



September 11, 2019

MEMORANDUM

To: Charoscar Coleman, Ed .D, Instructional Director
Cluster 10

BernNadette Aisha Mahoney, Principal
Bladensburg High School

From: Michele Winston, CPA, Director,
Internal Audit

Re: Financial Audit for July 1, 2017 through April 30, 2019

An audit was completed on the financial records of Bladensburg High School for the period July 1, 2017 through April 30, 2019. 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 (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit report.

As principal of the school, you will be responsible for preparing an action plan by **October 11, 2019** indicating steps that will be taken to ensure compliance with the APM. 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, email address internal.audit@pgcps.org. **Please forward this template as a Microsoft Word document.** A copy of your action plan should also be forwarded to Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org.

Enclosure

cc: Alvin Thornton, Ph. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, Esq., Director, Financial Services
Carletta Marrow, Ed. D., Associate Superintendent, High Schools
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**Bladensburg High School
Student Activity Funds**

For the Period Ended April 30, 2019

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Bladensburg High School for the period July 1, 2017 through April 30, 2019. Bladensburg High 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 Disbursements,*
- *Mismanagement of Funds Received,*
- *Administration of Sales Tax*
- *Year-End Monetary Transmittal Form Envelopes Submission Process*
- *Excessive Spending in a Restricted Account*
- *Vending Machines Contract*
- *Disposition of Senior Class Accounts*
- *Inappropriate Use of Advance, Reimbursement and Refund Vendor Options*
- *Improvement Needed in Management Oversight*

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, 2019.



Michele Winston, CPA, Director
Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for Bladensburg High School for the period July 1, 2017 through April 30, 2019. The audit was conducted as part of the department's 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 complies with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit 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 bank statements, financial reports, selected cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period July 1, 2017 through April 30, 2019. In addition, 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

2020.01 Mismanagement of Disbursements

There were **40** of the **60** cash disbursements reviewed that were *not* processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Approval*** - There were **3** instances where expenditures were not adequately approved. The School Funds Expenditure Form (SFEF) fields for *Authorized by* and *Approved by* were not signed by the principal
- B. ***Misclassified Transactions*** - There were **4** instances where transactions were not properly recorded in the accounting system.
- C. ***Delinquent Vendor Payments*** – There were **5** instances where payments to vendors were delinquent. The delinquency ranged from **18 to 125 days**.
- D. ***Inadequate Supporting Documentation*** - There were **3** instances where documentation to substantiate checks issued could not be located.
- E. ***Voided Checks*** - The following exceptions were noted relative to processing of voided checks:
 - a. There were **10** voided checks that could *not* be located for review.
 - b. There were **3** voided checks that were *not* entered into the accounting system.
 - c. There was 1 instance where a check was voided and reissued in SFO on the same date and with the same check number.
- F. ***Advance Checks*** –
 - a. There were **5** instances where checks were issued in advance without signed statements acknowledging receipt of the advance checks.
 - b. There were **2** instances where the reconciliation of the funds from advance checks did not take place within two (2) business days as indicated in the APM. There was one instance where a staff member received an advance check for **\$350.00** on December 17, 2018 and according to the receipts, completed shopping on the same day using only \$169.38 of the funds. However, the unused funds totaling **\$180.62** were not remitted to the school until January 9, 2019. The second instance involved 2 staff members receiving 7 advance checks totaling **\$1,350.00**

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during the audit period. As of 4/30/19, unused funds totaling **\$45.28** were not remitted to the recordkeeping staff.

- c. There was 1 instance where a staff member was reimbursed for a purchase that was made from a merchant that was not a BOE approved vendor.

G. **Contracts** - There were 4 instances where contracts for services for field trip transportation, field trip entry fees and prom were not signed by the principal.

The APM provides the following guidelines regarding the administration of cash disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal.
- B. The Bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions.
- C. Invoices are required to be paid within 30 days of receipt or by the invoice due date. Principals should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- D. All checks must have original, itemized documentation attached to the SFEF that supports the amount of the check. Examples of supporting documents include cash register receipts, invoices, bills of sale, etc. Examples of documents that are not itemized invoices or receipts include credit card receipts, statements, and packing slips. According to the *Record Retention* policy, "all SAF records must be retained for a period of 7 years and or until audited
- E. All voided checks must be defaced, filed in check number order with cancelled check images, and entered into the accounting system.
- F. When situations arise requiring a check to be issued before an expense has occurred, checks issued are required to be treated as advances to staff. The staff member must sign a statement acknowledging receipt of the advance. The reconciliation of the funds from advance checks is required to take place within two (2) business days from the receipt of the check. Staff members should also be required to return itemized receipts for the amount advanced.
- G. The principal, as the fiduciary agent of the school, must approve and sign all agreements and contracts entered into for all school activities.

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Contributory factors for deficiencies noted included the following:

- The recordkeeping staff did not follow established internal controls relative to management of disbursements.
- SFEFs were accepted from staff that were incomplete and/or lacked adequate supporting documentation.
- Recordkeeping staff failed to research the balance available on the relevant account and record that amount on the SFEF.
- An adequate filing system was not properly maintained to ensure all financial records were adequately maintained.
- It appears that both the principal and the recordkeeping staff have not read the APM.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Approving purchases without adequate documentation or failure to adequately approve expenditures could result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. The risk of insolvency is present when the available funds amounts are not determined prior to approval of purchases. Delinquent payments of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed. Failure to properly void checks could result in unauthorized negotiation of checks. When recipients of advances are not required to sign an acknowledgement, accountability is reduced for the funds received. When the principal who is the fiduciary agent of the school does not responsibly enter into contractual agreements on behalf of the school, the school's resources may be inappropriately obligated and the risk of insolvency increased.

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

- A. The principal must ensure staff members are aware that pre-approval is required prior to the purchase of products or services and be held accountable for compliance. SFEFs should be entirely completed by staff. The principal should ensure all pre-approval details are provided on SFEFs prior to approving expenditures.
- B. The principal and recordkeeping staff should ensure that all transactions are accurately entered into the automated financial system
- C. The recordkeeping staff must ensure vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- D. Supporting documentation deemed acceptable for substantiating disbursements must consist of receipts or invoices substantiating the amounts expended that are properly maintained to ensure retrieval.

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- E. Internal controls to ensure that all voided checks are defaced, filed in check number order with cancelled check images, entered into the SFO accounting system and VCPS approved by the principal must be established. The principal should perform periodic oversight to ensure this process is performed.
- H. Signed statements must be retained to substantiate checks issued in advance to help establish accountability. The principal must ensure that employees with outstanding amounts from advances immediately return those funds to the recordkeeping staff.
- F. Internal controls must be established to ensure that the principal, as the fiduciary agent of the school, approves and sign all agreements and contracts entered into for all school activities. Staff must be made aware that they do not have authority to sign contracts on behalf of the school.

2020:02 Management of Funds Received

There were **49** instances where collections reviewed were *not* processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of funds received were noted:

- A. ***Monetary Transmittal Form Documentation*** – There were **56** instances where MTFs were not properly supported or documented. Specifically:
 - a. There were **46** instances where the MTFs were not properly completed. Section 1 of the MTFs were not always adequately completed.
 - b. There were **4** instances where the supporting documentation did not agree with the amounts documented on the MTF.
 - c. There were **2** instances where changes made to MTFs were not done according to the MTF instructions.
 - d. There were **4** instances where transactions were not accurately recorded in the accounting system.
- B. There were **25** instances where deposits were not made in a timely manner. The delinquency range from **4** to **188** days.

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

- A. MTFs should be supported with student remittance forms, fundraiser forms or other documentation that shows the source and purpose of funds. All funds collected should

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be remitted to the bookkeeper and properly supported with approved MTFs. All SAF is required to be deposited in the form received. Sections 1 and 2 of the MTF must and be completed. Changes and alterations made to MTFs require initials.

- B. Bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. If funds are kept on-hand at the school awaiting deposit, it must be kept in a secure location. It is important that schools establish internal controls to ensure frequent deposits occur.

Contributory factors for deficiencies noted included the following:

- BOE policies and procedures as established in the APM were not followed.
- The recordkeeping staff did not perform verification of all MTFs and supporting documentation prior accepting MTFs and making deposits.
- The filing system for financial records was inadequately maintained by the recordkeeping staff and oversight was not provided by the principal to ensure retention of all cash receipt documentation.
- Funds were held by teachers, who failed to adhere to the same day remittance requirement.

Failure to adequately perform recordkeeping responsibilities as part of the collection process constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring that all funds collected were subsequently remitted and deposited was not available. Delinquent deposits of funds impacts the accuracy of financial reporting upon which administrators rely to make financial decisions. Failure to initial changes on MTFs removes responsibility from the person making the change and impacts the audit trail.

Recommendation: The following corrective actions should be implemented to ensure cash receipts are administered in accordance with BOE policies and procedures:

- A. The recordkeeping staff must ensure that all MTF documentation is complete, to include verifying all supporting documentation is attached to MTFs prior to acceptance and deposit of funds. The recordkeeping staff should not accept the MTF if changes are not initialed.
- B. The principal must ensure proper custody of all records relating to SAF until audited. The recordkeeping staff must establish an appropriate filing system to help ensure that financial documents are available for retrieval upon request.
- C. The recordkeeping staff must be reminded that all funds collected and remitted should be deposited on a daily basis especially funds in excess of \$250.00. Teachers must be informed that funds collected cannot be held overnight. The principal must provide adequate time for verification and timely deposit of funds. The principal should perform

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periodic review of deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.

2020:03 Administration of Sales Tax

There was no collection or remittance of sales tax for the FY 2019 school year even though the school had sales taxable transactions. Notable sales taxable transactions where there was no collection included Senior Class 2019 Dues, T-Shirts, cap and gowns, class pictures and yearbooks.

The APM requires adherence to Maryland Comptroller of the Treasury regulations when the school engages in resale of taxable items. This involves collection and remittance of sales tax for merchandise sold.

Staff members collecting funds did not document sales taxes on the MTFs. Additionally, the recordkeeping staff did not identify sales taxable transactions. This has led to non-compliance with BOE policies and procedures requiring remittance of sales taxes to the State of Maryland and the school being in violation of the State of Maryland policies relative to the administration of sales tax.

This places the BOE in a position of possibly being assessed penalties and interest for failure to remit sales taxes. This could potentially impact students receiving the full benefits of resources that would otherwise be available to them.

Recommendation: The recordkeeping staff should ensure that appropriate sales tax is collected and remitted to the State of Maryland for all applicable sales taxable items sold by the school. The recordkeeping staff should review AP 5137 to become familiar with sales taxable items.

2020.04 Year-End Monetary Transmittal Form (MTF) Envelopes Collection Process

The year-end MTF submission and collection process is not operating as required by the policies outlined in APM. There were **3** instances where both pink and yellow MTF remittances could not be located and **10** instances where pink MTF remittances were not located for review. There was also **1** instance where a MTF remittance was not maintained in a sealed envelope as required.

According to the APM, each staff member who collected SAF is responsible for maintaining an envelope containing both pink and yellow copies of MTF remittances generated during the year. The staff member is required to submit the signed, sealed envelope to the designated administrator prior to the year-end check out. The envelopes should remain sealed until requested by Internal Audit.

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It does not appear that any documented training was provided to the staff relative to the year-end MTF envelopes submission process. As such, policies and procedures regarding MTF submission during the year-end check out process were not followed. The audit trail for ensuring that all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased.

Recommendation: Staff must be reminded of their responsibility relative to MTF envelopes submission during the year-end checkout process. The recordkeeping staff should print the “*Receiptee History*” report from the accounting system and provide it to the administrator responsible for collecting MTF envelopes. The principal should instruct the administrator to obtain MTF envelopes based on the printed report. Each employee must be held accountable for returning MTF envelopes, including all processed MTFs, as part of the year-end checkout process.

2020.05 Excessive Spending in Restricted Accounts

The SAF included **23** restricted fund accounts with deficits totaling **(\$19,739.59)** as of April 30, 2019. The following is a listing of top five accounts with deficits:

- Pom Poms has a deficit of **(\$5,519.31)**,
- Year Book has a deficit of **(\$4,740.39)**,
- Guidance PSAT Testing has a deficit of **(\$1,648.00)**
- The BOE to Reimburse account has a deficit of **(\$1,946.79)** and
- The PE Uniforms and Equip account has a deficit of **(\$1,387.11)**.

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted accounts exceed the available cash balance, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure SAF accounts are solvent at all times.

The principal and the recordkeeping staff did not monitor accounts to ensure that restricted accounts maintained positive balances. Spending occurred in excess of available funds in the respective accounts resulting in restricted account deficits. BOE policies and procedures as established in the APM regarding the use of restricted funds were not always followed.

Students are not receiving the maximum possible benefit from the resources that should have been available to them.

Recommendation: The principal must evaluate potential expenditures with regard to available resources and care must be exercised to ensure the resources are used to provide maximum benefit of the students. The principal should consult with Accounting and Financial Reporting Office to discuss options for resolution of deficits. Spending in these accounts must cease until the accounts’ deficits are resolved.

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2020.06 Vending Machines Contracts

The school operates 2 faculty vending machines (1 soda and 1 snack). As of the date of the audit there is no signed contract on file stipulating commissions due to the school and frequency of commissions.

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 principal did not ensure that the school established a contractual agreement for vending services. Failure to have a formal contract in place that stipulates commission due and contract term constitutes non-compliance with BOE policies and procedures. This compromises the principal's ability to obtain and follow all competitive bidding guidance.

Recommendation: The principal must immediately obtain an appropriate signed contract from the vending machine vendor(s) that complies with APM, Section 9.8, *Vending Machine Sales*. The principal should consult with Purchasing and Supply Services to identify an alternate vending company in absence of a contract.

2020.07 Disposition of Senior Class Accounts

The Class of 2015, 2016, 2017 and Class of 2018 did not leave a Senior Class Planning and Budget Workbook approved by the principal for the final disposition of any residual class funds. The Class of 2015 account had an unexpended balance of **\$55.00**; 2016 balance was **\$322.87**; 2017 balance was **\$136.22** and 2018 balance was **\$645.00** as of April 30, 2019.

In accordance with AP 3450, *Class and Club Fund Terminations*, no class account can extend beyond the academic life of a senior class. As a senior class nears the end of the school year, it must plan, with approval of the principal, for the final disposition of any residual class funds. Class accounts represent the largest component (approximately one fourth) of SAF. It is therefore important that there is proper budgeting, accounting and control of class account resources.

The senior class sponsor and the principal did not ensure that a plan was in place for the final disposition of any residual class funds.

BOE policies and procedures as established in the APM relative to administration of class accounts were not followed. This noncompliance can result in restricted funds remaining in the SAF that are not available to students.

Recommendation: The principal should provide a plan for disposition to the Office of Accounting and Financial Reporting for approval if the senior class officers are no longer

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available. A copy of the approved disposition plan should be sent to Internal Audit. The principal, recordkeeping staff and class sponsors must familiarize themselves with the requirements for administration of the senior class accounts and ensure to promptly obtain a disposition plan from class officers prior to graduation.

2020.8 Inappropriate Use of Advance, Reimbursement and Refund Vendor Options

The following exceptions pertaining to use of the Advance and Reimbursement Vendor options when posting disbursements were noted:

- The former recordkeeping staff inappropriately processed 4 cash disbursement transactions that appears to be payments to BOE approved vendors totaling **\$1,424.50** using the “Advance Vendor” option.
- Both the current and former recordkeeping staff has processed 4 refunds to parents totaling **\$377.00** using the “Reimbursement Vendor” option.

Expenditures posted to SFO are primarily those paid to PGCPs approved vendors. The payee defaults to this listing of vendors when checks are written in SFO. The “*Reimbursement Vendor*” option was created to post reimbursable expenses to the staff and the “*Refund Vendor*” option was created to post refundable expenses to parents. The “*Advance Vendor*” option was created to post reimbursement expenses for staff when the exact amount is not known.

The former recordkeeping staff did not always use the vendor master file to select approved vendors’ names when processing check payments.

As a result, the school’s financial records may not have been accurately stated. Purchases could have be made from unapproved vendors through use of “*Reimbursement*,” “*Refund*” and “*Advance Vendor*” options in SFO, thus circumventing the requirement for use of approved vendors. Failure to follow instructions for processing payments places the school system in a position of non-compliance BOE policies and procedures.

Recommendation: The principal must establish procedures to ensure that financial recordkeeping staff properly post all future cash disbursements accurately in SFO. Staff should be advised that use of vendors that have not been approved by PGCPs is not permitted and could result in non-reimbursement for purchases made. Staff should be held accountable for compliance. Additionally, correcting entries must be made for the improper postings to ensure accurate accounting of all transactions.

2020.09 Improvement Needed in Management Oversight

The principal did not exercise proper oversight in the administration of the SAF during the current audit period. There was non-compliance with the basic principles for fiscal responsibility and the requirement to adhere to the BOE policies and procedures. This resulted in internal

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controls being compromised. It should be noted that 9 of the 11 findings still exist from the previous audit and the principal has been in her current position since the previous audit.

The principal was not sufficiently involved in SAF and did not strictly enforce adherence to BOE policies relative to administration of SAF. The principal is the fiduciary agent for SAF and is responsible for ensuring that these funds are administered in accordance with PGCPS policies and procedures and spent to provide the maximum benefits possible to the students. Based on the number of repeat noncompliance and reportable control weaknesses, the principal did not follow BOE policies and procedures as established in the APM. As a result, student activity funds were not administered in a manner to ensure that students received the maximum possible benefit of these resources.

Recommendation: The current principal should carefully review the policies and procedures as defined in APM. 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:

- 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 Bladensburg High School was issued for the period ending June 30, 2017. During that period, the principal was in her current position however, the bookkeeper was not. The previous audit report had 11 reportable conditions, of which 9 are repeated in the current audit. The following findings were noted because of the prior audit and the status is indicated below:

- **Mismanagement of Disbursements** - Condition still exists. See 2020.01 regarding *Mismanagement of Disbursements*.
- **Management of Funds Received** - Condition still exists. See 2020.02 regarding *Mismanagement of Funds Received*.
- **Administration of Sales Tax** - Condition still exists. See 2020.03 regarding *Administration of Sales Tax*.
- **Year-End Monetary Transmittal Form Envelopes Submission Process** - Condition still exists. See 2020.04 regarding *Year-End Monetary Transmittal Form Envelopes Submission Process*.

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- **Excessive Spending in Restricted Accounts** - Condition still exists. See **2020.05** regarding *Excessive Spending in Restricted Accounts*.
- **Vending Machines** - Condition still exists. See **2020.06** regarding *Vending Machine Contracts*.
- **Disposition of Senior Class Accounts** - Condition still exists. See **2020.07** regarding *Disposition of Senior Class Accounts*.
- **Membership Cards** - Control appears to be working.
- **Collection of Funds** - Control appears to be working.
- **Inappropriate Use of Advance, Reimbursement and Refund Vendor Options- Condition still exists.** See **2020.08** regarding *Disposition of Senior Class Accounts*.
- **Improvement Needed in Management Oversight** - Condition still exists. See **2020.09** regarding *Improvement Needed in Management Oversight*.

ACKNOWLEDGEMENT

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