



March 28, 2019

**MEMORANDUM**

To: Elizabeth Saunders  
Instructional Director, Cluster 12

Chien Hwa Nee, Principal  
Excel Academy Public Charter

From: Michele Winston, CPA  
Director Internal Audit

Re: Financial Audit for Period November 1, 2017 to January 31, 2019

An audit was completed on the financial records of **Excel Academy Public Charter School** for the period November 1, 2017 to January 31, 2019. The audit indicates that the school's control environment is strong but requires further 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 29, 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](mailto: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](mailto: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  
Loretta White-Khaalid, Executive Assistant, Charter Schools  
Helen Coley, Ed. D., Chief, School Support and Leadership  
Joeday Newsom, Esq., Ethics Compliance Officer  
Daniel Reagan, Internal Auditor II

# Internal Audit Report

## Excel Academy Public Charter Student Activity Funds

For the Period Ended January 31, 2019

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Excel Academy Public Charter for the period November 1, 2017 to January 31, 2019. Excel Academy Public Charter'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;*
- *Lack of Pre-Approval for Disbursements;*
- *Fundraiser Forms Not Completed; and*
- *Club Budgets Not Developed*

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 January 31, 2019.

Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit of student activity funds (SAF) for Excel Academy Public Charter for the period November 1, 2017 to January 31, 2019. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial controls are strong but require further 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 November 1, 2017 to January 31, 2019. 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 Funds Received**

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

1. ***Delinquent Deposits:*** There were **2** instances where deposits were made between 4 and 7 days after initial collection by the staff.
2. ***Inappropriate Collection of Sales Tax:*** Sales tax in the amount of **\$23.56** was collected as part of a sales tax-exempt fundraiser.

The Accounting Procedures Manual (APM), Section 4.5.2.2, *Cash Receipts, Procedures* states that school staff is required to make deposit 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.

The APM, Section 8.3, *Sales Tax Procedures*, states that when a school engages in the resale of times, adherence to Maryland Comptroller of the Treasury regulations is required. This involves collection and remittance of sales tax for merchandise sold that is not fundraising-related.

The delinquent deposits resulted from staff members holding funds for several days before remittance to the front office. The financial recordkeeping staff was promptly depositing funds once received with MTFs. The Principal and financial recordkeeping staff have continually trained staff on funds collection and remittance procedures, including addressing the specific instances in FY18. There were no instances of late remittance noted in FY19.

The financial recordkeeping staff was unaware that fundraisers are exempt from sales tax.

Mismanagement of receipts constitute non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely deposits can lead to lost or stolen funds. Additionally, funds received are not immediately available for student use. The over-collection of sales tax represents funds that were not available for student use, since it was remitted to the State of Maryland.

**Recommendation:** The Principal and financial recordkeeping staff should continue to train staff on remittance procedures, at the beginning of each school year, and throughout the year, to ensure funds are never kept by staff overnight. Further, the Principal and

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financial recordkeeping staff should immediately familiarize themselves with the criteria for sales tax collection, and ensure that collections are only made when required.

**2019.02 Lack of Pre-Approval for Disbursements**

There were 2 instances where purchases were made prior to pre-approval from the Principal.

The SAF Accounting Procedures Manual (APM), Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services, a SFEF must be completed, signed, and dated by the principal.

The financial recordkeeping staff stated that they were unaware that pre-approvals on SFEFs needed to be made prior to purchases such as commitments with vendors for field trips. As a result, a process to ensure Principal pre-approval prior to any financial commitments had not been established.

Failure to properly pre-approve expenditures constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Unapproved purchases can lead to insolvent accounts when the principal is not fully informed.

**Recommendation:** The Principal and financial recordkeeping staff should immediately familiarize themselves with the requirements for pre-approval of disbursements. Controls should be developed to ensure compliance and staff should be sufficiently trained.

**2019.03 Fundraiser Forms Not Completed**

Fundraiser Authorization Forms, Completion Reports and Annual Summaries were not completed during the audit period. The school's PBIS program sold items as a fundraiser in February 2018, and student pictures were taken 3 times during the fiscal year as fundraisers.

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, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

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The Principal and financial recordkeeping staff were unaware of the specific requirements for fundraiser forms. The PBIS fundraiser was the first of its kind during the financial recordkeeping staff's tenure.

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 current Principal and current financial recordkeeping staff should immediately familiarize themselves with the requirements for fundraiser forms in the APM. Subsequently, Authorization Forms should be completed for all club fundraisers, and Completion Reports should be completed for all fundraisers. The Completion Reports should be used by the current Principal to compile a fundraising summary at the end of each school year. The principal should hold staff accountable for compliance.

#### **2019.04 Club Budgets Not Developed**

Club budgets were not developed or submitted to the recordkeeping staff for the 2017-2018 or 2018-2019 school years.

The SAF Accounting Procedures Manual, **Section 7.3, Class and Club Accounts**, states that a copy of annual budgets for all school clubs should be provided to the School's bookkeeper.

The financial recordkeeping staff stated that the school was not aware of the requirement for annual club budgets. The lack of club budgeting constitutes non-compliance with BOE policies and procedures. Further, it decreases the coordination between club sponsors and the school administration when it comes to planning and executing necessary payments. Effective budgeting is a useful tool for helping ensure that student resources are expended as intended.

**Recommendation:** The Principal and financial recordkeeping staff should familiarize themselves with the requirements for club budgeting, and should establish a process to ensure compliance.

#### **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for **Excel Academy Public Charter** was issued for the period ending **October 31, 2017**. There were **2** findings identified in that report and **1** is repeated. The principal and financial recordkeeping staff have been in place for the entire audit



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period. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Disbursements** – Condition still partially exists. **See Finding 2019.02** regarding *Lack of Pre-Approval for Disbursements*).
- **Inappropriate Use of the Reimbursement Vendor Option** – Controls appear to be working.

**ACKNOWLEDGEMENT**

We would like to thank the principal and staff of Excel Academy Public Charter School for their cooperation and assistance during the audit.