



March 23, 2018

MEMORANDUM

To: Charoscar Coleman, Ed. D., Instructional Director
Cluster 5

Lynnette Walker, Ed. D., Principal
Bradbury Heights Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of January 31, 2018

An audit of the financial records of **Bradbury Heights Elementary School** was completed for the period July 1, 2014 through January 31, 2018. 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 policies and procedures. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within **30** days, 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, Attention: Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email, address: deborah.smalls@pgcps.org.

This report is intended solely for information and use of the Board Chair and Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended to be and should not be used by anyone other than the specified parties.

cc: Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Segun Eubanks, Ed. D., Board Chair
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Monique Whittington Davis, Ed. D., Deputy Superintendent
Denise Greene, Ed. D., Associate Superintendent, Area I
Erica Berry Wilson, Esq., Executive Director, Board of Education
J. Michael Dougherty, CPA, Esq., Director Financial Services
John Pfister, Chief Financial Officer
Alicia Robinson, Internal Auditor II

Internal Audit Report

Bradbury Heights Elementary School Student Activity Funds

For the Period Ended January 31, 2018

**Bradbury Heights Elementary School
Student Activity Funds
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For Period Ended January 31, 2018**

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Bradbury Heights Elementary School for the period July 1, 2014 to January 31, 2018. Bradbury Heights Elementary School's principal is responsible for the administration of the 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 Governmental Accountability Office 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:

- *Misclassified Transactions,*
- *Principal Sponsored Activity (PSA) Fund Account Deficit,*
- *Financial Reporting,*
- *Delinquent Payment of Invoices,*
- *Sales Tax Not Paid on Items Sold and Reimbursed for Staff Purchases, and*
- *Administration of Voided Checks*

These findings individually or in aggregate, resulted in a material deviation from Board of Education (BOE) policies and Procedures.

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 January 31, 2018.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Bradbury Heights Elementary School for the period July 1, 2014 through January 31, 2018. The audit was conducted as part of the annual audit plan.

The audit results indicate 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.

This report is intended solely for information and use of the Board Chair, Chief Executive Officer and other parties specifically stated in the accompanying transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

OBJECTIVES

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school complied with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit report focuses on deficiencies, it is 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period July 1, 2014 to January 31, 2018. Also, available receipts, disbursements and supporting documentation were reviewed for the said period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01 Misclassified Transactions

There were at least **22** instances where funds were not posted to the correct fund accounts. During FY 2016 disbursements issued for office supplies, PSA, fieldtrips, special events and awards were posted incorrectly to the Administrative Allotment account. Receipts and disbursements issued for field day and career day were posted incorrectly to the General Fundraiser account. School fieldtrip funds were incorrectly posted to the Special Events account. Also, during FY 2017 disbursements and a receipt for 6th grade activities were inappropriately posted to the Special Events account.

The APM section 3.2.2 *Bookkeepers/Financial Secretaries* states that it is the bookkeeper or financial secretary's responsibility to accurately record and report the school's financial transactions.

The former recordkeeping staff misunderstood the purpose of the Administrative Allotment account and inappropriately posted disbursements directly to the account in FY 2016. Administrative Allotment is unrestricted funds used to support the well-being of the entire student body and cannot be transferred into a restricted account, nor be used for staff food, appreciation etc. The former recordkeeping was unaware that the appropriate accounting was for administrative allotment funds to be transferred to specific unrestricted fund accounts for the amount of expenditures. During FY 2017, the assistant principal acted as the recordkeeping staff and was not aware that there was a 6th Grade restricted fund account that should have been used to post related receipts and disbursements.

The school's fund accounts were not accurately stated. The principal is unable to make informed financial decisions when funds are not posted accurately to reflect the proper accounting of funds received and disbursed. Internal controls are compromised and financial records are distorted when receipts and disbursements are not posted correctly.

Recommendation: The current recordkeeping staff should ensure that funds are posted accurately for the principal to make informed financial decisions. The principal should review financial reports to monitor accuracy of financial transactions processed.

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2018.02 Principal Sponsored Activity (PSA) Fund Account Deficit

The PSA fund account had a deficit of **(\$2,907.79)** as of January 31, 2018. The previous deficit as of the audit period ended June 30, 2014 was **(\$318.76)**.

The APM section 9.6 *Principal Sponsored Activities for Staff* indicates that 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. As the fiduciary agent for the Student Activity Funds (SAF), the principal should ensure all accounts are solvent at all times.

The PSA fund account deficit occurred due to excess spending for staff activities without regard for the availability of funds. The former recordkeeping staff incorrectly posted expenditures to the Administrative Allotment account instead of PSA for staff related activities. The principal and former recordkeeping staff were unaware that certain staff related purchases are required to be posted to PSA. The reclassification of expenditures contributed to the increased deficit.

Overspending on PSA constitutes noncompliance with the policy documented in the APM. Students did not receive the maximum possible benefit from the resources that should have been available to them. *This finding was noted during the previous audit period ended June 2014.*

Recommendation: The principal should work towards elimination of this deficit. This can be accomplished by cessation of spending from this account and transferring only authorized vending proceeds and fundraiser profits until the deficit is completely resolved. The principal and financial recordkeeping staff should discontinue the practice of posting staff appreciation expenditures to fund accounts other than PSA.

2018.03 Financial Reporting

There were **22** instances during the audit period where monthly reports were not prepared within the required timeframe. There were also **3** instances where only monthly bank reconciliations were prepared for the principal's review. Accompanying financial reports were not prepared as required. Trimester reports for FY 2017 were prepared by the Student Activity Fund Support Specialist (SAFSS). The reports were not presented to the principal for review and approval.

The APM section 5.2.1 *Financial Reporting Requirements Procedures* require the following monthly reports to be submitted by the 15th of the subsequent month and reviewed and signed by the principal:

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

During FY 2015 and FY 2016, the former recordkeeping staff's competing responsibilities prevented her from always completing the monthly financial reports timely. During FY 2017, the former recordkeeping staff was on extended sick leave resulting in the school not having a dedicated person to perform reporting responsibilities. The assistant principal acted in the capacity of the recordkeeping staff but was not trained on the financial reporting process. Therefore, the SAFSS completed the trimester reports for the school. The current recordkeeping staff was not familiar with the monthly reporting process and was not trained until October 30, 2017.

Failure to prepare the required financial reports impacts the timeliness and reliability of information used by the principal in the decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Recommendation: The principal must implement controls to ensure adherence to the financial reporting requirements. Required reports must be provided to the principal for review by the 15th day following the close of the month. The recordkeeping staff must be held accountable for ensuring that the controls regarding financial reporting are followed.

2018.04 Delinquent Payment of Invoices

There were at least 3 instances where invoices were not paid timely. The delinquency ranged from approximately 37 to 73 days.

The APM section 4.5.3.1 (2) *Cash Disbursement Inclusion of Supporting Documentation* requires that invoices and/or reimbursements should be paid within 30 days of receipt and have appropriate documentation.

The former recordkeeping staff and the assistant principal did not pay the invoices until close to the time for the fieldtrip or when yearbooks were completed, which was after the dates the invoices were due. The former recordkeeping staff was not available to explain why the invoices were not paid by the due dates and the assistant principal did not monitor open invoices closely since she had competing responsibilities. Internal controls are compromised and financial records are distorted when payments are not issued timely. *This finding was noted during the previous audit period ended June 2014.*

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Recommendation: The principal should establish procedures to ensure that all disbursements are made in accordance with guidelines of APM. The principal must perform periodic review of the open invoice folder and hold the bookkeeper accountable for ensuring that all invoices, including reimbursement requests, are paid within 30 days or by the due date on the invoice.

2018.05 Sales Tax Not Paid on Items Sold and Reimbursed for Staff Purchases

There were at least **16** instances of non-compliance regarding administration of sales taxes. The following indicates the issues of non-compliance

- A. ***Sales Tax Not Paid on Items Sold:*** During FY 2016 and FY 2017, there were **14** instances where yearbooks were sold and sales taxes were not collected and remitted to the State of Maryland. Yearbook sales for FY 2016 and FY 2017 were \$952.00 and \$1,040.00 resulting in unpaid sales tax of **\$57.12** and **\$62.40** respectively.

- B. ***Sales Tax Reimbursement:*** There were at least **2** instances where sales taxes were reimbursed to staff members for items purchased. Sales taxes reimbursed were \$8.69 and \$7.20 totaling **\$15.89**.

The APM, section 8.3 *Procedures, Sales Tax*, indicates that when a school engages in the resale of items, collection and remittance of sales tax for merchandise sold that is not fundraising related is required. Also, this guidance prohibits reimbursement of sales tax when purchases are made on behalf of the school.

The recordkeeping staff was unfamiliar with the sales tax requirements relative to yearbook sales. Also, sales taxes were mistakenly reimbursed for school purchases in the noted instances. State of Maryland sales tax requirements were not adhered to. The BOE could be penalized when schools do not adhere to the sales tax requirements. School resources are not used efficiently when staff members are reimbursed sales tax for items that should not be taxable.

Recommendation: The recordkeeping staff should familiarize herself with the applicable sales tax law requirements for items sold as stated in the APM. The principal and bookkeeper should ensure that the delinquent sales tax is posted to the sales tax account for future payment by the Treasury department. Care should be taken when processing future reimbursements to ensure that sales tax is not included. Reimbursement receipts should be properly recalculated to exclude sales taxes when processing payments.

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2018.06 Administration of Voided Checks

There were **22** instances of non-compliance relative to the administration of voided checks. The following non-compliances were noted:

- A. ***Voided Checks Not Properly Mutilated:*** There were at least **8** instances where checks were not properly voided by removal of the signature line.
- B. ***Voided Checks Not Entered in School's Accounting System:*** There was **4** instances where voided checks were not entered in the accounting system as required by the APM.
- C. ***School Funds Expenditure Forms (SFEF) or Void Check Proof Sheets (VCPS) Not Completed or Signed by Principal:*** There were at least **10** instances where the SFEF or VCPS were not made available or were not signed to substantiate preparation and review.

The APM, section 4.5.3.2, *Policies and Procedures, Voiding Checks*, states that a voided check must be voided in the computer. A SFEF or a VCPS from SFO should also be completed, noting that the check was voided. The principal is required to sign the SFEF or the VCPS to acknowledge that the check was voided. The physical check is then filed in check number sequence with images of cancelled checks.

The recordkeeping staff was not aware that all checks must be properly voided by removing the signature line, entering them into the school's accounting system and that a completed, signed SFEF and/or VCPS are required to support voided checks.

Inappropriate administration of checks exposes the school to check fraud, waste and abuse of its resources.

Recommendation: The principal should establish procedures to ensure appropriate voiding of checks by removal of the signature line and retention of the physical check. Voided checks should have completed SFEFs or VCPS signed by the principal and entered into SFO. The principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures. The recordkeeping staff must review the APM to become familiar with the policy and procedures established for voiding checks.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Bradbury Heights Elementary School was issued for the period ended June 2014. Neither the current principal nor current recordkeeping staff was on staff. The principal began her tenure in December 2014. The recordkeeping staff

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began her tenure in September 2017. There were 2 repeat findings noted in the current audit and are included in this report. The following findings were noted as a result of that audit and the current status is indicated below:

- **Delinquent Deposits and Completion of Monetary Transmittal Forms** – Controls appear to be working.
- **Mismanagement of Disbursements.** Condition partially exists. The section relative to gift card purchase was not repeated. **See Finding 2018.04** regarding *Delinquent Payment of Invoices*.
- **Inappropriate Administration of Checks** – Controls appear to be working.
- **Deficit in Principal Sponsored Activity (PSA) Account** – Condition still exists. **See Finding 2018.02** regarding *Principal Sponsored Activity (PSA) Account Deficit*.
- **Missing Year End Monetary Transmittal Forms (MTF)** – Controls appear to be working.
- **Failure to Complete Required Fundraiser Reports** – Controls appear to be working.

ACKNOWLEDGEMENT

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