



March 25, 2019

MEMORANDUM

To: Ebony Cross-Shields, M. Ed,
Instructional Director, Cluster 6

Nina Lattimore, Principal
Capitol Heights Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period July 1, 2015 to October 31, 2018

An audit was completed on the financial records of **Capitol Heights Elementary School** for the period July 1, 2015 to October 31, 2018. The audit indicates that the school's control environment requires improvement to ensure full compliance with 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 by April 25, 2019 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.

Enclosure

cc: Alvin Thornton, Ph. D., Chairman of the Board of Education
Monica Goldson, Ed. D, Interim Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
J. Michael Dougherty, Director, Financial Services
Michael Herbstman, Chief Financial Officer
Kassandra Lassiter, Ed. D., Associate Superintendent, Elementary Schools
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Daniel Reagan, Internal Auditor II

Internal Audit Report

Capitol Heights Elementary School Student Activity Funds

For the Period Ended October 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Capitol Heights Elementary School for the period July 1, 2015 to October 31, 2018. Capitol Heights 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:

- *Mismanagement of Disbursements;*
- *Bank Reconciliations Not Completed Timely;*
- *Excessive Principal Sponsored Fund Account Transfer;*
- *Voided Checks Not Properly Approved or Maintained;*
- *Fundraiser Forms Not Completed;*
- *End of Year Monetary Transmittal Forms Envelopes Procedures Not Followed;*
- *Failure to Maintain a Current Vending Contract; and*
- *Record Retention.*

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 October 31, 2018.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Capitol Heights Elementary School for the period July 1, 2015 to October 31, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial controls require improvement 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 July 1, 2015 to October 31, 2018. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2019.01 Mismanagement of Disbursements

The following exceptions pertaining to the management of disbursements were identified:

- A. ***Failure to Properly Complete School Funds Expenditure Form (SFEF):*** There were **22** instances where financial recordkeeping staff did not indicate the amount of funds available for the relevant fund accounts on the SFEF prior to principal's pre-approval.
- B. ***Inaccurate Recording:*** There were **6** instances where expenditures were posted in incorrect accounts in School Funds Online (SFO).
- C. ***Delinquent Payments:*** There were **3** instances where payments to vendors were made over 30 days after the invoice date.
- D. ***Lack of Third Check Signer:*** The Principal has not assigned a third check signer to the bank account. The school has had only two active check signers since July 2018.

The SAF Accounting Procedures Manual (APM), Section 4.5.3, *Cash Disbursements*, includes the following provisions:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed, signed, and dated by the principal. The form includes space for front office staff to record the amount of funds available in the relevant account prior to the principal providing pre-approval.
- B. Principals should review invoices and statements for past due amounts and ensure payments are made within 30 days of the invoice, or by the due date on the invoice.

The APM, Section 4.3, *Fund Accounts*, states that fund accounts are used to track financial activities related to specific events, activities and/or groups within the school. The use of fund accounts makes it possible to determine the amount of funds received and expenditure generated by individual groups and/or events within the school, and ultimately, the balance of funds they have available.

The APM, Section 4.2, *Bank Accounts*, states that there must be at least three authorized signers on the checking account. The Principal and Bookkeeper should be primary signers

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on the account. The third signer should be an administrator who signs checks in the Principal's absence.

The previous financial recordkeeping staff and principal were unaware of the requirement for the "Funds Available" line on the SFEF. Further, they were unaware of the importance of posting each expenditure to the most appropriate account, and then transferring balances from fundraiser and donation accounts when needed.

Two of the three delinquent payments were noted in September 2018, during the transition to the new financial recordkeeping staff. The newly hired financial recordkeeping staff did not receive training until October 2018 and had difficulty monitoring due dates for incoming invoices.

The principal has not prioritized contacting Treasury Operations to add a third check signer since the turnover in staff prior to the 2018-2019 school year.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to complete the SFEF properly can lead to insolvent accounts when the principal is not fully informed. Delinquent payments can lead to unnecessary late charges, or eroding relationships with vendors that could impact student experiences. Inaccurate accounting compromises the school's financial statements and the Principal's ability to accurately make informed fiscal decisions. The lack of third check signer can delay check writing and can compromise the separation of duties in the case of a reimbursement check to the Principal or to the financial recordkeeping staff.

Recommendation: The following should be performed to improve disbursement management:

- A. The current financial recordkeeping staff and principal should immediately become familiar with the APM's requirements for management of disbursements.
- B. The current financial recordkeeping staff should ensure that SFEFs are properly completed, expenditures are properly recorded, and payments are made timely, within 30 days or by the invoice due date.
- C. The principal should provide management to correct deficiencies in management oversight.
- D. The principal should contact Treasury Operations immediately to assign a third check signer to the school's checking account.

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2019.02 Bank Reconciliations Not Completed Timely

Bank reconciliations for 5 of the 12 months reviewed were not submitted to the Principal and completed timely.

The Accounting Procedures Manual (APM), Section 5.2, *Financial Reporting Requirements*, states that the Principal should receive the package of reports, to include the bank reconciliation, by the 15th of each month.

The previous financial recordkeeping staff tenure ended in April 2018, and the school was not able to complete reconciliations effectively or timely during the remainder of the audit period. The current financial recordkeeping staff began in July 2018, but was not officially trained by Accounting and Financial Reporting until October 2018. All bank reconciliations during this time were completed by Accounting and Financial Reporting, rather than by school personnel.

Untimely bank reconciliations constitute non-compliance with BOE policies and procedures and increases financial risk to the school. The bank reconciliation process is the most effective internal control to ensure that funds are properly deposited and recorded.

Recommendation: The Principal and current financial recordkeeping staff should work collaboratively to ensure that an effective process is established for completing reconciliations timely. Accounting and Financial Reporting should provide management oversight to ensure that the process is completed by the 15th of each month.

2019.03 Excessive Principal Sponsored Activities Fund Account Transfer

The transfer journal entry transaction dated October 31, 2016 from the Mid-Atlantic Fundraiser (Unrestricted) account to the Principal Sponsored Activity (PSA) (Restricted) account exceeded the 15% profit limit by **\$884.86**.

Fundraiser Proceeds	\$11,726.00
<u>Fundraiser Expenditures</u>	<u>\$7,288.60</u>
Fundraiser Profit	\$4,437.40
Allowable Transfer (15%)	\$665.61
Actual Transfer	\$1,550.47
Overage	\$884.86

The APM, Section 9.6, PSA for Staff, states that discretionary expenditures incurred by the Principal on behalf of school staff are grouped in the PSA accounting category. These activities must be of a professional nature that enhances staff members' job performance. If the PSA account has a deficit, faculty spending must be ceased until the existing PSA

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deficit is resolved. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the following sources:

- 100% of Vending commission from machines located in the staff lounge
- 25% of student vending commission
- 15% of school-wide fundraiser profits, including picture commissions
- Up to 25% of senior class residual funds.

The previous recordkeeping staff likely made an error when calculating the amount to be transferred. Records indicate that other PSA transfers were made appropriately. The principal was unaware of the mistake. The excessive transaction has resulted in **\$884.86** being unavailable for unrestricted student activities as intended. Instead, funds have been made available for staff activities.

Recommendation: The current financial recordkeeping staff should immediately transfer the **\$844.86** from the PSA account back to the Mid-Atlantic Fundraiser account. Further, the current financial recordkeeping staff should ensure that all future PSA transfers amounts are accurate. The principal and Accounting and Financial Reporting Office should provide oversight to this process.

2019.04 Voided Checks Not Properly Approved

There were **5** instances where voided checks were not signed and approved by the principal.

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.

A total of **4** of the **5** instances noted were situations where the check was voided after issuance. A process for obtaining the principal's approval of checks voided after issuance was not established by the previous financial recordkeeping staff. The ineffective process for voiding checks constitutes noncompliance with BOE policies and procedures and increases financial risk to the school. The lack of approval of voided checks increases the risk of check fraud.

Recommendation: The principal and current financial recordkeeping staff should familiarize themselves with the procedures for recording, handling, and approving voided checks. Void Check Proof Sheets should be printed for all voided checks, and should be provided to the principal as part of the monthly financial reporting process for signatory approval.

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2019.05 Fundraiser Forms Not Completed

Fundraiser forms were not completed as required during the audit period.

The APM, Section 7.2.2, *Fundraising Procedures*, states that club fundraisers must be formally approved by the Principal using a Fundraiser Authorization Form. At the conclusion of all fundraisers, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, 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 and other interested members of the community. The report should include the net amount retained as profit from each fundraising activity.

All of the fundraisers completed during the audit period were school-wide and did not require an authorization form. Despite this being a finding in the past audit report, the principal and previous financial recordkeeping staff did not initiate a process to ensure adherence to the Fundraiser Completion and annual fundraising summary requirements.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, Fundraiser Completion Reports bolster the budgeting process, which can ensure optimal performance by each fundraiser.

Recommendation: The principal, in coordination with the current financial recordkeeping staff, should develop internal controls to ensure completion of required fundraiser forms. The principal should provide effective oversight to the process, to include a review of all forms prior to completion of the Annual Fund Raiser Summary each year.

2019.06 End-of-Year MTF Procedures Not Followed

One employee's end of year MTF envelope for the 2016-2017 school year could not be found. This employee completed 3 MTFs, totaling \$14,684.00 during the school year.

The APM, **Section 4.5.2.2**, *Cash Receipts Procedures*, states that the pink copy of the MTF is to be maintained by the preparer of the form after it is initially completed. The white and yellow copies are submitted to the bookkeeper with funds. After approving the MTF, the Bookkeeper returns the yellow copy to the originator. Prior to departing at year-end, faculty and program managers are to submit the pink and yellow copies of the MTFs in a sealed envelope with their signature over the seal to the designated administrator.

During the audit period, financial recordkeeping staff did not provide the Principal with a printout of all employees with MTF envelopes due from SFO. As a result, the Principal and her designee did not have a master list to ensure that all envelopes were collected each

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year. The ineffective end-of-year MTF process constitutes non-compliance with BOE policies and procedures. The audit trail for ensuring that student activity funds collected were subsequently remitted and deposited was compromised.

Recommendation: The principal should require that the current financial recordkeeping staff use the end of year MTF report printed from SFO to facilitate collection of MTF envelopes at year-end. Assigned staff (not the recordkeeping staff) should use this report to ensure that all responsible employees provide signed and sealed MTF envelopes at the end of each school year.

2019.07 Failure to Maintain a Current Vending Contract

The school does not have an active contract with their vendor for vending machines.

The APM, Section 9.8, *Vending Machine Sales*, states that all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency these commissions are remitted. The contract term cannot exceed one year.

The principal and financial recordkeeping staffs were not aware of the requirement for annual vending contracts. Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of active contracts prevents the school from having any recourse if there are issues with service or commissions.

Recommendation: The current financial recordkeeping staff should contact the vendor and obtain a signed contract for the vending machine operations. The contract should stipulate the frequency and percentage of commissions. The contract should be renewed annually. Alternately, the principal should contact Purchasing and Supply Services to identify an approved vendor who will comply with this requirement.

2019.08 Record Retention

The following documents could not be located in the school's files or Accounting and Financial Reporting's files:

- Images of 4 cancelled checks
- Monthly financial reports, to include bank statements, for July-October 2015.

APM, **Section 6.12, *Record Retention***, states that all SAF records must be retained for a period of seven years or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, MTFs, SF EFs, cancelled checks, and contracts.

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The principal stated that the school's recordkeeping could be more organized. The turnover in financial recordkeeping staff may have also contributed to the missing documents. Missing documentation compromises the audit trail necessary to assess controls and to detect and investigate potential fraud.

Recommendation: The principal and current financial recordkeeping staff should develop an effective method to store and organize financial records.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Capitol Heights Elementary School** was issued for the period end **December 31, 2014**. The Principal has been in her current position during the previous audit. The current financial recordkeeping staff's tenure began in July 2018. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Inadequate Approval of Disbursements** – Controls appear to be working.
- **Fundraiser Forms Not Completed** - Condition still exists. **See Finding 2019.05** regarding, *Fundraiser Forms Not Completed*.

ACKNOWLEDGEMENT

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