



October 30, 2020

MEMORANDUM

To: Kristil Fossett, Ed. D, Instructional Director
Cluster 8

Pattie Barnes, Principal
John Hanson Montessori School

From: Michele Winston, CPA, Director 
Internal Audit

Re: Financial Audit for July 1, 2016 through June 30, 2020

An audit was completed on the financial records of **John Hanson Montessori School** for the period July 1, 2016 through June 30, 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 **November 30, 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; Katrina Greene, Student Activity Fund Support Specialist, email address katrina.greene@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
Kassandra Lassiter, Ed. D., Associate Superintendent, Elementary Schools
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, Student 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

**John Hanson Montessori School
School Activity Funds**

For the Period Ended June 30, 2020

John Hanson Montessori School
School Activity Funds
Internal Audit Report
For the Period Ended June 30, 2020

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John Hanson Montessori School
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Internal Auditor's Report

We have examined the School Activity Funds (SAF) of John Hanson Montessori School for the period July 1, 2016 through June 30, 2020. John Hanson Montessori 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 Voided Checks;*
- *Mismanagement of Funds Received;*
- *Record Retention;*
- *Vending Machine Contract;*
- *Monthly Bank Reconciliation and Financial Reporting; 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 June 30, 2020.



Michele Winston, CPA, Director
Internal Audit

John Hanson Montessori School
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Internal Audit Report
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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for John Hanson Montessori School for the period July 1, 2016 through June 30, 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.

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, 2016 through June 30, 2020. In addition, selected receipts, disbursements, and supporting documentation were reviewed for the aforementioned period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations.

2021.01: Mismanagement of Disbursements

Cash disbursements reviewed were not processed in accordance with BOE policies and procedures. Most transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of disbursements were noted:

- A. *Inadequate Approval* – There were **10** instances where expenditures were not adequately approved. The School Funds Expenditure Forms (SFEF) were mostly approved by the principal after the dates of purchases.
- B. *Delinquent Vendor Payments* – There were **4** instances where expenditures were not remitted to vendors in a timely manner. The range of delinquency was between 46 and 77 days.
- C. *Inadequate Supporting Documentation* - There was **1** instance where the supporting documentation to substantiate the check issued was not present.

According to the APM, the following guidelines should be adhered to 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 SFEF that supports the amount of the check.

The recordkeeping staff did not follow established internal controls relative to management of disbursements. Checks were issued without prior approval of the SFEF by the principal. A review of supporting documentation was not completed prior to issuance of the check. In addition, the principal and the recordkeeping staff did not fully comprehend the requirements of the APM and failed to adhere to the due dates on invoices and statements.

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Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and 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. 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 following must be performed to improve the administration of disbursements:

- A. The principal and recordkeeping staff must review the APM requirements for processing disbursements to be aware themselves and to ensure that staff members are aware that pre-approval is required prior to the purchase of products or services. Staff should be held accountable for compliance.
- 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 SFEFs are complete and have adequate supporting documentation prior to issuance of payments.

2021.02: Administration of Voided Checks

The following exceptions were noted relative to the administration of voided checks:

- There were **13** instances where voided checks were not properly voided by removal of the signature line.
- There was **1** instance where a voided check was not entered into the School Funds Online accounting system.

According to the APM, 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 check attached.

The recordkeeping staff did not follow established internal controls relative to administration of voided checks as documented in the APM. Reportedly, the voided check that was not entered into SFO was an oversight by the recordkeeping staff. In addition, the 13 instances checks were voided because preprinted data was inadvertently printed on checks making them un-useable. As such, the recordkeeping staff thought that removal of the signature line was not necessary.

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Failure to void checks as required constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to properly void checks could also result in unauthorized negotiation of checks.

Recommendation: The recordkeeping staff must be reminded of the importance of administering voided checks as required by the BOE. All voided checks must be entered in SFO and the signature line must be removed during the voiding process. The principal must perform periodic review of the voided check file to ensure that the recordkeeping staff is compliance with the voided check requirements.

2021.03: Mismanagement of Funds Received

Collections reviewed were not processed in accordance with BOE policies and procedures as follows:

- A. ***Delinquent Deposits*** – There were **26** instances where deposits were not made in a timely manner. The range of delinquency was between **2** and **23** days.
- B. ***Completion of Monetary Transmittal Forms Sections*** – There was **2** instances where Sections 1 and 2 of the MTF did not agree. Staff did not ensure the MTF was properly completed.

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

- A. Bookkeepers are required to 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.
- B. The staff person collecting funds is responsible for completing all required information on the MTF document. Sections 1 and 2 of MTFs must agree.

BOE policies and procedures relative to collections, as established in the APM were not consistently followed. The recordkeeping staff did not, in part, make timely deposits due to staff members holding MTFs and funds, remitting funds late, or dropping MTFs in the school safe without timely informing the recordkeeping staff. MTFs were not thoroughly reviewed to ensure accuracy of completion.

Failure to adequately perform recordkeeping responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM. Delinquent deposit of funds impact the accuracy of financial reporting upon which administrators rely to make

financial decisions. Failure of staff to properly complete MTFs causes delays in the collection process and hinders the timeliness of deposit of funds.

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Recommendation: The following corrective actions should be implemented for John Hanson Montessori School collections to be processed in accordance with BOE policies and procedures:

- A. The principal and recordkeeping staff must remind staff members that all funds collected are required to be remitted to the recordkeeping staff on a daily basis. In the absence of the recordkeeping staff, the drop safe requirements must be followed to ensure timely remittance. Follow-up with the recordkeeping staff should be performed on the following day. Staff members must be held accountable for complying with the requirement for timely remittance of collection.
- B. The recordkeeping staff must ensure that all MTF documentation is accurately completed. The recordkeeping staff should not accept the MTF if forms are not properly and entirely completed.
- C. 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.

2021.04: Record Retention

Supporting documentation for **3** cancelled checks, **5** voided checks, and **20** transfer of funds transactions were not provided for the audit.

According to Section 6.12 of the APM, *Record Retention*, 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, SFEFs, cancelled checks and contracts.

The recordkeeping staff did not always maintain an adequate filing system. The principal did not consistently provide sufficient oversight. 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 adequate filing system must be maintained to help ensure that in the absence of the recordkeeping staff or principal, financial documents would be appropriately filed and made available for future review.

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2021.05: Vending Machine Contract

The school has 2 faculty vending machines (1 soda and 1 snack). A current signed contract stipulating commissions due 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 these commissions are remitted. The contract term cannot exceed one year.

The principal did not establish internal controls to ensure that a contractual agreement for vending was obtained and maintained on file. Due to the nonexistence of a valid contractual agreement for vending, the BOE cannot determine if the school is deriving maximum benefits from the operation of the vending machines.

Recommendation: The principal must establish procedures to ensure that a current vending machine contracts is obtained 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.

2021.06: Monthly Bank Reconciliation and Financial Reporting

Monthly financial reporting including the preparation of monthly bank reconciliations was not done by the 15th of each month as required. There were 12 instances where the bank account was not reconciled timely. The range of delinquency was 2 to 31 days.

According to the APM, the principal is responsible for receiving the monthly bank statements unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the bookkeeper for preparation of the bank reconciliation. The bookkeeper should complete the reconciliation within 7 days after receiving the statement from the bank. Typically, this process is to be completed by the 15th of each month. The completed bank reconciliation should be submitted to the principal each month for review and approval.

The principal did not exercise proper oversight to ensure that monthly bank reconciliations and financial reporting were completed by the 15th of each month. BOE policies and procedures as established in the APM regarding financial reporting were not followed. Current financial information was not always readily available to inform financial decisions.

Recommendation: The principal must establish financial reporting procedures to ensure that monthly reconciliations and financial reporting occur by the 15th of each month. The recordkeeping staff must be held accountable for compliance.

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2021.07: Excessive Spending in Restricted Accounts

There were **3** restricted fund accounts with deficits totaling **(\$326.00)** as of June 30, 2020 as follows:

- The 420.00 Field Trip account has a deficit of **(\$95.00)**
- The 420.39 Field Trip/National Zoo account has a deficit of **(\$63.00)**
- The 420.90 Field Trip/Dental Museum account has a deficit of **(\$168.00)**

According to the APM, expenditures for restricted accounts are limited to the amount of funds collected for those activities. Restricted accounts in excess of the available funds results in insolvent accounts. As the fiduciary agent for SAFs, the principal is required to ensure that all accounts are solvent at all times.

The principal and recordkeeping staff did not always monitor 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 followed. Expenditures were made despite unavailable restricted fund balances.

Recommendation: Internal Controls should be implemented to ensure that all potential expenditures are evaluated with regard to available resources and due care is exercised to ensure that resources used are based on availability and expended for maximum benefit of the students. Spending in these accounts must cease until the deficits are resolved.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for John Hanson Montessori School was issued for the period ended April 30, 2012. During that period, the current principal and recordkeeping staff did not hold their positions. The previous audit report included **12** 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 status is indicated below:

- **Missing Funds** – Controls appear to be working.
- **Delinquent Deposits** - Condition still exists. **See Finding 2021.03, *Mismanagement of Funds Received.***
- **Principal-Sponsored Activity Account Deficit (PSA)** – Controls appear to be working.

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- **Failure to Pay for Services Rendered through the BOE Oracle System** – Controls appear to be working.
- **Inadequate Supporting Documentation for Disbursements** – Controls appear to be working.
- **Failure to Ensure Vendors were added to the Oracle Financial System** – Controls appear to be working.
- **Contracts Entered into by Staff other than the Principal** – Controls appear to be working.
- **Failure to Retain Monetary Transmittal Forms** – Condition still exists. **See Finding 2021.04** regarding *Record Retention*.
- **Sales Tax Not Collected and/or Paid to the State of Maryland** – Controls appear to be working.
- **Property Inventory Listing Not Updated for Purchases** – Controls appear to be working.
- **Failure to Complete Fundraiser Completion Reports and Annual Fundraising Summary Reports** – Controls appear to be working.
- **Management Oversight** – Controls appear to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of John Hanson Montessori School for their cooperation and assistance extended during the audit.

Prince George's County Public Schools

Internal Audit Department
School/Office: John Hanson Montessori
Response Date November 30, 020

	Findings	Recommendations	Concur Non- Concur Partially Concur	Action Plan	Corrective Action Date	Status Implemented Partially Implemented Not Implemented
1.	<u>2021.01:</u> <u>Mismanagement of Disbursements</u>	The following must be performed to improve the administration of disbursements: A. The principal and recordkeeping staff must review the APM requirements for processing disbursements to be aware themselves and to ensure that staff members are aware that pre-approval is required prior to the purchase of products or services. Staff should be held accountable for compliance. 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 SFEFs are complete and have adequate supporting documentation prior to issuance of payments.		Requests for purchasing items must be adequately made in a timely manner. Approval must be granted before purchases requests are made. Review financial systems for the SY'21 School year during November Faculty Meeting. Departments/Team Leads must submit requests for items the grading term before it is needed to allow time for approval, purchase and shipment.		
2.	<u>2021.02:</u> <u>Administration of</u>	The recordkeeping staff must be reminded of the importance of administering voided		During the Monthly Budget Meeting with Bookkeeper and		

Principal Signature 

12/1/2020

Date _____

	<u>Voided Checks</u>	checks as required by the BOE. All voided checks must be entered in SFO and the signature line must be removed during the voiding process. The principal must perform periodic review of the voided check file to ensure that the recordkeeping staff is compliant with the voided check requirements.		Principal, a review of all voided checks will be performed for compliance checks.		
3.	<u>2021.03: Mismanagement of Funds Received</u>	<p>The following corrective actions should be implemented for John Hanson Montessori School collections to be processed in accordance with BOE policies and procedures:</p> <p>A. The principal and recordkeeping staff must remind staff members that all funds collected are required to be remitted to the recordkeeping staff on a daily basis. In the absence of the recordkeeping staff, the drop safe requirements must be followed to ensure timely remittance. Follow-up with the recordkeeping staff should be performed on the following day. Staff members must be held accountable for complying with the requirement for timely remittance of collection.</p> <p>A. The recordkeeping staff must ensure that all MTF documentation is accurately completed. The recordkeeping staff should not accept the MTF if forms are not properly and entirely completed.</p> <p>C. The principal should perform periodic</p>		Review this procedure during the November Faculty Meeting. Quarterly/Random checks of deposit transactions as well as checks of drop safe documentation will be done throughout the year. Failure to follow through with BOE policies will result in progressive disciplinary actions.		

Principal Signature 

Date 12/1/2020

		review of the deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.			
4.	<u>2021.04: Record Retention</u>	The principal must ensure proper custody of all records relating to SAF until they are audited. An adequate filing system must be maintained to help ensure that in the absence of the recordkeeping staff or principal, financial documents would be appropriately filed and made available for future review.		Cross training with the secretary to ensure recordkeeping continues in the absence of the bookkeeper will be done throughout the year. Periodic checks of SAF documents will be done at-least quarterly, beginning in November for Q1 compliance.	
5.	<u>2021.05: Vending Machine Contract</u>	The principal must establish procedures to ensure that a current vending machine contract is obtained 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.		Contract signed and submitted on October 19, 2020.	
6.	<u>2021.06: Monthly Bank Reconciliation and Financial Reporting</u>	The principal must establish financial reporting procedures to ensure that monthly reconciliations and financial reporting occur by the 15 th of each month. The recordkeeping staff must be held accountable for compliance.		Monthly Bank Statements with pictures of checks will be sent via email to the principal's email. During monthly meetings on or about the 10th of each month, this will be reviewed and compliance documented for submission on the 15th of each month.	
7.	<u>2021.07: Excessive Spending in Restricted</u>	Internal Controls should be implemented to ensure that all potential expenditures are evaluated with regard to available resources and due care is exercised to ensure that resources used are based on availability and		Request submitted to allocate money to accounts in deficit to bring to zero balance. During monthly meetings, review of accounts, purchase requests, bank	

Principal Signature 

Date 12/1/2020

