policies. 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 School Accounting Manual. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. 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 at internal.audit@pgcps.org. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: Deborah.smalls@pgcps.org.

We would like to thank the principal and staff of **Montpelier Elementary School** for their assistance and cooperation during the audit process.

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair
Kevin M. Maxwell, Ph. D, Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board Members
Monique Whittington Davis, Ed. D., Deputy Superintendent
J. Michael Dougherty, Director, Financial Services
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Erica Berry Wilson, Esq., Executive Director, Board of Education
Daniel Reagan, Internal Auditor II

Internal Audit Report

Montpelier Elementary School Student Activity Funds

For the Period Ended April 30, 2018

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

Table of Contents

INTERNAL AUDITOR’S REPORT.....2
SUMMARY..... 3
OBJECTIVES 3
SCOPE..... 3
FINDINGS AND RECOMMENDATIONS..... 4
STATUS OF PRIOR AUDIT FINDINGS 9
ACKNOWLEDGEMENT 9

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Montpelier Elementary School for the period December 1, 2015 to January 31, 2018. Montpelier Elementary 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:

- *Incomplete School Funds Expenditure Forms;*
- *Restricted Account Deficits;*
- *Untimely Deposits;*
- *Voided Checks Not Properly Approved;*
- *Annual Fundraising Summary Not Completed;*
- *Ineffective Administration of Vending Machine Operations*
- *Grant Forms Not Completed and Submitted; and*
- *Use of Unapproved Vendors.*

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

In our opinion, except for the deviation 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 April 30, 2018.



Michele Winston, CPA
Director, Internal Audit

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Montpelier Elementary School for the period February 1, 2015 to April 30, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures are effectively managed but require improvement in certain areas to be in full compliance 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, available cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period February 1, 2015 to April 30, 2018. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01 Incomplete School Funds Expenditure Forms

School Funds Expenditure Forms (SFEFs) were not always properly completed during the audit period. The bookkeeper did not adequately indicate the amount of funds available prior to principal pre-approval in **41** instances. The check information section of the SFEF was not completed in **32** instances.

The APM, Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for front office staff to indicate the amount of funds available in the relevant account prior to the principal providing pre-approval. The form also includes a section to record detailed check information after it has been issued.

The financial recordkeeping staff stated that they not aware of the requirements for the "Funds Available" section of the SFEF. Often, they would repeat the check total amount on that line, instead of determining the total amounts of funds available for the expenditure. The financial recordkeeping staff stated that the check information section of the SFEF was not completed due to an oversight on their part.

Incomplete SFEFs constitute non-compliance with BOE policies and procedures and increases financial risk to the school. The lack of check information could potentially disrupt the audit trail if the form was separated from the check stub. Further, the lack of inclusion of the amount of funds available prevents the principal from making fully-informed approval decisions and increases the risk of insolvent accounts (See Finding 2018.02).

Recommendation: The financial recordkeeping staff should begin completing all sections of the SFEF. The principal should not pre-approve expenditures unless the funds available amount is completed by the financial recordkeeping staff.

2018.02 Restricted Fund Account Deficits

The following restricted fund accounts contained deficits which aggregated to **(\$1,557.14)** as of April 30, 2018.

<u>Account #</u>	<u>Account Description</u>	<u>Amount</u>
307.00	Chess Club	(\$107.99)
480.00	Yearbook	(\$618.38)
508.00	Friday Folders	(\$221.21)

Montpelier Elementary School
 Student Activity Funds
 Internal Audit Report
 For the Period Ended April 30, 2018

509.00	Recorders	(\$129.93)
511.00	Reference Books	(\$159.80)
570.00	Math	(\$33.42)
585.00	STEM Fair Backboards	(\$286.41)
	Total	(\$1,557.14)

The APM, Section 5.2.1, *Financial Reporting Procedures*, states that the principal, as the fiduciary agent for the SAF, should ensure accounts are solvent at all times.

The APM, Section 4.5.4, *Transfer of Funds*, states that principals are responsible for requesting the closure of inactive restricted accounts after ensuring there are no outstanding bills.

There are 5 of the 7 deficits that have existed prior to the conversion to SFO in May 2015 and prior to the current principal and recordkeeping staff's tenure. Therefore, Internal Audit could not ascertain the exact cause of those deficits. During the current administration, the financial recordkeeping staff failed to use the "Funds Available" line on the SFEF prior to the principal's pre-approval and resulted in excessive spending in restricted accounts (See Finding 2018.01). Also, the financial recordkeeping staff unfamiliarity with the process of closing inactive restricted accounts has resulted in the 5 restricted accounts remaining in deficit status.

SAF is not used efficiently when overspending occurs in restricted accounts. It is also not fiscally prudent to incur expenditures prior to sufficient funding being present and available. Students may not receiving the maximum benefit from funds that should have been made available to them.

Recommendation: The Principal and financial recordkeeping staff should work towards elimination of all fund deficits. Research should be performed to determine how the accounts resulted in a deficit. Further, a full review of all restricted accounts, both with balances and deficits, should be conducted. Subsequently, the principal should provide a request to Accounting and Financial Reporting to close the inactive accounts with deficit balances.

2018.03 Untimely Deposits

There were **11** instances where funds were deposited between 2 and 13 days after collection.

The School Activity Funds (SAF) Accounting Procedures Manual, Section 4.5.2.2, *Cash Receipts, Procedures* states that bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

There were 9 of the 11 instances observed that occurred in the 2015-2016 school year. The principal explained that a member of the financial recordkeeping staff in that year was approaching retirement and was often absent.

The principal has not established a procedure to ensure timely deposits in the case of a financial recordkeeping staff absence. Untimely deposits constitute non-compliance with BOE policies and procedures and increases financial risk to the school. Funds awaiting deposit for lengthy periods of time are at risk of being lost or stolen.

Recommendation: The principal should either make deposits or appoint an alternate staff the responsibility for making deposits in the financial recordkeeping staff's absence. The principal should ensure that daily deposits are made.

2018.04 Voided Checks Not Properly Approved

There were 40 instances where the principal did not provide signatory approval of a voided check.

The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and unable to be used, the physical check must still be accounted for. The word "VOID" is written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer to keep the empty transaction in the system. A SFEF should also be completed for the principal's approval.

All 40 instances identified above took place in the 2014-2015 or 2015-2016 school years. During those school years, voided checks were referenced on the SFEFs of replacement checks, and not specifically approved by the principal. The current financial recordkeeping staff took over for the 2016-2017 school year and instituted an effective process for ensuring principal approval of all voided checks. This process significantly reduced the number of voided checks.

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

Recommendation: The Principal and financial recordkeeping staff should continue to adhere to the current process for administration of voided checks and ensure Principal approval.

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

2018.05 Annual Fundraising Summary Not Completed

Annual Fundraising Summaries were not prepared during the audit period.

The APM, Section 7.2.2, *Fundraising Procedures* states that the Principal should prepare an annual report summarizing all fundraising activities concluded during the year. The data in this annual report should be available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

The principal and financial recordkeeping staff instituted a process in 2015 to complete Fundraiser Authorization and Completion Reports. However, they were not aware of the requirement for an annual summary. A lack of annual fundraising summary can potentially decrease transparency of fundraising activities and associated profits to interested parents and community members.

Recommendation: The principal and financial recordkeeping staff should familiarize themselves with the specific requirements for fundraisers in the Accounting Procedures Manual and incorporate the development of an annual summary into the established fundraiser procedures.

2018.06 Ineffective Administration of Vending Machine Operations

A vending machine is located in the teacher's lounge for faculty use. However, the school does not have an active contract with the vendor and does not receive commission checks.

Administrative Procedure 5135.2, *Principal's Contracting Authority*, states that the principal, as the agent of the Board of Education, must approve and sign all agreements and contracts entered into for all school activities. In addition, the APM, section 9.8, *Vending Machines*, states that all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency that these commissions are remitted and that the contract term cannot exceed one year.

The principal and financial recordkeeping staff were unaware of the requirement for an annual contract for vending machines. Further, they had not been fully aware that no commission checks had been received since April 2015.

Lack of administration for vending operations constitutes non-compliance with BOE policies and procedures and has had a financial impact on the school. Without an active contract, the school has limited recourse on the lack of commissions received since April 2015. Further, the lack of an agreement with the vending company may also increase the risk of inadequate maintenance of the machines.

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

Recommendation: The principal and bookkeeper should identify the vending machine vendor, and determine whether all vending machine commission has been received over the audit period. An active contract should be developed that stipulates commission percentage and frequency of remittance. The principal should also consider contacting Purchasing Services to identify an alternate vendor.

2018.07 Grant Forms Not Completed and Submitted

Grants received during the audit period were not properly reported to the Grants Financial Management Office. The school received 2 grants, Crayola Grant for Arts Integration and Chesapeake Bay Trust Grant which totaled \$4,299 during the audit period.

The APM, Section 9.3, *Accounting for Grants and Donations*, states that all grants made directly to schools, irrespective of amount should be reported to the Grants Financial Management Office (GFMO) on a School Grant Reporting Form. The completed form and attachments should be electronically transmitted to the GFMO within 5 days of grant award.

The Principal and financial recordkeeping staff were unaware of the requirement for grant reporting. GFMO reviews all grants to determine whether they meet the criteria to be managed at the school level. In addition, it allows them to keep a record of all grant funding received by PGcps. Failure at the school level to report grants to GFMO compromises both of these efforts.

Recommendation: The Principal and financial recordkeeping staff should familiarize themselves with requirements for grants, and then develop controls to ensure compliance.

2018.08 Use of Unapproved Vendors

There were 13 instances where reimbursements were made to employees for purchases from unapproved vendors.

Bulletin S-18-09, *Payments from Student Activity Funds for Vendors and Individuals*, indicates that all vendors solicited are required to be added to the Oracle Financial System prior to conducting business with the school.

The APM, Section 4.5.3, *Cash Disbursements*, prohibits the use of the “Reimbursement” or “Refund” options to process payments to unapproved vendors in SFO.

The principal and financial recordkeeping staff were unaware that employees had to use approved vendors when seeking reimbursements. The school utilizes staff

Montpelier Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended April 30, 2018

reimbursements for a majority of their expenses, and has not instituted controls to ensure vendors are approved before reimbursements.

The use of unapproved vendors constitutes non-compliance with BOE policies and procedures, and increases the risk of fraud and appearance of circumvention of BOE policies.

Recommendation: The Principal and financial recordkeeping staff should encourage frequently used local businesses to apply for approved vendor status with PGCPs. Further, they should incorporate procedures to ensure that only approved vendors are used by the staff and school. Staff should be trained on the new procedures.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Montpelier Elementary School** was issued for the period ending **January 31, 2015**. That audit included **3** findings and **1** was repeated in this audit. The principal has been in place for the entirety of the audit period. The current financial recordkeeping staff began in August 2016. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Inadequate Deposit Slips** – Controls appear to be working.
- **Funds Not Properly Classified** – Controls appear to be working.
- **Fundraiser Forms Not Completed**– Condition still partially exists (See Finding 2018.05)

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Montpelier Elementary School for their cooperation and assistance during the audit.