



MEMORANDUM

April 7, 2020

To: Niki Brown, Ed. D, Instructional Director  
*Area 1*

**Ebony Harris, Principal**  
Templeton Elementary School

From: Michele Winston, CPA, Director,  
Internal Audit

Re: Financial Audit for July 1, 2017 through December 31, 2019

An audit was completed on the financial records of **Templeton Elementary School** for the period July 1, 2017 through December 31, 2019. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual (APM) for School Activity Funds (SAF) and Board of Education (BOE) 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 **May 7, 2020** indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your signed action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, email address [internal.audit@pgcps.org](mailto: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](mailto:dany.washington@pgcps.org); Deborah Smalls, Business Operations Technician, email address: [deborah.smalls@pgcps.org](mailto:deborah.smalls@pgcps.org); and Joeday Newsom, Esq., Ethics Compliance Officer, email address: [joeday.newsom@pgcps.org](mailto:joeday.newsom@pgcps.org).

Enclosure

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**Internal Audit Report**

**Templeton Elementary School  
School Activity Funds**

**For the Period Ended December 31, 2019**

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## **Internal Auditor's Report**

We have examined the School Activity Funds (SAF) of Templeton Elementary School for the period July 1, 2017 through December 31, 2019. Templeton 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 Disbursements,*
- *Administration of Checks,*
- *Mismanagement of Funds Received,*
- *Record Retention,*
- *Vending Machines Contract,*
- *Monthly Financial Reporting,*
- *Excessive Spending in Restricted Accounts,*
- *Year-End Monetary Transmittal Form Envelopes Collection Process, and*
- *Gift Card Purchase*

Individually or taken together, these findings resulted in a material deviation from Board of Education (BOE) policies, procedures, and the requirements of the Accounting Procedures Manual (APM) for SAF.

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 December 31, 2019.

Michele Winston, CPA, Director  
Internal Audit

## **SUMMARY**

The Internal Audit (IA) Department completed an audit of the SAF for Templeton Elementary School for the period July 1, 2017 through December 31, 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 APM for School Activity Funds and 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 MTF envelopes submitted by staff for the period July 1, 2017 through December 31, 2019. 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 Disbursements**

There were **16** of the **23** 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 **9** instances where expenditures were not adequately approved. School Funds Expenditure Forms (SFEFs) were approved after the purchases were made in **3** of those instances.
- B. *Delinquent Vendor Payments*** – There were **6** instances where payments were not remitted to vendor in a timely manner. The range of delinquency was between 33 and 205 days.
- C. *Inadequate Supporting Documentation*** - There were **2** instances where no supporting documentation was available to substantiate expenditures and 1 instance where the amount of an invoice did not match the amount recorded in SFO. This caused a **\$34.45** overpayment to the vendor.

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

- A.** Prior to ordering or purchasing goods or services, an SFEF must be completed and signed (approved) by the Principal.
- B.** 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.
- C.** All checks must have itemized documentation attached to the School Funds Expenditure Form that supports the amount of the check.

The recordkeeping staff did not follow established internal controls relative to management of disbursements. A review of supporting documentation was not completed prior to issuance of

checks. In addition, the principal and the recordkeeping staff did not effectively follow the APM.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Approving purchases without adequate supporting documentation or failure to adequately approve expenditures could result in unintended purchased goods and services, and increases the school's vulnerability to potential misuse or waste of resources. Delinquent payment of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed.

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

- A. The principal must ensure recordkeeping staff is aware that pre-approval is required prior to the purchase of products or services and be held accountable for compliance. SFEPs should be entirely completed by staff. The principal and recordkeeping staff should review supporting documentation prior to issuance of checks.
- B. The principal and recordkeeping staff must ensure vendor payments are issued timely, within 30 days of receipt or by the invoice due date.
- C. Internal controls must be established to ensure that all SFEP's are complete and have adequate supporting documentation prior to issuance of payments.
- D. The principal and the recordkeeping staff should review the APM to ensure that they effectively apply the requirements for processing payments.

### **2020:02 Administration of Checks**

There were 3 instances, where the two approved signatures (one by the principal and one by the recordkeeping staff or an alternate in the absence of either the principal or recordkeeping staff) was not affixed to school checks generated from SFO.

The APM requires 2 authorized signatures to be included on all checks. According to AP 4180, *School Bank Accounts*, the 2 standard check signers should be the principal and the bookkeeper. The third signer must be a vice-principal or school administrator.

The principal and the recordkeeping staff did not effectively follow the APM. The recordkeeping staff did not exercise due care by affixing her signature on all checks prior to presenting them to the principal for signing or before issuance to vendor.

Mismanagement of checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff.

**Recommendation:** The principal must ensure all school checks include 2 approved signatures – one by the principal and one by the recordkeeping staff or an alternate in absence of either the principal or recordkeeping staff prior to issuance to payees.

### **2020:03 Mismanagement of Funds Received**

The collections reviewed were not processed in accordance with BOE policies and procedures. The following exceptions pertaining to management of receipts were noted:

- A. *Inadequate Supporting Documentation*** - There were **23** instances where collections were not properly supported (incomplete MTF or no documentation).
- B. *Fundraiser Forms Not Completed*** – Fundraising sponsors failed to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports. Also annual summaries of fundraising activities were not completed.
- C. *Delinquent Deposit*** – There were **8** instances where deposits were not made in a timely manner. The range of delinquency was up to **17** 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 be remitted to the recordkeeping staff and properly supported with approved MTF's.
- B.** Fundraiser Request and Authorization Forms are required to be approved by the principal prior to holding fundraising events. A Fundraiser Completion Report must be prepared by the fundraising sponsor and be reviewed and acknowledged by the principal. Additionally, the Principal should prepare an annual report summarizing all fundraising activities concluded during the year.
- C.** Deposit of all funds received are required 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.

The recordkeeping staff did not perform verification of supporting documentation prior to accepting and approving MTFs and making deposits. School staff were not held accountable for remitting funds to the recordkeeping staff on the day of collection. The requirement for completion of fundraiser forms was not communicated to fundraising sponsors. BOE policies and procedures as established in the APM were not followed.

Failure to adequately perform recordkeeping responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM. Also failure to complete fundraising forms removes audit evidence sufficient to provide administrators and interested personnel with information about fundraising results. Delinquent deposits of funds impacts the accuracy of financial reporting upon which administrators rely to make financial decisions.



**Recommendation:** The following corrective actions should be implemented for Templeton Elementary School receipts to be made in accordance with BOE policies and procedures:

- A. The recordkeeping staff must ensure that all MTF documentation is adequate including verifying that all supporting documentation is attached to the MTF prior to acceptance and deposit of funds.
- B. The principal must implement internal controls that require prior principal approval of the Fundraiser Request and Authorization Form prior to the commencement of each fundraiser. The principal must also establish internal controls to ensure that fundraising sponsors complete the Fundraiser Completion Report for fundraising events held. Annual fundraising summaries must be completed as required. These documents must be maintained on file for public and auditor review upon request. The principal should either perform this task or assign a staff member with this responsibility. Staff members should be held accountable for compliance.
- C. The recordkeeping staff must deposit all funds collected and remitted 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 the bookkeeper with adequate time to verify that funds collected are as indicated on the accompanying MTFs and to make bank deposits timely. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.

#### **2020.04 Record Retention**

Supporting documentation was not available for review to validate the school's SAF. Specifically, the following documentation for the audit period was not made available.

- 7 cancelled checks,
- 12 transfers of funds documentation,
- 1 voided check, and
- 18 MTFs in the year-end envelopes

Section 6.12 of the APM, *Record Retention*, states that 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, School Funds Expenditure Forms, cancelled checks and contracts.

The recordkeeping staff did not properly maintain an adequate filing system. The principal did not provide oversight of the records management process. These actions caused the school to be non-compliant with BOE policies and procedures as established in the APM. Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

**Recommendation:** The principal must ensure proper custody of all records relating to SAF until they are audited. An organized and reliable filing system must be implemented to help ensure that in the absence of the recordkeeping staff or principal, financial documents would be properly filed and is accessible to those with authorized access.

### **2020.05 Vending Machines Contract**

The school has a soda vending machine for its faculty; however, a current signed contract stipulating commissions due to the school and frequency of commissions was not on file.

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 that these commissions are remitted. The contract term cannot exceed one year.

The principal did not establish a process to ensure that a current contractual agreement for vending was maintained.

The absence of a current vending contract inhibits the determination of whether the school is deriving maximum benefits from the operation of the vending machines. Additionally, these funds could be used to offset the deficit in the PSA account (See 2020.07, *Excessive Spending in Restricted Accounts*).

**Recommendation:** The principal must establish procedures to ensure that a current vending contract is established, adhered to, and maintained on file in compliance with BOE policies and procedures. The principal should consult with Purchasing and Supply Services to identify an alternate vending company in absence of a contract.

### **2020.06 Monthly Financial Reporting**

Monthly bank reconciliations and financial reporting were not always prepared and submitted to the principal for review by the 15<sup>th</sup> of each month as required. There were **11** instances during the audit period where the school's bank account was **not** reconciled timely. The range of delinquency was 5 to 49 days.

According to the APM, the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the recordkeeping staff for reconciliation. The recordkeeping staff is required to complete the reconciliation within 7 days of receiving the bank statement. Typically, this process is completed by the 15<sup>th</sup> of each month. The completed reconciliation should be submitted to the principal every month for review and approval. After review and approval, all reports and related documentation should be organized and maintained in three-ring binders identified by fiscal year.

The principal did not exercise proper oversight to ensure that monthly bank reconciliations and financial reporting was completed by the 15<sup>th</sup> of each month. Financial information was not readily available for review by the auditors.

**Recommendation:** The principal must establish procedures to ensure that monthly bank reconciliations and financial reporting occur by the 15<sup>th</sup> of each month and related documentation is organized and maintained in three-ring binders identified by fiscal year. The recordkeeping staff must be held accountable for adhering to the reporting requirements as outlined in the APM.

### **2020.07 Excessive Spending in Restricted Accounts**

The SAF has **3** restricted fund accounts with deficits that totaled **(\$1,134.58)** as of December 31, 2019. The following is a listing of accounts with deficits:

- The PSA-Staff Appreciation account has a deficit of **(\$833.21)**
- The PSA Food account has a deficit of **(\$261.21)**
- The Lady Tigers account has a deficit of **(\$40.16)**

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

The principal and recordkeeping staff did not monitor accounts and expenditures to ensure that restricted accounts always maintained positive balances. 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 of the resources that should have been available to them when restricted accounts are insolvent.

**Recommendation:** The principal must establish procedures to ensure that all potential expenditures are evaluated with regard to available resources and care is exercised to ensure the resources are used for the maximum benefit of the students. Spending in these accounts must cease until the accounts' deficits are resolved.

### **2020.08 Year-End Monetary Transmittal Form (MTF) Envelope Collection Process**

The year-end MTF submission and collection process is not operating as required by the policies outlined in the APM. There were **18** instances where both pink and yellow MTF remittances could not be located for review and **1** instance where a MTF was not maintained in a sealed envelope as required.

According to the APM, each staff member who collects SAFs 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 MTF envelope to the designated administrator prior to the year-end check out process. The envelopes should remain sealed until requested by Internal Audit.

Reportedly, training was not provided to the staff relative to the year-end MTF envelope 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 SAFs 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. The principal should conduct yearly training to remind the staff of their responsibility relative to MTF envelopes submission during the year-end checkout process.

### **2020.09 Gift Card Purchase**

During May 2018, the school issued check # 10793 for \$261.21. The check was issued as a reimbursement to a staff member for a variety of items. One of the items paid for by the school was a \$40.00 Starbucks gift card. This gift card was purchased during teachers’ appreciation week.

The APM, Section 4.1, Gift Cards, prohibits the use of gift cards as a form of payment, expenditure or award. This is akin to having a petty cash fund within the SAF. The use of gift

cards leads to significant internal control weaknesses that leave PGCPS vulnerable to questionable, improper and potentially fraudulent purchases. The only exceptions to gift cards are: 1) if they are donated directly to the PGCPS Homeless Office; and 2) the donation of a merchant branded cards, which can be accepted only upon approval of the principal.

The principal and the recordkeeping staff did not effectively follow the APM relative to the purchase of gift cards. Both the principal and recordkeeping staff was unfamiliar with the APM Section 4.1 on Gift Cards.

**Recommendation:** The principal must review the requirements for gift cards purchases in the APM and establish procedures to ensure that gift cards are not purchased using SAF.

## **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Templeton Elementary School was issued for the period ended June 30, 2015. During that period, the principal and recordkeeping staff were in their current positions. The previous audit report included 4 reportable conditions, which are all 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 **Finding 2020.01** regarding *Mismanagement of Disbursements*.
- **Mismanagement of Funds Received** - Condition still exists. See **Finding 2020.03** regarding *Mismanagement of Funds Received*.
- **Year-End Monetary Transmittal Form Envelopes Collection Process** – Condition still exists. See **Finding 2020.08** regarding *Year-End Monetary Transmittal Form Envelopes Collection Process*.
- **Annual Fundraising Summary Reports not Completed** – Condition still exists. See **Finding 2020.03**, regarding *Mismanagement of Funds Received*.

## **ACKNOWLEDGEMENT**

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