



January 3, 2019

MEMORANDUM

To: Kristil Fossett, Ed. D., Instructional Director
Cluster 7

Tracey Spivey White, Principal
Judith P. Hoyer Montessori

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period October 1, 2015 to September 30, 2018

An audit was completed on the financial records of **Judith P. Hoyer Montessori** for the period October 1, 2015 to September 30, 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 **February 4, 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., Board Chair
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
David Curry Jr., Ed. D., Associate Superintendent, Middle Schools
Helen Coley, Ed. D., Chief, School Support and Leadership
Daniel Reagan, Internal Auditor II

Internal Audit Report

Judith P. Hoyer Montessori School Student Activity Funds

For the Period Ended September 30, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Judith P. Hoyer Montessori for the period October 1, 2015 to September 30, 2018. Judith P. Hoyer Montessori'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:

- *Administration of Monetary Transmittal Forms;*
- *Inadequate Approval of Cash Disbursements;*
- *Fundraiser Forms Not Completed;*
- *Insolvency Report Not Properly Completed;*
- *Record Retention;*
- *Unapproved Transfers from the Prior Year Carryover Account; and*
- *Management Oversight.*

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 September 30, 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 Judith P. Hoyer Montessori for the period October 1, 2015 to September 30, 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 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 October 1, 2015 to September 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 Administration of Monetary Transmittal Forms

The principal has instituted a process for funds collection that does not properly use MTFs as required by the APM.

Staff members did not sign-out MTFs prior to cash collections. Collections were tracked independent of the MTF process. Any funds collected prior to the last day of collections for a particular school activity were placed in an envelope and put into the school's drop safe. When a collection period was over, the principal asked the financial recordkeeping staff to provide a responsible staff member with an MTF, where all collections for the school activities were recorded in the front office. The MTF was dated on the day of completion, regardless of the dates of the actual collection. Deposits were made on the day MTFs were completed. Improper administration of MTFs were noted specifically as follows:

- The principal stated that almost all collections are made on the day the MTF is completed. However, when the safe was observed on November 14, 2018, there was \$75.00 included in 5 separate envelopes for collections as early as November 9 that were not accompanied by MTFs and were not timely deposited. MTFs were completed after these funds were found, and deposits were made on November 15 and November 20 at the auditor's request.
- Funds collected including cash of **\$16.00** from a FY 2016 field trip was found in a staff member's end of year MTF envelope.
- The principal has assigned the financial recordkeeping staff to collect and store the envelopes.

The non-compliant process resulted in the pink MTF remittance copies being included with the white and yellow when review was performed by the financial recordkeeping staff. Staff members adequately included both pink and yellow copies in the end of the year envelopes, but appropriate segregation of duties is impacted by financial recordkeeping staff access. however, it was also noted that the principal has not provided the financial recordkeeping staff access to the safe, so deposits can only be made when the principal is present.

The APM, Section 4.52, *Cash Receipts*, states:

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- A. Staff members collecting funds are required to complete a MTF and submit it to the recordkeeping staff along with money collected.
- B. The pink copy of the MTF is retained by the preparers of the form. The white and yellow copies are submitted to the recordkeeping staff with cash. After approving a MTF, the recordkeeping staff returns the yellow copy to the originator.
- C. A designated administrator other than the recordkeeping staff is responsible for collecting and storing end of year MTF envelopes from staff.

The Principal stated that she thought that the funds collection process she instituted was sound and provided adequate accountability. She was unaware of the specific procedures for MTFs described in the APM.

The alternate funds collection process at the school constitutes non-compliance with BOE policies and procedures and increased financial risk to the school. The process includes indeterminate periods of time where funds have been collected, but not recorded on MTFs. This makes it difficult for the principal, financial recordkeeping staff, and staff to track funds. The process also compromises the teacher's records of collection, since their initial collection is not documented, and the financial recordkeeping staff has access to the MTF envelopes.

Recommendation:

The following is recommended to strengthen controls relative to administration of monetary transmittal forms:

- 1. The Principal should immediately familiarize herself with the funds collections requirements in the APM. Coordination with the financial recordkeeping staff should be initiated to develop and document strict internal controls to ensure funds are adequately accounted for and deposited timely consistent with the requirements of the APM. Comprehensive training should be provided to staff on the new procedures.
- 2. The principal should immediately provide the financial recordkeeping staff access to the safe to facilitate timely deposits.
- 3. The principal should assign responsibility for collecting and storing end of year MTF envelopes to a staff member other than the recordkeeping staff.

2019.02 Inadequate Approval of Cash Disbursements

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The following exceptions were noted in the review of the school's expenditure pre-approval process:

- A. There were **3** instances where the principal did not provide pre-approval for expenditures. For example, an art residency payment of **\$1,250.00** to Young Audiences Arts of for Learning was made 11 months after the service date. There is no evidence indicating that the expenditure was pre-approved, and therefore the school was not aware that a payment was due.
- B. There were **6** instances where the principal did not date pre-approvals on School Funds Expenditure Forms (SFEFs) to provide evidence that approvals were performed prior to purchases.
- C. There were **24** instances where the financial recordkeeping staff did not indicate the funds available on SFEFs.

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 a space for the financial recordkeeping staff to indicate the amount of funds available in the relevant account.

The principal was aware of the requirements for pre-approval. However, there have been isolated situations where the form has not been properly completed in the front office for school-wide purchases. Further, the principal and financial recordkeeping staff were not clear on the purpose of the "Funds Available" line in the pre-approval section of the SFEF. The financial recordkeeping staff indicated "Yes/No" on the line or inserted a signature, rather than including the available amount of funding for the principal to reference prior to the pre-approval of expenditures.

The omission of inadequate information to the principal prior to pre-approval of expenditures increases financial risk to the school. Specifically, the risk of insolvent accounts, inappropriate purchases and delinquent payments are increased when the principal is not made aware of planned and or executed expenditures.

Recommendation: The principal, in coordination with the financial recordkeeping staff, should develop and document internal controls for ensuring all expenditures are adequately approved and SFEFs are completed properly. Staff training should be conducted, as needed.

2019.03 Fundraiser Forms Not Completed

Fundraiser Authorization Forms, Fundraiser Completion Reports and annual fundraiser summaries were not completed as required during the audit period.

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The APM, Section 7.2.2, *Fundraising Procedures*, states that club fundraisers must be formally approved by the principal using a Fundraiser Request and Authorization Form. At the conclusion of the all fundraisers, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, the principal or a designee 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.

Despite this being a finding in the past audit report, the principal did not provide oversight to ensure that subsequent fundraisers were conducted incorporating the required forms. 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, there is the absence of Fundraiser Completion Reports which bolster the budgeting process, and ensure optimal performance by each fundraiser.

Recommendation: The principal, in coordination with the financial recordkeeping staff, should develop and document internal controls to ensure completion of the required fundraiser forms. The principal should provide effective oversight to the process, to include a review of all forms prior to completion of a summary of each year's fundraising activities. The principal and staff should reference The APM, Section 7.2.2, *Fundraising Procedures* to ensure compliance.

2018.04 Insolvency Report Not Properly Completed

The financial recordkeeping staff did not accurately complete the Insolvency Report to support the September 2018 Financial Report. Unpaid bills were indicated as \$0, with a blank corresponding Unpaid Bills Spreadsheet. During the audit, the financial recordkeeping staff identified **\$150.85** on 2 invoices that should have been included in the solvency calculation on the September 2018 Insolvency Report.

The APM, Section 5.2, *Financial Reporting Requirements*, requires monthly completion of the Insolvency Report. The recordkeeping staff must manually calculate the value of unpaid bills that existed as of the end of each reporting period for both restricted and unrestricted funds to complete the report.

The principal and financial recordkeeping staff were not familiar with the specific requirements for monthly reporting in the APM. Accounting and Financial Reporting provided schools with a template for the Unpaid Bills Spreadsheet, but the recordkeeping staff was not clear on how to complete it and that it should be incorporated into the solvency calculation.

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Failure to complete an unpaid bills spreadsheet can affect the school's solvency calculation on a monthly basis. In addition, the principal and financial recordkeeping staff may be less aware of open invoices which can lead to untimely payments (*See Finding 2018.02*).

Recommendation: The principal and financial recordkeeping staff should familiarize themselves with the specific requirements for monthly reporting as outlined in the APM. A collaborative review of all open invoices should be performed during the monthly financial reporting process to facilitate completion of the Unpaid Bills Spreadsheet and an accurate determination of the school's solvency.

2018.05 Record Retention

The school's disbursements were not properly retained.

- A. There were **3** SFEFs and associated support such as invoices or receipts that could not be located in the school's financial files.
- B. There were **6** instances where voided check hard copies could not be located.

The 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, SFEFs, cancelled checks, and contracts.

The principal stated that the previous financial recordkeeping staff did not always sufficiently keep the SAF documents organized. She stated that she attempted to provide oversight but was aware that some documents may have been misplaced.

During the audit, it was observed that disbursement records were often not kept in order or grouped with the correct fiscal year.

Missing and unavailable documentation compromises the audit trail necessary to assess controls and to detect and investigate potential fraud.

Recommendation: The financial recordkeeping staff has currently instituted a more effective method of managing SAF records. However, the principal should provide effective oversight to ensure that records are properly organized and retained.

2019.06 Unapproved Transfers from the Prior Year Carryover Account

There were **24** transfer journal entries totaling **\$9,579.55** from the Prior Year Carryover account that were processed without approval from the Accounting and Financial Reporting Office.

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The APM, Section 4.5.5, *Prior-Year Carryover Funds* states that only upon written approval from the Accounting and Financial Reporting Office should funds be transferred from the PY Carryover account.

The principal is aware of the approval requirement for PY Carryover transfer, but had not adequately reviewed the transfer ledger to be aware that these transactions were being made. She stated that she knew of the blanket approval of up to \$1,000.00 of PY Carryover transfers in the first quarter of FY 2018, but was not aware that \$3,989.21 in transfers were made during this time.

The approval process for transfer of PY Carryover funds is in place to reduce the risk of schools getting into insolvency status. By circumventing this process, the risk of insolvency increases. All of the transfer journal entries affected unrestricted accounts and have been closed out as “Prior Year Carryover.” Hence, correcting entries are not required.

Recommendation: The Principal should provide effective oversight to ensure that all future transfers from PY Carryover are properly reviewed and forwarded to the Accounting and Financial Reporting Office for appropriate approval.

2019.07 Management Oversight

The principal did not exercise proper oversight in the administration of the SAF during the current audit period. The previous audit included 6 findings of which 3 are repeated. There are also 2 additional findings.

The APM, Section 3.2.1, *Principals*, states that the principal is the fiduciary agent for SAF. As such, the responsibility for accounting, safeguarding and managing the SAF, in accordance with PGCPS policies and procedures, rest solely with the principal.

The principal has not provided adequate attention to the school’s checking account to establish and implement effective financial controls. Specifically, the principal has not adequately familiarized herself of the specific requirements in the Accounting Procedures Manual and developed and documented procedures for the school’s financial recordkeeping staff to follow.

Substantial financial risks currently exist at Judith P. Hoyer Montessori in the absence of effective management oversight.

Recommendation: The principal should carefully review the policies and procedures as defined in the Accounting Procedures Manual and develop internal controls to ensure compliance. The Principal should be consistently involved in the daily operations as it relates to the administration of the school’s resources. Improvement of the internal control environment should be emphasized by focusing on these five basic principles:

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- Clearly Defined Lines of Authority and Responsibility;
- Segregation of Duties;
- Maintenance of Adequate Documents and Records;
- Limited Access to Assets; and
- Independent Checks on Performance

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Judith P. Hoyer Montessori** was issued for the period ended September 30, 2015. The principal has been in place for the entire audit period. The financial recordkeeping staff's tenure began in June 2018. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Funds Received** – Condition still exists. See **Finding 2019.01** regarding *Administration of Monetary Transmittal Forms*.
- **Inadequate Documentation and Approval of Disbursements** – Condition still exists. See **Finding 2019.02** regarding *Inadequate Approval of Cash Disbursements*.
- **Administration of Voided Checks** – Condition was not reported in this audit.
- **Fundraiser Forms Not Completed** - Condition still exists. See **Finding 2019.04** regarding *Fundraiser Forms Not Completed*.
- **No Contract on File for Vending Machine** – The school no longer has active vending machines.
- **Unapproved Field Trips** – Controls appear to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Judith P. Hoyer Montessori for their cooperation and assistance during the audit.