



July 3, 2018

MEMORANDUM

To: Charoscar Coleman, Instructional Director
Cluster 5

Chelsea Hill, Principal
Adelphi Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for the Period July 1, 2014 through February 28, 2018

An audit was completed on the financial records of **Adelphi Elementary School** for the period July 1, 2014 through February 28, 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 Fund (APM) and Board of Education policies and procedures. The exceptions noted are included in the attached 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. 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.

Enclosure

cc. Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Carolyn Boston, Vice Chair, Board of Education
Erica Berry Wilson, Esq., Executive Director, Board of Education
Members, Board of Education
J. Michael Dougherty, Director, Financial Services
Theodore Dzodzomenyo, Internal Auditor II

Internal Audit Report

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Student Activity Funds

For the Period Ended February 28, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Adelphi Elementary School for the period July 1, 2014 through February 28, 2018. Adelphi 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:

- *Mismanagement of Funds Received*
- *Drop-Safe Not on School Premises*
- *Untimely Financial Reporting*
- *Mismanagement of Disbursements*
- *Unapproved Fund Transfers*

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 (APM) for School Activity Funds.

In our opinion, except for the deviation from the criteria described in the preceding paragraph, the APM referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended February 28, 2018.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit on the student activity funds (SAF) for Adelphi Elementary School for the period July 1, 2014 through February 28, 2018. The audit was conducted as part of the audit plan for the year.

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 to determine whether the school was in compliance with the policies and procedures of the Accounting Procedures Manual for School Activity Funds 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 all bank statements, financial reports, all available cancelled checks, voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period July 2014 through February 2018. Also, selected 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: Mismanagement of Funds Received

The following exceptions pertaining to the management of funds received were identified:

- A. ***Delinquent Deposits:*** There were **2** instances during the audit period where funds were not deposited timely to conform to BOE policies. , The deposits were not remitted on the day of collection or were deposited after the 2 day requirement in the noted instances.
- B. ***Inappropriate MTF Corrections and Recording Errors:*** There was **1** instance where the correction on a MTF was made in a manner that obscured the original entry. An incorrect MTF number was used to record funds received in another instance.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* includes the following provisions:

- A. SAF received are required to be deposited at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.
- B. All MTFs are required to be completed in ink. Correcting errors using correction fluid, “whiteout” or any other method that obscures the original entry on the form is not permitted. Also, the APM requires accurate recording and reporting of school financial transactions. Each MTF has a unique number which identifies the form and the deposits made.

The following were the causes for non-compliance with mismanagement of funds received:

- A. Funds were not remitted until after the recordkeeping staff had left for the day in one instance. The recordkeeping staff was not available to deposit the funds on the day of collection in the other instance.
- B. The recordkeeping staff explained that, the incorrect MTF number was an error in recording.

Untimely deposits increase the risk of loss and fraud while inaccurate or obscure data results in unreliable financial information, and a compromise of the audit trail.

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Recommendations: The following is recommended to ensure that procedures relative to collection of SAF are followed when administering funds received:

- A. Staff members must be reminded that, funds should not be held overnight. Also the recordkeeping staff should ensure that, no more than \$250.00 is kept in the building overnight.

- B. Staff members must be reminded of the importance of clarity and accuracy when recording and correcting financial entries on the MTF. Due care must be exercised to ensure that, information recorded in the School Funds Online (SFO) is accurate.

2018.02: Drop-Safe Not on School Premises

The school does not have a drop safe for teachers to remit funds in the absence of the recordkeeping staff.

According to the APM Section 4.5.2.2, *Cash Receipts Procedures*, depository (drop) safes are required for every school. The safe should be bolted to the floor and placed in a location accessible to staff which will facilitate remitting funds in the bookkeeper's absence.

It was explained that, a suitable location to install the drop safe could not be identified. SAF is compromised when items of value cannot be properly secured.

Recommendation: The principal should identify a non-visible location, accessible to the staff, to facilitate the remittance of funds when the recordkeeping staff is not available. A log should be maintained for the drop safe to record the details of the funds remitted (i.e. staff name, date, and MTF number, amount and staff signature) in accordance with the APM. The drop safe contents' must be checked daily for any funds that may have been placed in the safe overnight.

2018.03: Untimely Financial Reporting

During the review of the internal controls over the reporting process and the school's compliance with the reporting requirements for the audit period, there were **10** instances where monthly financial reports were not completed timely.

The APM Section 5.2, *Financial Reporting Requirements*, requires that, the principal receive monthly financial reporting packages by the 15th of the subsequent month. The principal should sign and date the checklist of the reports package which includes:

- Original Bank Statement(s),
- SFO Bank Reconciliation Report,

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- Available Funds Report,
- Year to Date Report,
- Journal Entry Register, and
- Insolvent Report.

The recordkeeping staff was not consistent in completing the reports by the 15th of the subsequent month.

Delinquent reporting impacts the timeliness of information used in the decision-making process. The principal's ability to promptly verify the school's solvency status may also be impacted.

Recommendation: The principal should establish financial reporting controls to support timely report submission and by ensuring that monthly financial reports are prepared by the 15th of the month following the month of review and as evidenced by a signature.

2018.04: Mismanagement of Disbursements

The following exceptions pertaining to the management of funds disbursed were identified:

- A. ***Inadequate Approval of Disbursements*** - There were **16** instances where the date of approval by the principal was not appended on the School Funds Expenditure Form (SFEF).
- B. ***Reimbursement of sales-tax paid*** – There were **2** instances where staff members received reimbursements for sales tax paid when acquiring items for the school.

The following applicable criteria pertaining to disbursement of funds was noted:

- A. The APM Section 4.5.3, "*Cash Disbursements*" provides that, prior to ordering or purchasing goods or services; a SFEF must be completed and signed by the principal.
- B. The APM Section 8.0 "*Sales Tax*" state that, purchases made by schools and PGCPs are tax-exempt, if used in the conduct of school business. After the principal pre-approves a SFEF, a copy of the certificate is provided to the individual for presentation to the vendor when making the school purchase. Further, sales tax will not be reimbursed if paid when purchasing items for education purposes.

The following were the causes for non-compliance with disbursement of funds:

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- A. The principal has explained that it was an oversight not to append the date on the SFEF when expenditures for disbursements were approved.
- B. The recordkeeping staff explained that it was an oversight on her part to not have deducted the sales tax from the total expenditure prior to reimbursing staff.

The following were the effects of non-compliance with disbursement of funds:

- A. Failure to indicate the date when approving expenditures eliminates evidence that disbursements were preapproved prior to the school being obligated by the staff members.
- B. Reimbursement of sales tax is a violation of BOE policies and results in loss of funds to the students.

Recommendation: The following is recommended to ensure disbursements are administered in accordance with requirements of the APM:

- A. The principal should always remember to append the date next to her signature to indicate the dates the disbursements are approved.
- B. The recordkeeping staff should always remember to exclude sales taxes paid by staff members prior to writing the reimbursement checks. The principal should also verify that, the amount of the check is the pre-tax total and not the total sales amount.

2018.05: Unapproved Fund Transfers

There were 5 instances of transfer journal entries that were made without authorization:

- There was 1 instance where the recordkeeping staff recorded a transfer of \$2,538.86 between fund accounts without the principal's approval.
- There were 4 separate instances where transfers totaling \$4,422.33 were made from the Prior Year (PY) Carryover account to offset expenses without seeking approval from the Accounting and Financial Reporting office.

The APM, Section 4.5.4, *Transfer of Funds* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal. For example, if senior class officers wish to designate a portion of their class funds to another club or class in the school, a statement to that effect must be signed by the officers, reviewed by the faculty sponsor and forwarded to the principal for approval. Also, Section 4.5.5, *Prior-*

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Year Carryover states that the principal may request the use of Prior-Year (PY) Carryover to purchase instructional materials, computers, maintenance needs, or other items for the school from Business Operations.

Failure to obtain approval for transfers constitutes non-compliance with BOE policies and procedures. Inter-Fund transfers can lead to overall insolvency for the school and obscure insolvency of specific accounts. The lack of documented approval compromises the audit trail.

Recommendations: The principal should ensure that, the fund transfer process follows the BOE policies and procedures. Allowable transfers should be completed with appropriate documentation. Additionally, procedures should be established that require the recordkeeping staff to print the transfer proof sheets and obtain signatory approval from the principal prior to making transfer between restricted accounts. The principal should also obtain approval from the Accounting and Financial Reporting Office prior to expending PY Carryover funds.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Adelphi Elementary School was issued for the period ended June 30, 2014. During that period, the principal and the recordkeeping staff were in their current positions. There was 1 reported finding in the previous audit which is repeated in this current report. The following findings were noted as a result of that audit and the current status is indicated.

- **Sales Taxes Not Remitted for Items Sold**- Condition still exists. **See Finding 2018.04** regarding *Mismanagement of Disbursements*.
- **Lack of Approval or Preapproval of Disbursements** - Condition still exists **See Finding 2018.04** regarding *Mismanagement of Disbursements*.
- **Out of County Field Trip not Approved** - Condition was not noted during this audit.
- **Equipment Purchased with Student Activity Funds Not on Inventory Listing** - Condition was not noted during this audit.

ACKNOWLEDGEMENT

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