



March 29, 2021

MEMORANDUM

To: Denise Greene, Ed. D, Instructional Director
Cluster 5

Antron Huff, Principal
Baden Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for July 1, 2016 through December 31, 2020

An audit of the financial records of **Baden Elementary School** was completed for the period July 1, 2016 through December 31, 2020. 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 (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 **April 29, 2021** 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 Danyelle Washington, Business Analyst, email address: dany.washington@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org and Katrina Greene, School Activity Funds Support Specialist, email address: katrina.greene@pgcps.org.

Enclosure

cc: Juanita Miller, Ed. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Michael Herbstman, Chief Financial Officer
James Dougherty, Esq., Director, Financial Services
Kassandra Lassiter, Ed. D., Associate Superintendent, Area 1
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Robin Welsh, Director of Monitoring, Accountability and Compliance
Katrina Greene, School Activity Fund Support Specialist
Suzann King, Esq., Executive Director, Board of Education
Janice Walters-Semple, CPA, Supervisor Internal Audit
Rhonda Carter, Internal Auditor II

Internal Audit Report

**Baden Elementary School
School Activity Funds**

For the Period Ended December 31, 2020

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Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Baden Elementary School for the period July 1, 2016 through December 31, 2020. Baden 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 (AICPA) 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;*
- *Year-End Monetary Transmittal Fund (MTF) Envelope Collection Process;*
- *Delinquent Monthly Bank Reconciliations; and*
- *Excessive Spending in Restricted Accounts*

Individually, or in the aggregate, 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, 2020.



Michele Winston, CPA, Director
Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of the School Activity Funds (SAF) for Baden Elementary School for the period July 1, 2016 through December 31, 2020. 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.

This audit report includes **5** findings that occurred under the leadership of the current principal. Specifically, the current principal is responsible for **all** of the reported findings. A listing of the findings and the personnel responsible are included in the appendix at the end of the audit report. In addition, 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 through December 31, 2020. In addition, selected receipts, disbursements, and supporting documentation were reviewed for the aforementioned period. This is an audit of funds related to students' activities at the school and does not include SOR funds or any funds not derived from students' activities for the audit period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations.

2021.01: Mismanagement of Disbursements

The following exceptions were noted relative to the administration of disbursements:

- A. *Inadequate Approval of Fund Transfers* - There were **17** instances where transfers were not properly reviewed and approved in accordance with the requirements of the APM. The Journal Entry Proof Sheets were not approved by the principal to provide sufficient evidence that the transfers were appropriately approved.
- B. *Delinquent Vendor Payment* – There were **2** instances where vendor payments were not remitted in a timely manner. The delinquency was 66 and 410 days.

According to the APM the following procedures must be implemented for administration of disbursements.

- A. Section 4.5.4.2 *Transfers Between Restricted and Unrestricted/Net Accounts* transfers between restricted accounts are only authorized if reviewed and approved by the principal. Evidence of approval is documented on the Fund Transfer Journal Entry Proof Sheet.
- B. Section 4.5.3.1 (2) *Cash Disbursements Procedures, Inclusion of Supporting Documentation* states that 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.

The mismanagement of disbursements occurred due to the following:

- A. Internal controls were not properly established to ensure review and approval of fund transfers was consistently performed by the principal as evidenced on the Journal Entry Proof Sheets.
- B. A staff member did not submit the vendor invoice to the recordkeeping staff for processing in one instance. In the second instance, the recordkeeping staff was not aware that the vendor invoice was past due.

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Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Also, 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. The audit trail for determining proper allocation of funds is compromised when support for transfer of funds is not properly reviewed and approved.

Recommendation: The following procedures must be established to ensure proper management of cash disbursements.

- A. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal. Copies of the Journal Entry Proof Sheets must be maintained to substantiate the transactions.
- B. The principal and recordkeeping staff must consistently review the open invoice folder to ensure that vendor payments are issued timely, within 30 days of receipt, or by the invoice due date.

2021.02: Administration of Checks

The following exceptions pertaining to administration of checks were noted:

- A. There were **8** instances where cancelled checks did not meet the two signature requirement on the check in accordance with requirements in the APM.
- B. There was **1** instance where a check was not properly voided by removal of the signature line. A voided check was not entered in the SFO accounting system in a separate instance.
- C. There were **2** instances where supporting documentation to determine if voided checks were made in accordance with requirements in the APM could not be located for review.

According to the APM, two authorized signatures are required on all checks. The two standard check signers should be the principal and the bookkeeper. The third signer must be a vice principal or school administrator. All voided checks must be entered in SFO and have "VOID" written across the face of the check. The signature line must be removed and the voided checks attached to approved SFEF's or Void Check Proof Sheets. All checks are required to be included and filed as part of the financial records.

A third signer was not established by the principal as required to ensure the dual signature requirement was met. As a result, the principal and recordkeeping staff did not sign the checks

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that were made payable to them respectively. The prior recordkeeping staff did not follow established internal controls relative to administration of voided checks to ensure removal of the signature line, proper entry in the SFO accounting system and adequate filing of voided checks consistently occurred.

Mismanagement of checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to properly void and authorize checks could result in unauthorized negotiation of checks and increases the school's vulnerability to potential misuse or waste of resources and check fraud.

Recommendation: The following corrective actions should be implemented for the administration of checks to be made in accordance with BOE policies and procedures:

- A. The principal must designate a third check signer to ensure adherence to the APM requirements for two authorized signatures on all checks.
- B. The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE by ensuring that all voided checks are entered in SFO and have "VOID" written across the face of the check, and the signature line removed during the voiding process.
- C. The principal must perform periodic review of the check file to ensure that Void Check Proof Sheets are included with voided checks as evidence of proper approval.

2021:03 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 was **1** instance in FY 2019 where the receiptee misplaced a MTF, and **3** instances in FY 2020 where the pink MTF remittances could not be located for review.

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 MTF receiptee is required to submit the signed, sealed envelope to the designated administrator during the year-end checkout process. The envelopes should remain sealed until requested by Internal Audit.

The APM policies and procedures regarding MTF submission during the year-end check out process were not consistently followed. The audit trail for ensuring that all SAFs collected are subsequently deposited is weakened and the potential for loss of assets increased when supporting documentation is not properly maintained.

Recommendation: MTF receiptees must be reminded of their responsibility relative to MTF envelope submission during the year-end checkout process. The recordkeeping staff should

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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.

2021.04: Delinquent Monthly Bank Reconciliations

Monthly bank reconciliations were not performed by the 15th of each month as required. There were **11** instances where the school’s bank account was **not** reconciled timely during the audit period. The range of delinquency was from 2 to 38 days.

According to the APM, 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 bookkeeper for reconciliation. The bookkeeper is required to complete the bank reconciliation within 7 days of receiving the statement from the bank. This process is required to be completed by the 15th of each month. The completed bank reconciliation should be returned to the principal every month for review and approval.

BOE policies and procedures as established in the APM regarding monthly reconciliation and financial reporting were not consistently followed. The recordkeeping staff was on extended leave, which impacted the timely preparation of monthly bank reconciliations in 9 instances. The school also experienced interruptions with regular mail delivery of bank statements due to school closures during the COVID-19 pandemic in the remaining 2 instances.

Recommendation: The principal must establish financial reporting procedures to ensure that monthly bank reconciliations occur by the 15th of each month and are properly reviewed and approved as required.

2021.05: Excessive Spending in Restricted Accounts

Baden Elementary School had **5** restricted fund accounts with deficits totaling **(\$1,656.41)** as of December 31, 2020. The following is a listing of accounts with deficits:

- The 318.00 Honor Society - **(\$84.64)**
- The 402.00 Book Fair-Restricted - **(\$369.00)**
- The 420.00 Field Trips - **(\$845.45)**
- The 509.00 Periodicals - **(\$172.24)**
- The 565.00 Materials of Instruction - **(\$185.08)**

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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, the account is insolvent. As the fiduciary agent for SAF, the principal is required to ensure that all accounts are solvent at all times.

The principal did not consistently monitor restricted fund accounts recorded by the prior recordkeeping staff to ensure that all restricted accounts 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 allowed to incur deficits.

Recommendation: All potential expenditures should be evaluated with regard to available resources and care should be exercised to ensure the resources are used for the maximum benefit of the students. Spending in the respective restricted accounts must cease until the accounts' deficits are resolved. The principal must begin monitoring expenditures during the approval process to ensure that restricted fund accounts remain solvent.

The principal should consult with the Accounting and Financial Reporting Office regarding resolution of the account deficits.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Baden Elementary School was issued for the period ended January 31, 2015. During that period, the principal held her current position. The recordkeeping staff's tenure began in November 2018. The previous audit report included **2** reportable conditions which are not repeated in this audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Inadequate Documentation and Approval of Disbursements** – Controls appear to be working.

- **Fundraiser Forms** – Controls appear to be working.

ACKNOWLEDGEMENT

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

Prince George's County Public Schools
Internal Audit Department
School/Office: Baden ES
Response Date April 29, 2021

	Findings	Recommendations	Concur Non-Concur Partially Concur	Action Plan	Corrective Action Date	<u>Status</u> Implemented Partially Implemented Not Implemented
1.	<u>2021.01</u> <u>Mismanagement of Disbursements</u>	A. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal. Copies of the Journal Entry Proof Sheets must be maintained to substantiate the transactions. B. The principal and recordkeeping staff must consistently review the open invoice folder to ensure that vendor payments are issued timely, within 30 days of receipt, or by the invoice due date.	Concur	This will be implemented and made a part of the practice for ensuring that all staff members are aware that pre-approval is required prior to the purchase of products or services. All staff will be reminded of this compliance at the beginning of the school year and mid-year. We will ensure and maintain that the entry proof sheets substantiate transactions. We will stay on top of ensuring vendor payments are issued in a timely manner.	3/8/2021	Implemented
2.	<u>2021.02:</u> <u>Administration of Checks</u>	A. The principal must designate a third check signer to ensure adherence to the APM requirements for two authorized signatures on all checks. B. The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE by ensuring that all voided	Partially Concur	Baden has established and met the requirements for two authorized signatures. A follow-up meeting after the audit findings was held to	2019-2020 SY 3/8/2021	Implemented

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Date: 4/29/2021

		<p>checks are entered in SFO and have “VOID” written across the face of the check, and the signature line removed during the voiding process.</p> <p>C. The principal must perform periodic review of the check file to ensure that Void Check Proof Sheets are included with voided checks as evidence of proper approval.</p>	<p>Concur</p> <p>Concur</p>	<p>remind the recordkeeping staff of the process for voiding checks.</p> <p>This will be implemented and made a part of the practice on a monthly basis.</p>	<p>3/8/2021</p>	
3.	<u>2021:03 Year-End Monetary Transmittal Form (MTF) Envelope Collection Process</u>	<p>MTF receiptees must be reminded of their responsibility relative to MTF envelope submission during the year-end checkout process. The recordkeeping staff should print the “<i>Receiptee History</i>” 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.</p>	<p>Concur</p>	<p>This will be implemented and made a part of the practice prior to issuing MTF’s. A staff meeting will be held yearly and mid-year to review MTF’s responsibilities.</p> <p>At the end of year, I will meet with my recordkeeper to review the “<i>Receiptee History</i>” report and will review the MTF envelope prior to the MTF envelope being sealed at the end of the school year.</p>	<p>6/9/2021</p> <p>6/9/2021</p>	<p>Partially implemented</p>
4.	<u>2021.04: Delinquent Monthly Bank Reconciliations</u>	<p>The principal must establish financial reporting procedures to ensure that monthly bank reconciliations occur by the 15th of each month and are properly reviewed and approved as required.</p>	<p>Concur</p>	<p>There was a gap during the pandemic. This will be implemented and made a part of the practice to ensure that all bank reconciliations occur by the 15th. If I am aware of my recordkeepers attendance and dates of absences in advance, I can be more proactive in ensuring this date is met on time.</p>	<p>3/8/2021</p>	<p>Implemented</p>

Principal Signature: Antron Huff

Date: 4/29/2021

5.	<p><u>2021.05:</u> <u>Excessive</u> <u>Spending in</u> <u>Restricted</u> <u>Accounts</u></p>	<p>All potential expenditures should be evaluated with regard to available resources and care should be exercised to ensure the resources are used for the maximum benefit of the students. Spending in the respective restricted accounts must cease until the accounts' deficits are resolved. The principal must begin monitoring expenditures during the approval process to ensure that restricted fund accounts remain solvent.</p> <p>The principal should consult with the Accounting and Financial Reporting Office regarding resolution of the account deficits.</p>	Concur	<p>This will be implemented and made a part of the practice to ensure that the school is not using unavailable funds from restricted accounts. I will review expenditures monthly to ensure restricted funds remain solvent. We will work with Katrina Green to determine how to resolve the account deficits going into the 2020-201 SY.</p>	3/8/2021	Partially Implemented
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Principal Signature: Antron Huff

Date: 4/29/2021