



June 28, 2021

MEMORANDUM

To: **Sheena Hardy**, Instructional Director
Cluster 3

Peter Thompson, Ed. D., Principal
Forest Heights Elementary School

From: **Michele Winston**, CPA, Director 
Internal Audit

Re: Financial Audit for July 1, 2016 through April 30, 2021

An audit of the financial records of **Forest Heights Elementary School** was conducted for the period July 1, 2016 through April 30, 2021. The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures 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 the principal of the school, you will be responsible for preparing an action plan by **July 28, 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. A copy of the action plan should 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.

Enc.

cc:

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

Internal Audit Report

Forest Heights Elementary School
Student Activity Funds

For the Period Ended April 30, 2021

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For the Period Ended April 30, 2021

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Forest Heights Elementary School for the period July 1, 2016 through April 30, 2021. Forest Height'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:

- *Mismanagement of Fund Received;*
- *Mismanagement of Disbursements;*
- *Restricted Fund Account Deficits;*
- *Fundraiser Forms; and*
- *Administration of Voided Checks*

Individually or in the aggregate, these findings resulted in 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 deviation 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, 2021.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

Internal Audit completed an audit of school activity funds (SAF) for Forest Heights Elementary School for the period July 1, 2016 to April 30, 2021.

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. 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 was in compliance with the policies and procedures of the Accounting Procedures Manual (APM) and the Board of Education (BOE). It is important to recognize that, while the audit report focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

SCOPE

The audit was based on our review of selected bank statements, financial reports, and available cancelled checks, all voided checks, and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2016 to April 30, 2021. Also, selected receipts, disbursements and supporting documentation were reviewed for the said 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 Funds Received

Internal Audit identified the following pertaining to administration of the school's collections:

- **Segregation of Duties** – There was **1** instances where the recordkeeping staff collected funds that totaled \$340.00, documented the MTF, approved the MTF, recorded the funds in SFO and deposited the funds with the school's financial institution. *Refer to the previous year's audit for the period ended June 30, 2015.*
- **Missing Monetary Transmittal Form** – There was **1** instance where MTF #367115 dated November 5, 2019 was recorded in SFO in the amount of \$3,162.00 for the fall Mid Atlantic fundraiser. However, MTF 367115 remittance copies (pink, yellow or white) was not located for review.

The APM states the following regarding the mentioned conditions:

4.5.2.2 Procedures: 3. Preparing Bank Deposits States:

- *The bookkeeper is responsible for counting cash, verifying the total on the MTF and applicable attachments...*

–The APM further states that no one individual should ever be made solely responsible for maintaining records on resources that they have custody of, access to and/or authority over. Ideally, different individuals should be assigned the responsibilities of 1) authorizing transactions, 2) recording transactions and 3) maintaining the custody of the related assets. In simple terms, there should be “checks and balances.”

6.12 Record Retention states:

- *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.*

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The recordkeeping staff did not follow proper protocols when collecting and retaining the school's funds. According to the recordkeeping staff, there was no one else in the building to complete the MTF therefore she completed and signed the MTF. Also, the school only had one deposit in FY 2020 which was misplaced during the school closure that resulted from the Covid-19 pandemic.

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. Inadequate segregation of duties increases the risk for financial fraud in the collection process.

Recommendation: The following steps should be taken to ensure proper processing of collection and record retention for funds received at the school.

- Funds collected at the school should be held in the safe and there should be prompt follow-up (by the next business day) with the remitter to complete the MTF. The recordkeeping staff should refrain from collecting funds.
- The principal should establish records management procedures that ensure the filing of financial records in extenuating circumstances. All financial records should be held securely in accordance with the APM.

2021.02 Inadequate Approval of Expenditure

There were 2 instances where the principal did not provide preapproval of expenditures prior to obligation of the school's resources.

Section 4.5.3 "Cash Disbursements states:

The APM, Section 4.5.3 *Cash Disbursements* requires the completion and approval of a School Funds Expenditure Form (SFEF) by the principal prior to the ordering of goods and services.

Reportedly, expenditures were not pre-approved as indicated on the SFEF because "time was of the essence" when ordering school supplies.

When funds are not adequately approved, it puts the school at risk for fraud, waste, and abuse. In addition, it threatens the solvency of the school's SAF accounts. Inadequate approval of expenditures reduces assurance that purchases were made in accordance with the BOE policies and procedures.

Recommendation: The principal should implement procedures to ensure that SFEFs are completed and presented for approval prior to all school purchases.

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2021.03 Restricted Fund Account Deficits

The following restricted fund accounts contained deficits aggregated to approximately **(\$2,611.84)** as of April 30, 2021.

Account	Name	Amount
450.10	PSA - Flowers	-\$52.84
450.20	PSA – Food	-\$334.00
450.40	PSA – Clothing	-\$2,225.00
Total		-\$2,611.84

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 the Student Activity Funds (SAF), the principal should ensure all accounts are solvent at all times.

The APM, Section 9.6 *Principal Sponsored Activities (PSA) for Staff* indicates discretionary expenditures incurred by the principal on behalf of the school staff are grouped in the PSA accounting category. These activities must of a professional nature that enhances the staff member’s job performance. Expenditures for authorized principal sponsored activities are restricted to funds available from the sources as outlined in the manual, which includes:

- 100% vending commissions in the staff lounge,
- 25% of vending commissions from student accessed machines up to the first \$50,000.00 and
- 15% of school-wide fundraising profits.

According to the recordkeeping staff, the principal wanted to boost staff morale because of the effects on Covid-19. As a result, the school over spent on the PSA expenditures expecting to make up the deficits by the end of FY 2021. The recordkeeping staff reported that due to Covid-19, the school was unable to do their usual fundraising in FY 2020 that would have covered the deficits.

Students are not receiving the maximum possible benefit of the resources that should have been available to them when excessive spending in SAF occurs to benefit teachers.

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Recommendation: The principal should discontinue spending for principal sponsored activities until all deficits are eliminated. The principal should discontinue the practice of spending beyond available restricted account balances.

2021.04 Fundraiser Forms

The school held **10** school-wide fundraisers for the audit period but failed to complete the required fundraising forms.

The APM, Section 7.2.2, *Fundraisers, Procedures*, requires the principal to prepare an annual report summarizing all fundraising activities of the year. The annual report must be maintained on file and made available as necessary.

The principal did not review the APM and implement controls to ensure that the annual fundraising reporting requirement was followed.

It is difficult to determine whether the fundraisers conducted by the school yielded any financial benefit or loss when the required fundraising reports are not prepared and retained. Financial records are not complete and information may not be available to make informed decisions on continuing fundraising activities in the future. The school did not previously follow the fundraising reporting requirements. *Refer to the previous year's audit for the period ended June 30, 2015.*

Recommendation: The principal should familiarize himself with the APM regarding administration of fundraisers to ensure compliance. The principal should prepare an annual report summarizing all fundraising activities concluded at the end of the school. The annual report should include the net amount retained as profit from each fundraising activity. The annual report should be made available for parents and other interested members of the community for review.

2021.05 Administration of Voided Checks

There was **11** instances noted where voided checks were not entered into the accounting system.

The APM provides the following regarding the processing of checks:

- No manual checks should be generated. All checks should be printed from SFO.
- Computerized checks are required to be generated in SFO and recorded to the proper category.

According to the recordkeeping staff, the school went through a renovation and had to temporarily move to another building. When moving back to the original building, the

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checks were no longer in sequential order. The recordkeeping staff manually voided the checks that were not sequenced by removal of the signature lines. The check numbers were not accounted for in SFO.

Failure to consistently enter all checks in SFO constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements. Also, there is no accountability for each check when they are checks are omitted from the accounting system.

Recommendation: The recordkeeping staff should ensure that all checks are accounted for in the SFO accounting system whether voided or not. The principal should perform periodic review of the disbursement register to ensure that there is accountability for each check.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Forest Heights Elementary School was issued for the period ended June 30, 2015. During that period, the bookkeeper held her current position; however the principal changed. The previous audit report included 5 reportable conditions, of which 2 are repeated in the current audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Fundraiser Forms** – See Finding 2021.04 regarding *Fundraiser Forms*.
- **Lack of Property Inventory Documentation** – Controls appear to be working.
- **Inadequate Segregation of Duties** – See Finding 2021.01 regarding *Mismanagement of Funds Received: Segregation of Duties*
- **Year-end Monetary Transmittal Form Envelopes** – Controls appear to be working.
- **Monetary Transmittal Form Documentation** – Controls appear to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and recordkeeping staff of Forest Heights Elementary School for their cooperation and assistance during the audit.

Purpose: To provide documentation for management responses to audit findings

Source: Principal

Prince George’s County Public Schools
Internal Audit Department
School/Office: Forest Heights ES

C-3.1

DM

7.6.22

PBC

Response Date July 28, 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</u> <u>of Funds</u> <u>Received</u>	. The following steps should be taken to ensure proper processing of collection and record retention for funds received at the school. A. Funds collected at the school should be held in the safe and there should be prompt follow-up (by the next business day) with the remitter to complete the MTF. The recordkeeping staff should refrain from collecting funds. B. The principal should establish records management procedures that ensure the filing of financial records in extenuating circumstances. All financial records should be held securely in accordance with the APM.	Partially Concur	In the future the Bookkeeper will refrain from signing MTF’s as the recipient of funds. The Principal and Bookkeeper have scheduled a standing Weekly Meeting beginning on July 23rd. The APM will be a weekly standard Agenda item Due to COVID Restrictions, the Bookkeeper was the only staff member in the school and as per APM Guidelines, did not want to leave a sum greater than \$100 overnight.	6/28/21	Implemented
2.	<u>2021.02</u> <u>Inadequate</u>	The principal should implement procedures to ensure that SFEFs are	Concur	The Principal is aware that all authorization forms are to be	6/28/21	Implemented

Principal Signature **Peter A. Thompson** _____

Date **July 28, 2021**

	<u>Approval of Expenditure</u>	completed and presented for approval prior to all school purchases.		reviewed, approved/not approved and signed. The Principal and Bookkeeper have scheduled a standing Weekly Meeting beginning on July 23rd. The APM will be a weekly standard Agenda item		
3.	<u>2021.03 Restricted Fund Account Deficits</u>	The principal should discontinue spending for principal sponsored activities until all deficits are eliminated. The principal should discontinue the practice of spending beyond available restricted account balances.	Concur	The Principal recognizes that spending of PSA will be discontinued until a positive account balance is achieved. 4 Fundraisers have been planned for the 2021-2022 (1 will start in September, followed by 1 in October) school year to eliminate the negative balances in the PSA. The Principal and Bookkeeper have scheduled a standing Weekly Meeting beginning on July 23rd. The APM will be a weekly standard Agenda item	6/28/21	Partially Implemented
4.	<u>2021.04 Fundraiser Forms</u>	The principal should familiarize himself with the APM regarding administration of fundraisers to ensure compliance. The principal should prepare an annual report summarizing all fundraising activities concluded at the end of the school. The annual report should include the net amount retained as profit from each fundraising activity. The annual report should be made available for parents and other interested members of the community for review.	Concur	All fundraising reports will be completed as per the APM. The Bookkeeper and the Principal will submit all required fundraising documentation. As a reference a sample fundraising report has been requested The Principal and Bookkeeper have a scheduled a standing Weekly Meeting beginning on July 23rd. The APM will be a weekly standard Agenda item	7/1/21	Implemented

Principal Signature

Peter A. Thompson

Date July 28, 2021

5.	<u>2021.05</u> <u>Administration of</u> <u>Voided Checks</u>	The recordkeeping staff should ensure that all checks are accounted for in the SFO accounting system whether voided or not. The principal should perform periodic review of the disbursement register to ensure that there is accountability for each check.	Partially Concur	Voided checks will be placed in the SFO Accounting System within a 24 hours timeframe. This was a unique situation brought about by physically moving all school materials to and from another school location. This Finding was immediately brought to the Auditor's attention at the outset of the audit process. The Principal and Bookkeeper have a scheduled a standing Weekly Meeting beginning on July 23rd. The APM will be a weekly standard Agenda item	6/29/21	Implemented

Principal Signature

Peter A. Thompson

Date July 28, 2021