


June 26, 2020



MEMORANDUM

To: Ebony Cross-Shields
Instructional Director, Cluster 6

Cheryl Franklin, Ed. D., Principal
Robert R. Gray Elementary School

From: Michele Winston, CPA, 
Director Internal Audit

Re: Financial Audit for July 1, 2016 to April 30, 2020

An audit was completed on the financial records of Robert R. Gray Elementary School for the period July 1, 2016 to April 30, 2020. The audit indicates that the school's internal controls have improved but require further development to be in full compliance 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 July 27, 2020 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. A copy of your action plan should also be forwarded to Danyelle Washington, Business Analyst, email address: dany.washington@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., Chairman, Board of Education
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, Director, Financial Services
Helen Coley, Ed. D., Chief, School Support and Leadership
Kassandra Lassiter, Ed. D, Associate Superintendent for Elementary Schools
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Robin Welsh, Director of Monitoring, Accountability and Compliance
Janice Walters-Semple, CPA, Supervisor Internal Audit
Dan Reagan, Internal Auditor II

Internal Audit Report

**Robert R. Gray Elementary School
Student Activity Funds**

For the Period Ended April 30, 2020

Table of Contents

INTERNAL AUDITOR’S REPORT.....	3
SUMMARY	4
OBJECTIVES	4
SCOPE	4
FINDINGS AND RECOMMENDATIONS.....	5
STATUS OF PRIOR AUDIT FINDINGS	8
ACKNOWLEDGEMENT	9

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Robert R. Gray Elementary School for the period July 1, 2016 to April 30, 2020. Robert R. Gray 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 Generally Accepted Government Auditing Standards 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;*
- *Expenditures Not Properly Pre-Approved;*
- *Incomplete Monthly Financial Reporting;*
- *Lack of Drop Safe to Secure Funds Awaiting Deposit; and*
- *Administration of Voided Checks*

Individually or in the aggregate, these findings have 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, 2020.

Michele Winston, CPA, Director
Internal Audit



SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for Robert R. Gray Elementary School for the period July 1, 2016 to April 30, 2020.

The audit indicate that the school's internal controls have improved but require further improvement to be in full compliance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education 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, 2016 to April 30, 2020. In addition, selected receipts, disbursements and supporting documentation were reviewed for the said period.

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2020.01 Mismanagement of Funds Received

The following exceptions pertaining to the management of receipts were identified:

- A. ***Delinquent Deposits:*** There were **8** instances where deposits were not made timely following initial collection of funds. Deposits were made up to 23 days after initial collection by staff members. *(This condition was also noted in the previous audit as of March 31, 2012)*

- B. ***Inadequate Segregation of Duties Regarding End-of-Year Monetary Transmittal Form Envelopes Submission:*** During the audit period, the financial recordkeeping staff has been responsible for storing end-of-year MTF envelopes.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that all funds collected must be submitted to the bookkeeper on the day of collection, along with a completed MTF. The bookkeeper 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.

The APM, Exhibit B, *Staff Responsibility for School Activity Funds*, states that bookkeepers should not have access to year-end MTF envelopes submitted by school staff. The principal should designate an administrator to collect and store signed, sealed MTF envelopes from staff who have collected funds during the school year.

Staff members have been instructed by the financial recordkeeping staff to record collections for activities such as field trips over multiple days on one MTF. Funds collected each day are brought to the front office to be locked up overnight, but an MTF is not completed and signed until all funds have been collected for a particular activity, which can take up to a few weeks. Deposits are made after MTFs are completed and submitted with remitted funds.

The financial recordkeeping staff was unaware of the requirement for completing MTFs and remitting funds daily to ensure timely deposit.

The financial recordkeeping staff and principal were aware that the financial recordkeeping staff could not collect end-of-year MTF envelopes, but were unaware that the financial recordkeeping staff could not store them.

The lack of effective internal controls over cash collections constitute non-compliance with Board policies and procedures and increases the risk of lost or stolen funds. Specifically, funds not deposited timely are not properly safeguarded or accounted for. Further, the financial recordkeeping staff's access to end-of-year MTFs compromises the controls necessary to ensure that cash collection records remain reliable.

Recommendation: The principal and financial recordkeeping staff should immediately familiarize themselves with the specific requirements for cash collections in the APM. The requirements for daily completion of MTFs and SAF remittance should be communicated to staff beginning in FY 2021. All funds collected should be deposited timely.

The principal should ensure that end-of-year MTF envelopes are stored by someone other than the financial recordkeeping staff.

2020.02 Expenditures Not Properly Pre-Approved

There were **7** instances where the financial recordkeeping staff did not indicate the amount of funds available in the relevant account on the School Funds Expenditure Form (SFEF). The principal did not provide written pre-approval prior to commitment of the school's funds in **4** of those instances.

The APM, Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for front office staff to indicate funds available in the relevant account prior to the principal providing pre-approval of an expenditure.

The principal and financial recordkeeping staff have not established standard operating procedures for expenditures to ensure compliance with the APM. For instance, field trip expenses are not pre-approved on an SFEF during the initial field trip approval stage. SFEFs are often completed when invoices from vendors arrive, after the funds have already been committed.

Inadequate approval of expenditures constitute non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Specifically, the lack of pre-approval process can lead to use of SAF for unauthorized purposes and insolvent accounts.

Recommendation: The principal and financial recordkeeping staff should develop and document controls over the pre-approval process for expenditures, and train staff accordingly. All potential expenditures should be pre-approved prior to the purchase of items. Further, field trip expenses should be pre-approved on an SFEF during the initial field trip approval process, prior to the commitment of funds to vendors. School staff should be held accountable for compliance.

The financial recordkeeping staff should be held accountable for adequately completing the pre-approval section of the SFEF, to include funds available in the respective account for each requested expenditure.

2020.03 Incomplete Monthly Financial Reporting

The financial recordkeeping staff did not complete the required financial reports monthly during the audit period. Bank Reconciliations were prepared each month, but the Insolvency

Report, Year to Date Report, Journal Entry Register, and Unpaid Bills Spreadsheet were only prepared for the final month of each trimester.

The APM, Section 5.2, *Financial Reporting Requirements*, states that the following reports must be prepared monthly:

- Bank Reconciliation Reports
- Year to Date Report
- Insolvency Report/Available Funds Report
- Unpaid Bills Spreadsheet
- Journal Entry Register

The financial recordkeeping staff and principal were not initially aware that the required reports needed to be completed each month. The Accounting and Financial Reporting Office provided trimester report feedback in December 2019 that monthly reporting was missing. However, processes at the school were not updated.

Failure to prepare monthly financial report constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The monthly reporting process is a key control to keep the principal informed about the school's solvency and the financial status of accounts. Currently, the principal is only reviewing this key information at the end of each trimester.

Recommendation: The principal and financial recordkeeping staff should immediately familiarize themselves with the specific requirements for monthly reporting as outlined in the APM. The financial recordkeeping staff should begin preparation of the required financial reports monthly. Reports must be submitted to the principal for review as required by the APM.

The principal and financial recordkeeping staff should ensure that all recommendations made by Accounting and Financial Reporting during trimester reviews are promptly implemented.

2020.04 Lack of Drop Safe to Secure Funds Awaiting Deposit

The school does not have a drop safe as required by the APM. Funds remitted in the recordkeeping staff's absence is secured in a locked cabinet in a locked safe. The safe is not bolted to the floor, is not in an accessible location, and does not have the functionality to allow drops by staff.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that if funds are kept on-hand at the school awaiting deposit, it must be kept in a secure location. A secure location is a locked fireproof safe, which only the principal and bookkeeper can access the contents. 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 submitting money, even if the bookkeeper is unavailable. A log should be maintained where staff members record their names and the dates of the 'drop'. The funds should be sealed in an envelope with the completed, signed MTF enclosed. On the following day, the staff member dropping off money should make sure the bookkeeper has a record of the deposit. Funds should never be dropped without an MTF.

The principal and financial recordkeeping staff were not aware of the requirement for a drop-safe and were under the impression that their locked cabinet in the locked safe was in compliance with the APM. Failure to maintain a drop-safe constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. An accessible drop-safe is critical to safeguard funds awaiting deposit and helps ensure that funds are promptly remitted. (*See Finding 2020.01*).

Recommendation: The principal or financial recordkeeping staff should coordinate with the Office of the Chief Financial Officer to determine the most efficient way to obtain and install a drop-safe for the 2020-21 school year.

2020.05 Administration of Voided Checks

There were **4** instances where voided checks were not properly defaced by removing the signature line. (*This condition was also noted in the previous audit as of March 31, 2012*)

The APM, Section 4.5.3, *Cash Disbursements*, states that voided checks must be defaced and filed in check number order with cancelled check images.

The financial recordkeeping staff was not aware of the specific requirement for defacing voided checks. The failure to properly deface voided checks represents non-compliance with BOE policies and procedures and increases the risk of check fraud for the school.

Recommendation: The financial recordkeeping staff should immediately begin to deface all voided checks. The principal should provide oversight to this process.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Robert R. Gray Elementary School** was issued for the period end **March 31, 2012**. The principal and financial recordkeeping staff were in their current positions as of the last audit date. The previous audit report contained **11** findings of which **2** are repeated during this audit. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Funds Received** – Condition still exists. **See Finding 2020.01** regarding *Mismanagement of Funds Received*.
- **Bookkeeper Preparing MTFs** – Controls appear to be working.
- **Payment for Services Rendered out of the SAF** – Controls appear to be working.
- **Inadequate Support for Expenditures** – Controls appear to be working.
- **Voided Checks Not Properly Administered** - Condition still exists. **See Finding 2020.05** regarding *Administration of Voided Checks*.

- **Principal Sponsored Activity (PSA) Overspending** – Controls appear to be working.
- **Transactions Misclassified and/or Incorrectly Posted** – Controls appear to be working.
- **Grants Not Properly Reported** – Controls appear to be working.
- **Late Payments of Invoices** – Controls appear to be working.
- **Credit Account** – Controls appear to be working.
- **School Paid Sales Tax on Purchases** - Controls appear to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Robert R. Gray Elementary School for their cooperation and assistance extended during the audit.