



August 31, 2018

MEMORANDUM

To: Niki Brown, Ed. D, Instructional Director
Cluster 4

Rhonda Summey, Principal
Rosa Parks Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period July 1, 2014 through May 31, 2018

An audit was completed on the financial records of **Rosa Parks Elementary School** was completed for the period July 1, 2014 through May 31, 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, Ed. D, Interim Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Erica Berry Wilson, Esq., Board Executive Director
Kassandra Lassiter, Ed. D., Associate Superintendent, Elementary Schools
Helen Coley, Ed. D, Chief School Support and School Leadership
Christian Rhodes, Chief of Staff
J. Michael Dougherty, Director Financial Services
Alanna Cooper, Internal Auditor II

Internal Audit Report

Rosa Parks Elementary School Student Activity Funds

For the Period Ended May 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds of Rosa Parks Elementary School for the period July 1, 2014 through May 31, 2018. Rosa Parks 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,*
- *Financial Reporting,*
- *Fundraiser Forms*
- *Administration of Vending Contracts, and*
- *Drop Safe Not on Premises*

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 May 31, 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 Rosa Parks Elementary School for the period July 1, 2014 through May 31, 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 July 1, 2014 through May 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 Funds Received

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

- a) ***Inadequate Documentation of Funds Received*** - There were **8** instances where the recordkeeping staff accepted MTFs that were incomplete or inadequately documented. School staff omitted remittance data in section 2 of MTFs. ***(This condition was also noted in the previous audit as of October 31, 2011.)***
- b) ***Delinquent Deposits*** - There were **4** instances where funds were not deposited timely. Amounts up to **\$2,744.44** were held up to **6** days prior to deposits being made. ***(This condition was also noted in the previous audit as of October 31, 2011.)***
- c) ***Monetary Transmittal Form Log Incomplete*** – All fields of the MTF log were not completed. The MTF log was not maintained according to the standards of the APM. The date returned and the total amount of the MTF fields on the MTF log were not completed.

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) Recordkeeping staff must make deposits of all funds received at least every other day. However, no more than \$250 should be kept in the building overnight. If funds are kept on-hand at the school awaiting deposit, funds must be kept in a secure location. Staff members should never hold funds overnight.
- c) A MTF log is required to be maintained by the recordkeeping staff to include a numerical list of the MTF's, the name of individuals and dates the forms were issued, the date returned to the recordkeeping staff, and the total amount of the MTF.

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

- a) The recordkeeping staff, generally redirects staff to complete MTFs entirely; however, in some instances oversight resulted in incomplete MTFs.
- b) Teachers remitted funds late in the day, after the recordkeeping staffs departure for the bank, in some instances. This did not provide the recordkeeping staff sufficient time to process the funds. As a result they are held in the safe beyond the deadlines per the APM.
- c) The recordkeeping staff was not aware of the requirement of the updated format of the MTF log as outlined in the revised APM.

The audit trail for reviewing cash collection 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 train school staff on how to properly complete and adequately support MTFs submitted to the recordkeeping staff. The recordkeeping staff should closely review MTF packages to ensure accuracy and completeness prior to acceptance and approval always occur. Staff members and the recordkeeping staff should be held accountable for compliance.
- b) The principal must establish and communicate to staff a specified daily deadline for submission of funds to ensure timely deposit.
- c) The recordkeeping staff must review the APM to familiarize herself with revisions to the format of the MTF log.

2019.02: Mismanagement of Disbursements

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

- a) ***Incomplete and Inaccurate Documentation*** - There were **6** instances where School Funds Expenditure Forms (SFEFs) were not properly completed or substantiated. The “funds available” section of SFEFs was not completed detailing the available balance in the respective fund accounts. There were **2**

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instances where a payment stub and a statement were provided to substantiate expenditures. *(This condition was also noted in the previous audit as of October 31, 2011.)*

- b) ***Inadequate Principal Approval*** – There were **9** instances where SFEFs reviewed during the audit period were not adequately approved by the principal. , Checks were issued prior to the principal’s approval in at least **3** of these instances. *(This condition was also noted in the previous audit as of October 31, 2011.)*
- c) ***Sales Taxes Paid*** - There were **7** instances where sales taxes were paid for expenditures incurred on behalf of the school. *(This condition was also noted in the previous audit as of October 31, 2011.)*

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.
- c) Purchases made by schools 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.

Contributory factors in the mismanagement of disbursements are as follows:

- a) The recordkeeping staff attached any supporting documentation provided related to the transaction and did not ensure to maintain a receipt or invoice in each instance.
- b) Due to the principal’s temporary absence from the building, the SFEF approval process was not followed in the some instances. Verbal approval was granted by the principal in other instances and staff members fail to present the SFEF to the principal to obtain approval.
- c) Staff did not always perform the required steps to be granted sales tax exempt status for all school purchases.

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Inadequate 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 and expenditures are not adequately documented. 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 used as support for refunds. The recordkeeping staff should read the APM to familiarize herself with specific items that are considered appropriate supporting documentation.
- b) The alternate check signer should be used to approve expenditures whenever the principal's extended absence is anticipated.
- c) The principal should complete the registration process for sales tax exemption for all vendors used for school purchases.

2019.03 Financial Reporting

The following exceptions relative to financial reporting were noted:

- a) ***Financial Reports Not Completed Timely*** - There were **22** instances during the audit period where monthly financial reports were not completed timely by the recordkeeping staff. The reporting delinquency was approximately days.
- 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, without preparation of the Unpaid Bills Determination Spreadsheet.
- c) ***Fund Transfer Journal Entry Proof Sheet*** - There were **36** instances during the audit period 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

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the documents to the recordkeeping staff to perform the bank reconciliation. The bank 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.

Financial reports were prepared late due to competing responsibilities. During FY 2017, the school experienced short staffing. The recordkeeping staff was of the impression that since all bills were paid once the invoices are received; the Unpaid Bills Determination Spreadsheet was not required. The principal was unaware of the requirement to complete the Unpaid Bills Determination Spreadsheet. The recordkeeping staff was not aware that the Fund Transfer Journal Entry Proof Sheet was required to be retained.

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 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. The documentation providing evidence that transfers were authorized in compliance with BOE policies and procedures could not be confirmed.

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

- a) The recordkeeping staff should communicate to the principal issues prohibiting timely financial report completion. The principal should re-evaluate her work load to ensure that the required responsibilities relative to SAF administration are prioritized. The principal should consider providing a designated time to recordkeeping staff monthly for preparation of financial reports.

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- 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 process as an opportunity for feedback and to train recordkeeping staff who do not fully understand the reporting requirements.
- d) The recordkeeping staff should contact the Accounting Office when there is uncertainty regarding the required forms to be retained and approved by the principal.

2018.04 Fundraiser Forms

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

Administrative Procedure 5135.1, *Fund Raising* 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.

Staff were not clear on how to accurately complete fundraiser forms. (*This condition was also noted in the previous audit as of October 31, 2011.*)

Recommendation: The principal and recordkeeping staff should provide training to fundraising sponsors so that they are aware of how to accurately complete and retain the required documentation for fundraising activities.

2018.05 Administration of Vending Contracts

The school's vending contracts for FY 2016 through FY 2018 did not include the school's name or address, contract date or principal's approval.

Administrative Procedure 5135.2, *Principal's Contracting Authority*, requires the principal, as an agent of the BOE, to approve and sign all agreements and contracts entered into for all school activities. Additionally, the APM, Section 9.8, *Vending Machine Sales*, states, "all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency that these commissions are remitted."

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Neither the recordkeeping staff nor the principal completed the blank fields of the vending contract to provide the terms of the agreement. The principal was not aware that a binding agreement between the school and the vendor did not exist.

Failure to have a formal contract in place constitutes non-compliance with BOE policies and procedures. There is an increased risk of inadequate maintenance of the machines and insufficient commission revenue without a formal agreement with the vending company.

Recommendation: The principal must establish procedures to ensure that a current vendor contract is established, adhered to, and maintained on file in compliance with BOE policies and procedures.

2018.06 Drop Safe Not on Premises

The school does not have a drop safe onsite to ensure that funds remitted in the recordkeeping staff's absence are secured. The safe currently at the school is locked in an area is not accessible to staff.

According to the APM Section 4.5.2.2, *Cash Receipts Procedures*, 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 remitting funds in the recordkeeping staff's absence.

Reportedly, the recordkeeping staff she was unaware that a drop safe was required at the school.

Recommendation: The principal should purchase a drop safe to be installed onsite in accordance with the requirements of the APM. A log should accompany the drop safe to alert the recordkeeping staff when funds are remitted in her absence.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Rosa Parks Elementary School was issued for the period ended October 31, 2011. During that period, the recordkeeping staff was in her current position. The current principal's tenure began in August 2017. The prior audit included 7 findings and 4 are repeated in this report. The following findings were noted as a result of that audit and the current status is indicated below.

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- **Delinquent Deposits** - Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **Year-End MTF Envelopes** - Control appears to be working.
- **Incomplete and/or Inadequate Documentation for Receipts/Disbursements**- Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received* and **2018.02** regarding *Mismanagement of Disbursements*.
- **Fundraiser Forms** – Condition still exists. See **2018.05** regarding *Fundraiser Forms*.
- **Expenditures Made Without Proper Approval.** Condition still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Petty Cash**– Controls appear to be working.
- **Gift Cards**– Controls appear to be working.

ACKNOWLEDGEMENT

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