



August 31, 2018

MEMORANDUM

To: Ava Tasker-Mitchell Ph. D, Instructional Director
Cluster 1

Jewel Preston, Principal
Oaklands Elementary School

From: Michele Winston, CPA
Director Internal Audit

Re: Financial Audit for Period July 1, 2014 to June 30, 2018

An audit was completed on the financial records of **Oaklands Elementary School** for the period July 1, 2014 to June 30, 2018. The audit results indicate that the school's internal controls have improved, but require further improvement to reach full compliance with Board 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 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 **Oaklands Elementary School** for their assistance and cooperation during the audit process.

Enclosure

cc: Segun Eubanks, Ed. D, Board Chair
Monica Goldson, Ed. D, Interim Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Helen Coley, Ed. D, Chief, School Support and Leadership
Kassandra Lassiter, Ed. D, Associate Superintendent, Elementary Schools
Christian Rhodes, Chief of Staff
J. Michael Dougherty, CPA, Esq., Director, Financial Services
Erica Berry Wilson, Esq., Executive Director, Board of Education
Daniel Reagan, Internal Auditor II

Internal Audit Report

Oaklands Elementary School Student Activity Funds

For the Period Ended June 30, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Oaklands Elementary School for the period July 1, 2014 to June 30, 2018. Oaklands 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:

- *Delinquent Deposits;*
- *Delinquent Payments;*
- *Inappropriate Transfer of Funds;*
- *Grants Not Properly Managed;*
- *Voided Checks Not Properly Administered;*
- *Failure to Maintain a Current Vending Contract; and*
- *Missing Cancelled Check Images*

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 June 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 Oaklands Elementary School for the period July 1, 2014 to June 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 July 1, 2014 to June 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 Delinquent Deposits

There were 6 instances where deposits were made between 1 and 105 days after collection.

- Checks written to the school were held by the former principal for up to 3 months before they were recorded on an MTF and subsequently deposited by the financial recordkeeping staff in 4 of the 6 instances.
- A staff member held bookfair receipts collected in December 2015 until well after the bookfair was completed before remittance to the front office in 1 instance. That deposit was made 11 days after collection. The former principal and financial recordkeeping staff addressed this issue with the staff member. Deposits were made daily during subsequent bookfairs.
- A staff member also remitted \$255.00 on a MTF late in the day, and the deposit was not made until the following day in a 1 instance.

The 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. Additionally, staff members should never hold funds overnight.

Reportedly, when checks from vendors were received, they were immediately forwarded to the former principal for review. However, the former principal sometimes lost track of the checks. Follow-up was not performed by the financial recordkeeping staff. The former principal bundled multiple checks received over several months and included them on a MTF.

Delinquent deposits constitute non-compliance with BOE policies and procedures and increase financial risk to the school. Untimely deposits can lead to lost or stolen funds. Further funds received are not immediately available for student use.

Recommendation: The current principal and financial recordkeeping staff should develop an effective procedure for timely deposit of funds. Additionally, the current principal and financial recordkeeping staff should continue to provide reminders to staff members for timely remittance of collections.

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2019.02 Delinquent Payments

There were 4 payments that were made to vendors after the due dates listed on the invoices.

The SAF Accounting Procedures Manual (APM), Section 4.5.3, *Cash Disbursements* states that 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.

Vendor invoices received by the front office were immediately forwarded to the former principal. However, there were some instances where the former principal would lose track of the invoices before completing the School Funds Expenditure Forms (SFEFs) and submitting back to the financial recordkeeping staff for payment.

Delinquent payments constitute non-compliance with BOE policies and procedures and increase financial risk to the school and staff. Delinquent payments can lead to fees, or eroding relationships with vendors that could impact students' experiences.

Recommendation: The principal and financial recordkeeping staff should develop an effective procedure for the timely payment of vendor invoices. A review of open invoices should be performed by the principal and financial recordkeeping staff as part of the monthly reconciliation process.

2019.03 Inappropriate Transfer of Funds

SAF were not transferred as required by the APM. The following exceptions were noted:

Transfers from Unrestricted Accounts to Principal Sponsored Activities (PSA) Fund Accounts: There were 4 inappropriate transfers made from unauthorized unrestricted accounts to the PSA fund accounts during the audit period which totaled **\$778.21**. Also, during the audit period, the financial recordkeeping staff did not make all authorized transfers from fundraiser and vending accounts to the PSA fund accounts. As a result **\$350.08** in eligible funds was not transferred to the PSA fund account.

Transfers from PY Carryover Account: There were 11 transfers from the PY Carryover account to restricted and unrestricted accounts totaling **\$4,860.51** that were made without approval from the Accounting and Financial Reporting Office (AFRO).

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

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existing PSA 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 APM, Section 4.5.5, *Prior-Year Carryover Funds*, states only upon written approval from Business Operations should funds be transferred from the PY Carryover account.

The former principal and financial recordkeeping staff were not aware of the requirements for PY Carryover and Principal Sponsored Activities transfers at the beginning of the audit period. Accounting and Financial Reporting (AFRO) identified and reversed some transfers in 2016, and the number of inappropriate transfers greatly decreased during 2017 and 2018. However, the financial recordkeeping staff was still unaware of the percentage of funds available for transfer from fundraising accounts for PSA.

Mismanagement of transfers constitutes non-compliance with BOE reporting requirements and increases financial risk to the school. Inappropriate transfers from unrestricted accounts to PSA impacts the availability of funds eligible for student experiences. PSA has inappropriately used **\$428.13 (\$778.21 – \$350.08)** in funds intended for student use. Unauthorized transfers from PY Carryover increases the risk of insolvency for the school.

Recommendation: The financial recordkeeping staff should perform the following journal entry transfers:

- A. \$428.13 from PSA back to the PY Carryover account to adjust the incorrect fund account balance that resulted from inappropriate transfers that occurred during the audit period.
- B. Additionally, the financial recordkeeping staff should transfer \$312.95 from the “Recorders” account back to the PY Carryover account to correct the unauthorized transfer performed during the audit period. (Note: Remainder of unauthorized PY Carryover transfers are either included in the PSA calculation above, or were made to other unrestricted accounts that have since been closed out into PY Carryover during year-end procedures.)

The new principal and financial recordkeeping staff should immediately familiarize themselves with the specific procedures for PSA and PY Carryover accounts, and ensure

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that transfers are properly processed in the future. The principal and financial recordkeeping staff should seek assistance from the AFRO if necessary.

2018.04 Grants Not Properly Managed

The school received 3 grants during the audit period:

- \$664.00 from Bowie State in April 2016
- \$1,718.00 from the Maryland State Arts Council (MSAC) in September 2017
- \$2,500.00 from Kaiser Permanente in April 2018

The following exceptions pertaining to grants management were noted:

- A. The Bowie State and MSAC grants were not properly reported to the Grants Financial Management Office.
- B. The MSAC grant was inappropriately accounted for in the unrestricted donations account which was comingled with other unrestricted funds.
- C. The Kaiser Permanente grant was accounted for in the Bowie State University Grant account.
- D. The Bowie State grant, received in 2016 for interwrite boards, has not yet been expended. School administration was not aware of the purpose of the grant funds and had no plans for its use.

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 APM, Section 4.3.2, *Fund Account Procedures*, states that transactions should be recorded in the most specific account relating to the activity. Restricted funds are raised by a specific group and/or for a specific purpose and are used exclusively for that purpose and not for general needs of the school.

Reportedly, the financial recordkeeping staff and principal were not aware that the Bowie State and MSAC checks constituted grants that needed to be reported to GFMO. Further, they were not aware that new accounts should be created to manage specific grants. The financial recordkeeping staff was also unaware that the Bowie State grant had not been used. Comingling of the Bowie State grant with the Kaiser Permanente Funds may have contributed to the recordkeeping staff and principal's oversight during monthly reviews

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and funds not being used since its receipt.

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 money received by PGCPs. Failure at the school level to report grants to GFMO compromises both of these efforts. Further, the inadequate accounting of grant funds increases the risk of grant funds not being properly used. Failure to use grant funds as intended may result in students not getting the maximum benefit from funds received from outside sources.

Recommendation: The financial recordkeeping staff should immediately report the Bowie State and MSAC grants to GFMO. In addition, the financial recordkeeping staff should contact AFRO to establish new accounts for the MSAC and Kaiser Permanente grants.

The current principal should plan to use the Bowie State grant funds as intended during the upcoming school year.

The new principal and financial recordkeeping staff should develop and document procedures to ensure that all future grants are properly reported and accounted for.

2019.05 Voided Checks Not Properly Administered

There were 7 instances where checks were not properly voided with removal of the signature line. The voided checks that were signed simply had a black line drawn through the signature.

The APM, Section 4.5.3.1, *Cash Disbursements: Procedures*, states that if an error is made on the check at the time it is prepared, the check must be properly voided and replaced with another check.

The financial recordkeeping staff were not aware of the specific requirements for the removal of signature lines on voided checks.

The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school.

Recommendation: The current principal and financial recordkeeping staff should familiarize themselves with the procedures for voiding checks as outlined in the APM and demonstrate compliance by properly defacing checks.

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2019.06 Failure to Maintain a Current Vending Contract

The school has not obtained and maintained a current, annual vending contract with the vendor for vending machines operated on its premises.

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 financial recordkeeping staff was not aware of the requirements for administering vending machines. Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures for vending services. Further, failure to maintain a vending contract prevents the school from having any recourse if there is an issue with service or commissions.

Recommendation: The financial recordkeeping staff should contact the vendor and obtain a signed contract for the vending machine operations. The contract must be signed by the current principal and the vending company representative and should stipulate the frequency and percentage of commissions. The contract should be renewed annually.

2019.07 Missing Cancelled Check Images

There were 4 instances where cancelled check images could not be located to verify the inclusion of dual signatures.

The APM, Section 4.5.3.1, *Cash Disbursements: Procedures*, states that images of all cancelled checks must be returned with the monthly bank statement. Once received, these images are to be maintained in a separate cancelled check file for the entire year. Endorsements on the back of cancelled checks provide critical information concerning the payee who cashed the check. The Bookkeeper must safeguard these images of cancelled checks, including endorsement information on the back of the checks.

The financial recordkeeping staff did not properly maintain all pages of each bank statement in the school's records. Failure to maintain cancelled check images constitutes non-compliance with BOE policies and procedures and prevents the school from being able to reference endorsement information, if needed.

Recommendation: The financial recordkeeping staff should ensure that all cancelled check images attached to the bank statement are properly maintained and available for review.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Oaklands Elementary School** was issued for the period end **February 29, 2012**. The former principal and financial recordkeeping staff have been in place for the entire audit period. The new principal's tenure began July 1, 2018. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Delinquent Deposits** – Condition still exists. See **Finding 2019.01** regarding *Delinquent Deposits*.
- **Yearbook Deficit** – Controls appear to be working.
- **Fundraiser Forms Not Completed** - Controls appear to be working.
- **Safeguarding/Accessibility of Assets** – Controls appear to be working.
- **Transactions Posted to Wrong Accounts**– Condition still exists. See **Finding 2019.04** regarding *Grants not Properly Managed* and **Finding 2019.04** regarding *Inappropriate Transfer of Funds*.
- **Segregation of Duties** – Controls appear to be working.
- **Lack of Pre-Approval for School Expenditures** – Controls appear to be working.
- **Check Writing** – Controls appear to be working.
- **No Sales Tax Collected for Items Sold** – Controls appear to be working.

ACKNOWLEDGEMENT

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