



November 15, 2018

MEMORANDUM

To: Niki Brown, Instructional Director
Cluster 4

Toi Davis, Principal
University Park Elementary School

From: Michele Winston, CPA, Director
Internal Audit

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

An audit of the financial records of **University Park Elementary School** was completed for the period July 1, 2014 through June 30, 2018. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds 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, or by December 15, 2018 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
Christian Rhodes, Chief of Staff
Helen Coley, Ed. D, Chief of School Support and School Leadership
Kassandra Lassiter, Ed. D., Elementary Associate Superintendent
J. Michael Dougherty, Director Financial Services
Alanna Cooper, Internal Auditor II

Internal Audit Report

University Park 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 of University Park Elementary School for the period July 1, 2014 through June 30, 2018. University Park 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,*
- *Retention of Voided Checks,*
- *Financial Reporting,*
- *Fundraiser Forms, and*
- *Administration of Vending Contracts*

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 June 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 University Park Elementary School for the period July 1, 2014 through 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 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 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: Mismanagement of Funds Received

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

- A. *Incomplete Documentation of Funds Received* - There were 7 instances where the recordkeeping staff processed MTFs that were incomplete or inadequately documented. Deposits were supported with a generic deposit slip in lieu of an itemized deposit slip in 4 instances. School staff omitted remittance data in section 2 of MTFs in 3 instances. *(This condition was also noted in the previous audit as of May 31, 2012.)*
- B. *Monetary Transmittal Form Log*— The recordkeeping staff failed to maintain a MTF log in the format required by the APM. The field containing the amount on the MTF was not included in the log.

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. The recordkeeping staff is required to complete a bank deposit slip in duplicate, whether manually or in SFO, noting the amount of coins, currency and checks. All checks must be individually listed on the deposit slip with identifying information (e.g., last name and/or check number) to assist in tracing any item in the deposit that may be returned by the bank. The items listed on the deposit slip should be totaled on a calculator and the calculator tape saved as supporting documentation.
- C. The recordkeeping staff is responsible for accounting for all forms issued to schools. A MTF log is required to be maintained by the recordkeeping staff and should 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 are as follows:

- A. According to the recordkeeping staff, incomplete MTFs that were processed was an oversight. The school did not have deposit slips available for use and used generic deposit slips provided by the bank.
- B. The current recordkeeping staff continued the format of the MTF log used by the former recordkeeping staff.

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. School staff should be held accountable for compliance.
- B. The recordkeeping staff must refer to the APM to ensure she is in compliance with SAF policies and procedures.

2019.02: Mismanagement of Disbursements

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

- A. ***Inadequate Documentation-*** There were **3** 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 was provided to substantiate expenditure. Evidence of funds remitted was not provided to substantiate a parent refund for a field trip.
- B. ***Inadequate Principal Approval and Segregation of Duties*** – There were **9** instances where SFEFs reviewed during the audit period were not adequately approved by the principal. School staff made purchases prior to the principal’s approval and the principal’s approval signature on SFEFs were not dated. There was no segregation of duties for **3** expenditures. The principal approved her own expenditure requests for reimbursement.

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- C. ***Checks with One Signature*** - There were **3** instances where checks issued for school activities only contained the principal's signature.
- D. ***Sales Taxes Paid*** - There were **3** instances where sales taxes were paid for expenditures incurred on behalf of the school.
- E. ***Delinquent Vendor Payments*** - There was **1** instance where a payment was made to a vendor approximately 3 months after the due date. ***(This condition was also noted in the previous audit as of May 31, 2012.)***

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. Two authorized signatures are required on all checks.
- D. 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.
- E. 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 unclear on the requirement for proper completion of the funds available line on the SFEF and used examples of SFEF completion from the former recordkeeping staff. The recordkeeping staff was unaware that credit card slips 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 during these discussions and did not obtain the sales tax exempt card prior to making purchases.

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- C. The principal erroneously thought that she is permitted to approve her own reimbursements on SFEEFs and to approve checks where she was also listed as the payee.
- D. The recordkeeping staff would obtain the principal's signature on school checks customarily would issue the checks without adding her own signature.
- E. Some invoices became delinquent during the transition time from the former recordkeeping staff to the current recordkeeping staff.

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 required signatures are not obtained on school checks, appropriate approval is not obtained prior to purchase, and 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 detailed receipts and invoices are used as supporting documentation. This evidence should be required and maintained on file as support for expenditures. The recordkeeping staff should read the APM to familiarize herself with requirements for appropriate supporting documentation.
- B. The principal and recordkeeping staff must read the APM to obtain a clear understanding of the accurate completion of the "funds available" section of the SFEEFs and all SAF documents.
- C. The principal should require staff to present a completed SFEEF during discussions where approval for school purchases is granted and ensure the sales tax exempt status is used for school purchases. The principal should refer to the APM and contact the Accounting and Financial Reporting Office to ensure clarity on the procedure for approval of her expenditures.
- D. The recordkeeping staff must be diligent in reviewing checks prior to issuance to ensure the dual signature requirement is met.
- E. The principal should seek assistance from the Accounting and Financial Reporting Office to ensure invoices are paid timely during vacancies in the recordkeeping staff position.

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2019.03: Retention of Voided Checks

There were 8 instances where voided checks 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 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 printed and approved by the principal.

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.

Recommendation: The principal should ensure that voided checks are properly administered by requiring the recordkeeping staff to maintain 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.

2019.04: Financial Reporting

The following exceptions relative to financial reporting were noted:

- A. ***Financial Reports Not Completed Timely*** - There were 18 instances during the audit period where monthly financial reports were not completed timely. Reports were prepared approximately 90 days after the due date.
- 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*.

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- C. ***Fund Transfer Journal Entry Proof Sheets*** – There were **12** instances where Fund Transfer Journal Entry Proof Sheets could not be located.
- D. ***Financial Reports Could Not Be Located*** – The recordkeeping staff was unable to locate monthly financial reports from 2015-2016 school year.

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 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.
- D. All SAF records must be retained for a period of 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, Monetary Transmittal Forms, SFEF, cancelled checks and contracts.

Reconciliations were not completed during periods of vacancy in the recordkeeping staff position. The recordkeeping staff stated that financial reports were prepared late towards the end of the school year due to an extended workload. The recordkeeping staff was unclear on the appropriate completion of the *Unpaid Bills Determination Spreadsheet*. The recordkeeping staff failed to maintain all Funds Transfer Journal Entry Proof Sheets and obtain principal approval. The recordkeeping staff was not in her current position when the FY 2016 financial reports were prepared and was unaware of the location of the financial reports.

Delinquent reporting and inaccurate transaction details impacts the timeliness and reliability of information used in the decision-making process. The principal's ability to

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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 alert the principal when her workload prevents her from completing her monthly financial reporting duties. The principal should ensure that financial reports are prepared monthly and that she conducts a thorough review as evidenced by signature. The principal should notify the Accounting and Financial Reporting Office for assistance with completion of monthly bank reconciliations when there is a vacancy in the recordkeeping staff position.
- 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 principal and the recordkeeping staff should ensure they secure and retain all financial records for a period of 7 years or until audited, including the current fiscal year.

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.

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.

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The recordkeeping staff was unclear on which school activities are considered fundraisers and was unsure of when to issue and receive fundraiser forms from sponsors. *(This condition was also noted in the previous audit as of May 31, 2012.)*

Recommendation: The recordkeeping staff should review the APM to get a clear understanding of school fundraisers and ensure compliance with Administrative Procedure 5135.1 regarding Fundraisers.

2019.06 Administration of Vending Contracts

The school does not have a copy of the current vending contract for the 2 vending machines located on its premises. The current vendor issuing commission checks to the school is an unapproved vendor and differs from the vendor's name identified on the expired vending contract.

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."

The recordkeeping staff was unaware of the requirement to obtain a vending contract annually. The unapproved vendor alleged that he is affiliated with the vendor identified on the contract.

Failure to have a formal contract in place and use of unapproved vendors 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 and recordkeeping staff should review the APM to become familiar with the requirements of school contracts and specific policies and procedures pertaining to the administration of vending machines. The principal must ensure that a current vending machine contract is obtained, renewed annually, and maintained on file in compliance with BOE policies and procedures. The vendor issuing commission checks should be consistent with the vendor identified on the contract.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for University Park Elementary School was issued for the period ended May 31, 2014. During that period, the current recordkeeping staff was not in her current position. The current principal's tenure began in August 2014. The following findings were noted as a result of that audit and the current status is indicated below.

- **Improvement Necessary in the Administration of Funds Received** - Condition still exists. See **2019.01** regarding *Mismanagement of Funds Received*.
- **Delinquent Reimbursements and Payment of Invoice** – Condition still exists. See **2019.02** regarding *Mismanagement of Disbursements*.
- **Year-end Monetary Transmittal Forms Not Returned**- Controls appear to be working.
- **Failure to Complete the Annual Fundraising Summary Report** – Condition still exists. See **2019.05** regarding *Fundraiser Forms*.
- **Management Oversight Improvement**- Controls appear to be working.

ACKNOWLEDGEMENT

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