



July 25, 2018

MEMORANDUM

To: Ava Tasker-Mitchell, Instructional Director
Cluster 1

William Kelly, Principal
High Bridge Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period November 1, 2012 through April 30, 2018

An audit was completed on the financial records of **High Bridge Elementary School** was completed for the period November 1, 2012 through April 30, 2018. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual and Board of Education 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 **30** days, indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual. Please note that you are required to provide your action plan using the attached Microsoft word template. Please send a PDF and word version of your action plan 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.

Enclosure

cc: Segun Eubanks, Ed. D, Board Chair
Monica Goldson, Interim Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Erica Berry Wilson, Esq., Board Executive Director
Denise Greene, Associate Superintendent, Area 1
J. Michael Dougherty, Director Financial Services
Alanna Cooper, Internal Auditor II

Internal Audit Report

High Bridge Elementary School Student Activity Funds

For the Period Ended April 30, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds of High Bridge Elementary School for the period November 1, 2012 through April 30, 2018. High Bridge 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 Funds Received,*
- *Mismanagement of Disbursements,*
- *Administration of Voided Checks,*
- *Financial Reporting,*
- *Fundraiser Forms, and*
- *Sale of Foods of Minimal Nutritional Value*

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 for School Activity Funds (APM).

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 April 30, 2018.



Michele Winston, CPA,
Director Internal Audit

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SUMMARY

The Internal Audit department completed an audit of the student activity funds (SAF) of High Bridge Elementary School for the period November 1, 2012 through 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 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 voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period November 1, 2012 through April 30, 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 Funds Received

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

- a) ***Incomplete Documentation of Funds Received*** - There were **24** instances where the recordkeeping staff accepted MTFs that were incomplete or inadequately documented. School staff omitted remittance data in section 2 of MTFs.
- b) ***Year-End Monetary Transmittal Form Envelopes*** - The year-end MTF submission process was not operating as required by procedures outlined in the APM. The school was unable to locate the FY 2016 year-end MTF envelopes collected from staff. *(This condition was also noted in the previous audit as of October 31, 2012.)*
- c) ***Changes on Monetary Transmittal Forms Not Initialed*** - There were **3** instances where changes on MTFs were improperly made. The individuals making changes did not initial the changes as required.
- d) ***Drop Safe Log not Used*** – There was no log maintained with the drop safe during the audit period according to the standards of the APM.

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

- a) Staff members collecting funds are required to complete MTFs entirely and submit to the recordkeeping staff along with funds collected. The following information must be included, 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 collecting. Sections 1 and 2 of MTFs must be completed.
- b) Prior to departing the school at year-end, staff and program managers are required to submit the pink and yellow MTF remittance copies in sealed envelopes (with their signature over the seal) to the designated administrator. Year-end MTF envelopes should be stored in a location inaccessible to the bookkeeper. All SAF records must be retained for a period of seven (7) years and or until audited, including the current fiscal year. This includes, but is not limited to, financial

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reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.

- c) The top of the MTF states, "... the recordkeeping staff will not accept this form if: a pencil or white-out is used, changes are not initialed, funds are not as exactly indicated in Section 1; or Section 2 is not completed or an appropriate list is not attached."
- d) Depository (drop) safes are required for every school. The safe should be bolted to the floor and in a location accessible to staff which will facilitate submitting funds, even if the Recordkeeping staff is unavailable. A log should be maintained where staff members record their name and the date of the 'drop.' The money should be sealed in an envelope with the completed, signed MTF enclosed. On the following day, the staff member dropping off money should make sure the recordkeeping staff has a record of the deposit. Money should never be dropped without a Monetary Transmittal Form.

Contributory factors in the mismanagement of funds received are as follows:

- a) According to the recordkeeping staff, although MTF completion instructions are provided and clearly explained, some school staff have no regard for ensuring accurate MTF completion.
- b) The year-end MTFs may have been moved from the last known location. The principal was unaware of the current location.
- c) Changes that were not initialed was an oversight by the recordkeeping staff.
- d) The recordkeeping staff was unaware that a drop safe log must be maintained with the drop safe.

The audit trail for reviewing cash receipts was compromised. As a result, internal controls for ensuring all SAFs collected were subsequently deposited was weakened and the potential for loss of assets increased.

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

- a) The principal and recordkeeping staff should re-train school staff on how to properly complete and adequately support MTFs submitted to the bookkeeper. The recordkeeping staff should closely review MTF packages to ensure accuracy and completeness prior to acceptance and approval. Staff and the recordkeeping staff should be held accountable for compliance.

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- b) The principal must personally designate a location for the year end MTFs inaccessible to the recordkeeping staff and other school staff to ensure access at the time of auditor request.
- c) The recordkeeping staff must create a drop safe log and maintain it with the safe. The log must include fields requesting the name and date of the drop. School staff should be informed of instructions for use.

2019.02: Mismanagement of Disbursements

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

- a) ***Incomplete and Inadequate Documentation*** - There were **6** instances where expenditures reviewed did not have the appropriate approval documentation. The “funds available” section of School Funds Expenditure Forms (SFEFs) were not completed detailing the available balance in the respective fund accounts. A credit card slip and a statement was provided to substantiate expenditures in two instances and in another instance evidence of funds remitted was not provided to substantiate a parent refund.
- b) ***Inadequate Principal Approval*** – There were **12** instances where SFEFs reviewed during the audit period were not adequately approved by the principal. In **11** instances staff made purchases prior to the principal’s approval. A SFEF did not contain evidence of the principal’s approval.
- c) ***Sales Taxes Paid*** - There were **4** instances where sales tax was paid for expenditures incurred on behalf of the school. ***(This condition was also noted in the previous audit as of October 31, 2012.)***
- d) ***Delinquent Vendor Payments*** - There were **2** instances where payments made to vendors were not issued timely.

The APM provides the following guidelines relative to the administration of cash disbursements:

- a) The recordkeeping staff is required to determine if funds are available, initial, date and record the amount available on the SFEF to provide information to facilitate the principal’s approval. Expenditures of SAF are required to be supported by itemized receipts or invoices.
- b) Prior to ordering or purchasing goods or services, a SFEF must be completed, signed and dated (approved) by the principal.

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- c) Purchases made by schools and PGCPS are sales tax-exempt, if used in the conduct of school business. After the principal approves a purchase, a copy of the sales tax exempt certificate is required to be provided to staff for presentation to the vendor when making school purchases.
- d) Invoices should be paid by the stated due date or within 30 days of the invoice date.

Contributory factors in the mismanagement of disbursements are as follows:

- a) The recordkeeping staff was unaware that credit card slips and statements were not adequate forms of supporting documentation for expenditures.
- b) The principal granted verbal approvals in some instances. Staff also failed to present SFEFs to the principal to obtain approval and obtain the sales tax exempt card prior to making purchases.
- c) School staff failed to immediately remit invoices for payment.

Lack of adequate documentation reduces assurance that purchases were made in accordance with BOE policy and procedures. The risk of insolvency and fraud is present when appropriate approval is not obtained prior to purchase, expenditures are not adequately documented or paid timely. Funds are also expended unnecessarily when sales taxes are paid on exempt school purchases.

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

- a) The recordkeeping staff should ensure receipts and invoices are used as supporting documentation. Evidence detailing payment to the school should be required and maintained on file as support for expenditures. The recordkeeping staff should read the APM to familiarize herself with what constitutes appropriate supporting documentation.
- b) The recordkeeping staff must review the status of impacted accounts noted on the SFEF within SFO to ensure solvency and make certain "funds available" are indicated on the SFEFs. The principal must ensure this section is completed to facilitate informed fiscal decisions.
- c) The principal should ensure that staff members are reminded to provide the SFEF for approval and obtain the sales tax exempt certificate prior to making school purchases.

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- d) Staff must be reminded to promptly submit invoices to the recordkeeping staff for payment.

2019.03: Administration of Voided Checks

The following exceptions relative to administration of voided checks were noted:

- a) *Voided Check Proof Sheets Not Approved* - There were **11** instances where voided check proof sheets were not approved by the principal.
- b) *Voided Checks and Proof Sheets Not Available-* There were **7** instances where voided checks could not be located. There were **12** instances where void check proof sheets could not be located.

The 2008 School Accounting Manual Section 4.5.3 on *Cash Disbursements, Voiding Checks*, provides the following guidelines regarding the administration of checks, “when voiding a check, the physical check must still be accounted for. The word “VOID” is required to be 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. A SFEF or Void Check Proof Sheet should also be completed and approved by the principal, noting the check was voided.”

All SAF records must be retained for a period of seven (7) years and or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, MTFs, SFEFs, cancelled checks and contracts.

During the transition to SFO, the recordkeeping staff did not understand which forms were required to be approved by the principal. The recordkeeping staff was not aware that checks that were voided due to printing errors were still required to be entered in SFO and printed for approval.

The principal and recordkeeping staff did not follow the policies and procedures specified by the BOE regarding administration of checks. Inappropriate administration of checks exposes the school to fraud, waste, and abuse of its resources. Failure to properly void checks could result in unauthorized check use and negotiation.

Recommendation: The principal should ensure that voided checks are properly administered by requiring the recordkeeping staff to maintaining voided check documents including Void Check Proof Sheets on file. The recordkeeping staff should contact the Accounting and Financial Reporting Office and reference the APM in instances where there is uncertainty regarding BOE policies and procedures pertaining to voided checks.

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2019.04: Financial Reporting

The following exceptions relative to financial reporting were noted:

- a) ***Financial Reports Not Completed Timely*** - There were 7 instances during the audit period where monthly financial reports were not completed timely. Reports were prepared between 5 and 27 days after the due date by the bookkeeper.
- b) ***Insolvency Report Not Properly Completed*** - The recordkeeping staff did not accurately complete the *Insolvency Report* during the audit period. Unpaid bills were consistently indicated as \$0.00, without preparation of the Unpaid Bills Determination Spreadsheet.
- c) ***Fund Transfer Journal Entry Proof Sheets*** – There were 3 instances where Fund Transfer Journal Entry Proof Sheets were not approved by the principal. There were also 9 instances where Fund Transfer Journal Entry Proof Sheets could not be located.

The APM provides the following guidance pertaining to SAF financial reporting:

- a) The principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal is required to forward the documents to the recordkeeping staff for reconciliation. The reconciliation should be completed by the recordkeeping staff within 7 days of receiving the statement from the bank. The monthly financial reporting process is required to be completed by the 15th day of each month and presented to the principal for review.
- b) Section 5.2, *Financial Reporting Requirements*, states that the Insolvency Report should be completed monthly and requires the recordkeeping staff to record data to calculate the school's solvency. The recordkeeping staff must manually calculate the value of unpaid bills that existed at the end of each reporting period for both restricted and unrestricted funds to complete the report.
- c) Section 4.5.4.2 *Transfers Between Restricted and Unrestricted Net Accounts* states, transfers between restricted accounts are only authorized if reviewed and approved by the principal.

The recordkeeping staff stated that financial reports were prepared late during periods of extended absences or when bank statements are not received timely. The recordkeeping staff assumed that since all billings were paid once the invoices are received; the Unpaid Bills Determination Spreadsheet was not required. The principal was unaware of the requirement for completion of the Unpaid Bills Determination Spreadsheet. The

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recordkeeping staff failed to maintain all Funds Transfer Journal Entry Proof Sheets in a single location and was unaware that the Funds Transfer Journal Entry Proof Sheet required principal approval.

Delinquent reporting and inaccurate transaction details impacts the timeliness and reliability of information used in the decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Failure to complete the Unpaid Bills Determination Spreadsheet can affect the accuracy of the school's solvency calculation on a monthly basis. Additionally, the principal and recordkeeping staff may be less aware of open invoices which can lead to untimely payments and or interest and penalties. Unauthorized transfers can potentially lead to insolvent restricted accounts.

Recommendation: The principal and recordkeeping staff must perform the following to improve financial reporting:

- a) The recordkeeping staff should ensure that financial reports are completed timely and that all transactions are accurately entered in the SFO financial system. The principal should hold the recordkeeping staff accountable for timely report submission and ensure that the monthly financial reports are thoroughly reviewed as evidenced by signature. The principal and recordkeeping staff should use the school's online banking option to retrieve bank statements and more promptly initiate the reconciliation process.
- b) The principal and recordkeeping staff should collaboratively review open invoices during the monthly financial reporting process to ensure the Unpaid Bills Determination Spreadsheet is completed properly.
- c) The Accounting and Financial Reporting Office should use the trimester reports review as an opportunity for feedback and to train bookkeepers who do not fully understand the reporting requirements.
- d) The recordkeeping staff should contact the Accounting and Financial Reporting Office when she is not certain about which forms require principal approval.

2019.05: Fundraiser Forms

The Fundraiser Request and Authorization Form, Fundraiser Completion Form, and Annual Fundraiser Report for school wide fundraisers held were not completed for fundraisers held during the audit period.

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Administrative Procedure 5135.1, *Fundraising* requires the completion of Fundraiser Request and Authorization Forms, the Fundraiser Completion Form and the Annual Fund Raising Summary Report for fundraising events held by schools.

Due to other competing responsibilities, the recordkeeping staff was unable to complete all fundraiser reports.

Recommendation: The recordkeeping staff should inform the principal when she does not have sufficient time to complete the required documentation for fundraising activities. The principal should re-evaluate recordkeeping staff's work load to ensure that the required responsibilities relative to SAF administration are prioritized.

2019.06: Sale of Foods of Minimal Nutritional Value

The audit revealed that a school staff member was selling ice cream to the students during the school day.

Administrative Procedure 3542.44, *The Access and Sale of Competitive Foods and Foods of Minimal Nutritional Value in Schools Outside of the Department of Food and Nutrition Services Program* provides guidance to schools concerning food or candy sold during the school day. Competitive foods, "any food sold in competition with the School Breakfast Program and National School Lunch Program and foods sold to students or given to students other than those offered through the school meal program are competitive foods." This guidance prohibits sale of competitive foods during the school day.

The recordkeeping staff was unaware that school staff was not allowed to sell food items during the school day. The nutritional benefit to students intended by the Food and Nutrition School Lunch Program may be impacted when other food items are sold at the school.

Recommendation: The principal and recordkeeping staff must read and familiarize themselves with AP 3542.44, *The Access and Sale of Competitive Foods and Foods of Minimal Nutritional Value in Schools Outside of the Department of Food and Nutrition Services Program* and inform all school staff that such food sales during the school day is prohibited.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for High Bridge Elementary School was issued for the period ended October 31, 2012. During that period, the current principal was in his current position. The current recordkeeping staff began in September 2015. There were 2 of 6 prior findings repeated in the current audit. The following findings were noted as a result of that audit and the current status is indicated below.

- **Principal Sponsored Activity Account Deficit** - Control appears to be working.
- **Sales Taxes not Collected and/or Paid to the State of Maryland** - Control appears to be working.
- **Sales Taxes Paid on Items Purchased-** Condition still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Failure to Use Approved Vendors and Snack Machine Vending** – Controls appear to be working.
- **Grant Funds not Remitted to the BOE-** Control appears to be working.
- **Failure to Retain Monetary Transmittal Forms**– Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.

ACKNOWLEDGEMENT

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