



February 27, 2018

MEMORANDUM

To: Ava Tasker-Mitchell, Instructional Director
Cluster 1

Kristie Clark, Principal
Kenilworth Elementary School

From: Michele Winston, CPA, Director,
Internal Audit

Re: Financial Audit for July 1, 2014 through October 31, 2017

An audit was conducted of the financial records of **Kenilworth Elementary School** for the period July 1, 2014 through October 31, 2017. 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 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 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. 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.

Enclosure

cc: Kevin Maxwell, Ph.D., Chief Executive Officer of Schools
Segun Eubanks, Ed. D., Board Chair
Carolyn Boston, Vice Chair, Board of Education
Raaheela Ahmed, Board Member, District 5
Monique Whittington-Davis, Ed. D., Deputy Superintendent
John Pfister, Chief Financial Officer
J. Michael Dougherty, CPA, Esq., Director, Financial Services
Denise Green, Ed. D., Associate Superintendent, Area I
Erica Berry Wilson, Esq., Board Executive Director
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**Kenilworth Elementary School
Student Activity Funds**

For the Period Ended October 31, 2017

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

Table of Contents

INTERNAL AUDITOR'S REPORT.....	2
SUMMARY.....	3
OBJECTIVES.....	3
SCOPE.....	3
FINDINGS AND RECOMMENDATIONS.....	4
STATUS OF PRIOR AUDIT FINDINGS.....	11
ACKNOWLEDGEMENT.....	12

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Kenilworth Elementary School for the period July 1, 2014 through October 31, 2017. Kenilworth 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 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:

- *Mismanagement of Disbursements,*
- *Mismanagement of Funds Received,*
- *Administration of Sales Tax,*
- *Year-End Monetary Transmittal Form Envelopes Submission Process,*
- *Record Retention, and*
- *Vending Machines*

Individually or in the aggregate, these findings resulted in a 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 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 October 31, 2017.



Michele Winston, CPA, Director
Internal Audit

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Kenilworth Elementary School for the period July 1, 2014 through October 31, 2017. 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.

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 is in compliance 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 selected bank statements, financial reports, cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period July 1, 2014 through October 31, 2017. Also selected receipts, disbursements and supporting documentation were reviewed for the said period.

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations

2018.01: Mismanagement of Disbursements

The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Supporting Documentation*** - There were **2** instances where disbursements were not properly substantiated by invoices and or store receipts. School Funds Expenditure Forms (SFEF) were ***not*** completed in **4** instances.
- B. ***Inadequate Approval*** - There were **5** instances where expenditures were not adequately approved.
- C. ***Classification of Disbursements*** - There were **2** instances where expenditures were not properly recorded in the accounting system. What happened?
- D. ***Delinquent Vendor Payment*** - There was **1** instance where payment for expenditure was not made in a timely manner. In this instance, the invoice was delinquent by 44 days.
- E. ***Voided Checks*** - During the review of the school's voided checks, the following exceptions were noted:
 - a) There were **6** voided checks that could ***not*** be located.
 - b) There were **6** voided checks that were ***not*** entered into the accounting system.
 - c) SFEFs and Void Check Proof Sheets (VCPS) were ***not*** completed and approved by the principal for **8** disbursements.
- F. ***Contracts*** – There was **1** instance where purchase was made using a contract that did not include the principal's signature.

The APM, Section 4.5.3, *Cash Disbursements* include the following provisions:

- A. All checks must have **original, itemized** documentation attached to the SFEF that supports the amount of the check. Examples of supporting documents include cash register receipts, invoices, bills of sale, etc. Examples of documents that are not itemized invoices or receipts include credit card receipts, statements, and packing slips.
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal.

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

- C. Transactions are required to be recorded in the most specific account relating to the activity. If transactions fit an established category but are expected to occur frequently, it is easier to monitor and track such transactions in a separate account.
- D. 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.
- E. All voided checks must be defaced, filed in check number order with cancelled check images, and entered into the accounting system. SFEFs/VCPS must be completed and approved by the principal for these voided checks.
- F. The principal, as the fiduciary agent of the school, must approve and sign all contractual agreements entered into for all school activities.

The bookkeeper did not follow established internal controls relative to management of disbursements. SFEFs were accepted from staff that were incomplete and/or lacked adequate supporting documentation. Also, the recordkeeping staff failed to research the balance available in the relevant accounts and record that amounts on SFEFs. An adequate filing system was not properly maintained to ensure all financial records were retrievable. The principal, as the fiduciary agent of the school, failed to approve and sign all contractual agreements entered into on behalf of the school. The principal and recordkeeping staff indicated that they were not properly trained and did not read the APM.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Overpayment in the amount of \$5.87 resulted from inadequate documentation. Approving purchases without adequate documentation or failure to adequately substantiate 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. Misclassification of transactions generates inaccurate recording and reporting of the school's financial transactions. Delinquent payments of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed. Failure to properly void checks could result in unauthorized negotiation of checks. When the principal who is the fiduciary agent of the school does not responsibly enter into contractual agreements on behalf of the school, the school's resources may be inappropriately obligated and the risk of insolvency increased.

Recommendation: The principal must ensure the following steps to improve the administration of disbursements:

- A. Supporting documentation deemed acceptable for substantiating disbursements must consist of receipts, contracts or invoices substantiating the amounts expended and are properly maintained to ensure retrieval.

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

- B. Staff members must be made aware that pre-approval is required prior to the purchase of products or services and be held accountable for compliance. SFEFs should be entirely completed by staff. The principal should ensure all pre-approval details are provided on SFEFs prior to approving expenditures.
- C. Internal controls to ensure accurate recording and reporting the school's financial transactions are implemented.
- D. The recordkeeping staff must ensure vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- E. Internal controls exist to ensure that all voided checks are defaced, filed in check number order with cancelled check images, entered into the SFO accounting system and VCPS approved by the principal must be established. The principal should perform periodic oversight to ensure this process is performed.
- F. Internal controls must be established to ensure that the principal, as the fiduciary agent of the school, approves and sign all agreements and contracts entered into for all school activities.

2018:02 Management of Funds Received

The following exceptions pertaining to management of funds received were noted:

A. *Monetary Transmittal Form Documentation*

- There were **23** instances where collections were not properly supported (incomplete MTF, no supporting documentation or no validated bank deposit ticket).
 - There were **25** instances where it appears the recordkeeping staff completed MTFs contrary to the APM requirements.
 - **Swapping** - There was **1** instance where cash **\$7.00** collected by a teacher was exchanged for a check **\$7.00** and deposited in the bank.
 - **Changes to MTFs**- There were **2** instances where changes made to MTFs were not done according to the MTF instructions. Changes were not initialed as required.
- B. **Delinquent Deposit** - There were **15** instances where deposits were not made in a timely manner. The range of delinquency was **4** to **68** days.

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

- C. **Fundraiser Forms** - Staff failed to complete the Fundraiser Request and Authorization Form, Fundraiser Completion Report or annual reports summarizing activities for all fundraising events of the audit period.
- D. **Transfer of Funds Received** - There were 3 instances where transfers were not made in accordance with the requirements of the APM.
- E. **NSF (Non-Sufficient Fund) Checks** - There were 2 instances where the bank returned checks due to non-sufficient funds; however, Internal Audit could not determine if a concerted effort was made to collect funds to cover the amount of the check and any associated fees that may have been charged by the bank.

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 bookkeeper and properly supported with approved MTFs. All SAF is required to be deposited in the form received. Sections 1 and 2 of the MTF must agree and be completed. Changes and alterations made to MTFs require initials.
- B. Bookkeepers must 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.
- C. Clubs and organizations are required to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the principal or designee prepare annual reports summarizing fundraising events held during the school year. These documents must be maintained on file for public and auditor review upon request.
- D. Transfers should take place when expenditures are recorded in unrestricted (or net) accounts that lack a specific funding source, funds must be transferred from an unrestricted account that has revenue (e.g., fundraisers, unrestricted donations, prior year carryover, etc.).
- E. When the bank returns a NSF check, a concerted effort must be made to collect funds to cover the amount of the check and any associated fees charged by the bank. Recordkeeping staff is required to print the *returned check* proof sheet in *SFO* to document their collection efforts.

BOE policies and procedures as established in the APM were not followed. It was indicated that school personnel with recordkeeping responsibilities were not properly trained also, the

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

APM was not read to obtain an understanding of the requirements for administering cash collection. MTFs and supporting documentation were not verified prior acceptance and deposit of funds. Funds were held by teachers, who did not adhere to the same day remittance requirement. The requirement for completion of fundraiser forms was not communicated to fundraising sponsors. The principal did not perform or designate the summarization of fundraising activities for the audit period due to competing priorities.

Failure to adequately perform bookkeeping responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring all funds collected were timely remitted and deposited was not available. Delinquent deposits of funds impacts the accuracy of financial reporting upon which administrators rely to make financial decisions. Failure to initial changes on MTFs removes responsibility from the person making the change and impacts the audit trail. Failure to complete fundraising forms removes audit evidence sufficient to provide administrators and interested personnel with information about fundraising results. Failure to complete transfers in accordance with requirements of the APM could lead to inaccurate recording and reporting of the school's financial transactions. In this case **\$914.54** was inappropriately transferred to the Principal's Sponsored Activity (PSA) fund account. The school may have incurred unrecovered costs relative to non-sufficient funds.

Recommendation: The following corrective actions should be implemented for Kenilworth Elementary School's collections to be processed in accordance with BOE policies and procedures:

- A. All MTF documentation must be complete by verifying that supporting documentation is attached to MTFs prior to acceptance and deposit of funds. MTFs should be returned to the preparers to initial changes when exceptions are noted.
- B. Reminders that all funds collected and remitted should be deposited on a daily basis especially funds in excess of **\$250.00** must be provided. Teachers must be informed that funds collected cannot be held overnight. Adequate time for verification of funds must be provided to recordkeeping staff to ensure compliance. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required. All staff should be held accountable for compliance.
- C. The principal must establish internal controls to ensure that staff completes the required fundraising forms for fundraising events held. These documents must be maintained on file for public and auditor review upon request.
- D. The bookkeeper must perform reversing journal entries to restore the **\$914.54** that was inappropriately transferred to the PSA fund account. *It should be noted that this transfer will place the PSA account in a negative status.*

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

- E. The principal must establish internal controls to ensure that a concerted effort is made to promptly collect funds to cover the amount of the check and any associated fees that the bank may charge when non-sufficient checks are presented.

2018:03 Administration of Sales Tax

There were 3 instances where sales taxes were not collected on taxable transactions in accordance with State of Maryland and BOE sales tax requirements.

The APM Section 8.0, *Sales Tax* requires adherence to Maryland Comptroller of the Treasury regulations when the school engages in resale of taxable items. This involves collection and remittance of sales tax for merchandise sold.

Staff members collecting funds did not document sales tax on the MTFs. Also, the recordkeeping staff did not identify sales taxable transactions. This has led to BOE policies and procedures requiring remittance of sales taxes to the State of Maryland and the reimbursement of sales tax not being followed and the school being in violation. The BOE can be penalized for failure to remit sales taxes.

Recommendation: The should ensure that appropriate sales tax is collected and remitted to the State of Maryland for all sales taxable items sold by the school. The APM should be reviewed by recordkeeping staff to understand what constitutes sales taxable items.

2018.04 Year-End Monetary Transmittal Form Envelopes Submission Process

The year-end MTF envelope submission and collection process was not operating as required by the policies outlined in APM. There were 27 instances where MTF remittance copies could not be located.

According to the APM, each staff member who collected SAF is responsible for maintaining an envelope containing both pink and yellow copies of MTF remittances generated during the school year. The staff member is required to submit the signed, sealed envelope to the designated administrator during the year-end check out process. The envelopes should remain sealed until requested by Internal Audit.

It does not appear that any documented training was provided to the staff relative to the year-end MTF envelopes 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 SAF collected were subsequently deposited was compromised and the potential for loss of assets increased.

Recommendation: Staff must be reminded of their responsibilities relative to MTF envelopes submission during the year-end check out process. The “*Receiptee History*” report should be

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

printed from the accounting system and provided to the administrator responsible for collecting MTF envelopes at year-end. The principal should instruct the administrator to obtain MTF envelopes based on the printed report. Also, each employee must be held accountable for submitting MTF envelopes as part of the year-end check out process.

2018.05 Record Retention

Supporting documentation for 3 MTFs receipts transactions, 4 check transactions, 6 cancelled checks and 2 transfers could not be located for review.

According to **Section 8.13** of APM, *Record Retention*, “all SAF records must be retained for a period of five 7 years and or until audited... 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”.

An adequate filing system was not maintained and oversight was not provided by the principal to facilitate records management. As a result the school was non-compliant with BOE policies and procedures regarding record retention. Failure to make financial records available for an 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. An adequate filing system must to be implemented to help ensure access to financial documents when required.

2018.06 Vending Machines

A current signed contract stipulating commissions due the school and frequency of commissions was not on file for the vending machines.

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 ensure that the school established a contractual agreement for vending. Due to the nonexistence of a valid contractual agreement for vending, it cannot be determined whether the school is deriving maximum benefits from the operation of the vending machines.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are 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.

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Kenilworth Elementary School was issued for the period ended June 30, 2011. During that period, the principal and recordkeeping staff were not in their current positions. The previous audit report had 11 reportable conditions, of which 6 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:

- **Management of Funds Received** - Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Funds Received*.
- **Fundraiser Forms** - Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Funds Received*.
- **Sales Taxes not Collected for All Items Sold** - Condition still exists. See **Finding 2018.03** regarding *Administration of Sales Tax*.
- **Separation of Duties** - Control appears to be working.
- **Management of Disbursements** - Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Disbursements*.
- **Gift Cards** - Control appears to be working.
- **Payment for Services Rendered using Student Activity Funds** - Control appears to be working.
- **Financial Transactions Posted to Incorrect Accounts** - Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Disbursements*.
- **Equipment Purchased with Student Activity Funds Not Recorded on Property Inventory Listing** - Control appears to be working.
- **Delinquent Payment of Invoices** - Condition still exists. See **2018.01** regarding *Mismanagement of Disbursements*.
- **Grants** - Control appears to be working.

Kenilworth Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended October 31, 2017

ACKNOWLEDGEMENT

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