



July 25, 2018

**MEMORANDUM**

To: David Curry, Instructional Director  
Cluster 2

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for Period July 1, 2014 to April 30, 2018

An audit of the financial records of **Tanglewood Regional** was completed for the period July 1, 2014 to April 30, 2018. The audit results indicate that the school's internal controls require improvement to ensure compliance with board policies. The exceptions noted are included in the attached report.

The school's principal retired on June 30, 2018. The school's bookkeeper has been on extended sick leave since December 2017 and it is unclear whether she will be returning. This report should be incorporated into the orientation of the new SAF administration team at the school for the 2018-2019 school year.

As the Instructional Director for Tanglewood Regional, we are requesting that once a new principal is assigned, you will advise of this report and request preparation of an action plan within **30** days, indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual. The signed action plan should be sent to the Internal Audit Office, Sasscer Administration Building. Please note that it is required to complete the action plan using the attached Microsoft Word template and all correspondence should be sent to the Internal Audit Office at [internal.audit@pgcps.org](mailto:internal.audit@pgcps.org). A copy of the action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: [Deborah.smalls@pgcps.org](mailto:Deborah.smalls@pgcps.org).

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair  
Monica Goldson, Ed. D, Interim Chief Executive Officer  
Carolyn Boston, Vice Chair, Board of Education  
Members, Board of Education  
J. Michael Dougherty, Director, Financial Services  
Denise Greene, Ed. D., Associate Superintendent, Area I  
Erica Berry Wilson, Esq., Executive Director, Board of Education  
Daniel Reagan, Internal Auditor II

# Internal Audit Report

## Tanglewood Regional School Student Activity Funds

For the Period Ended April 30, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Tanglewood Regional School for the period July 1, 2014 to April 30, 2018. Tanglewood Regional 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 Donation Accounts;*
- *Mismanagement of Funds Received;*
- *Mismanagement of Disbursements;*
- *Untimely Bank Reconciliations ;*
- *Year-End Monetary Transmittal Forms Submission Procedures Not Followed;*  
*and*
- *Voided Checks Not Properly Administered*

Individually or in 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 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, 2018.



Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit of student activity funds (SAF) for Tanglewood Regional for the period July 1, 2014 to April 30, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures require improvement to be in full compliance 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 was in compliance with the policies and procedures of the APM and the 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, available cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period July 1, 2014 to April 30, 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 Donation Accounts**

A large majority of the school's funding is through outside donations. According to the Principal and based on review of donation letters, donors deemed this funding as unrestricted donations to be used at the school's discretion. However, \$12,922.98 of the \$22,964.42 in the donations collected during the audit period was placed into restricted donation accounts.

Journal entry transfers from restricted accounts are prohibited in most instances which affects use of these funds for disbursements. It was noted that payments for school items such as computers, postage, and classroom supplies were made directly out of the restricted donation accounts in 7 of the 8 disbursements reviewed.

The APM, Section 4.3, *Fund Accounts*, states that restricted accounts are for funds that are raised by a specific group and/or for a specific purpose and are used exclusively for that group and/or purpose and not for general needs of the school. Unrestricted accounts are for funds raised to benefit the entire student body and/or meet the general needs of the school.

The APM, Section 4.3.2, *Fund Account Procedures*, also states that transactions should be recorded in the most specific account relating to the activity.

The principal stated that the financial recordkeeping staff used the restricted donation accounts because unused funds in the unrestricted donation account were swept into the PY Carryover account at the end of each fiscal year. The principal and the financial recordkeeping staff believed that funds held in the PY Carryover account were unavailable for use. Mismanagement of donations constitutes non-compliance with BOE policies and procedures and unreliable accounting of expenditures.

**Recommendation:** The incoming principal and financial recordkeeping staff should coordinate with Accounting and Financial Reporting to transfer the restricted donation balance to an unrestricted donation account. Further, the incoming principal and financial recordkeeping staff should ensure that future unrestricted donations are recorded in an unrestricted account. Finally, transfers should be processed to ensure expenditures are properly accounted for. The principal and recordkeeping staff should contact Accounting and Financial Services staff regarding use of PY Carryover funds.

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**2018.02 Mismanagement of Receipts**

The following exceptions pertaining to the management of receipts were identified:

- A. ***Inappropriate Signing of Monetary Transmittal Forms:*** There were 7 instances where MTFs were not properly signed by both the receiptee and the bookkeeper.
- B. ***Inadequate Documentation of Monetary Transmittal Forms:*** There were 7 instances where receiptees were not properly identified in SFO. The source of the donation was identified instead.
- C. ***Improper recording of Monetary Transmittal Forms:*** There were 2 instances where MTF numbers were not properly recorded in SFO.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that the person collecting funds is responsible for completing all required information, including signing and dating the form. After approving a MTF, the bookkeeper returns the yellow copy to the originator.

The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries* states that the bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions.

The school has experienced 2 extended absences from their financial recordkeeping staff during the audit period, including from December 2017 through the end of the FY 2018 school year. The principal has contacted Human Resources to request coverage, but has been unsuccessful. Without a recordkeeping staff, roles and responsibilities regarding MTFs have not been performed appropriately. In some cases, the principal signed as both the receiptee and the bookkeeper on the MTF. In other cases, the bookkeeper signature was left blank.

Misidentifications of receiptee name and MTF numbers in SFO occurred a result of financial recordkeeping staff confusion and lack of experience with SFO.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The absence of dual signatures on MTFs represents a key control risk to ensure accountability of funds prior to deposit. Further, misidentification of MTF numbers and Receiptee information compromises the end of year MTF procedures (See 2018.05).

**Recommendation:** The new principal and financial recordkeeping staff should develop and document procedures to ensure that all MTFs are signed by the receiptee and by the

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individual who is performing bookkeeping responsibilities. The financial recordkeeping staff should also ensure that transactions are properly recorded in SFO, particularly the receiptee's name and MTF number. The principal may consider identifying other staff members to perform responsibilities in the interim. The principal should also contact Accounting and Financial Reporting Office for assistance.

**2018.03 Mismanagement of Disbursements**

The following exceptions pertaining to the management of disbursements were identified:

- A. ***Inadequate Pre-Approvals:*** There were **5** instances where School Funds Expenditure Forms (SFEFs) were not completed to document the approval process.
- Pre-approval signatures were not dated by the principal in **2** instances.
  - There were **3** instances where funds available were not properly indicated prior to the pre-approval of SFEFs.
- B. ***Late Payments:*** Payments were made to vendors after the due date on the invoice in **2** instances.

The APM, Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for front office staff to indicate funds available in the relevant account prior to the principal providing pre-approval.

The APM, Exhibit B, *Staff Responsibility for School Activity Funds* states that Principals should review invoices and statements for past due amounts and ensure payments are made within 30 days of the invoice date, or by the due date on the invoice.

Due to the infrequent usage of the school's checking account, effective controls regarding disbursements have not been established. The principal and financial recordkeeping staff were unclear on the APM's requirements for pre-approvals, specifically that SFEFs were needed for payments to vendors. In addition, large payments to vendors were not always made timely because the financial recordkeeping staff and principal would have to deliberate on how to pay for the expenditure (SAF vs. School's Operating Budget).

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to complete the SFEF properly can lead to insolvent accounts when the principal is not made aware of all disbursements being made by the school. In addition, late payments can result in late charges and eroding of relationships with vendors.



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**Recommendation:** The new principal and financial recordkeeping staff should develop and document procedures to ensure that only expenditures that have been pre-approved by the principal are processed as evidenced by dated signature on a SFEF. Further, the new principal and financial recordkeeping staff should improve planning for expenditures to ensure that payments to vendors are made timely.

**2018.04 Untimely Bank Reconciliations**

There were **8** instances where bank reconciliations were not completed timely. Bank reconciliations were not signed by the principal in **5** instances.

The APM, Section 5.1.2, *Bank Statement Reconciliations Procedures*, states that bank reconciliations should be completed by the bookkeeper within 7 days after receiving the statement from the bank. Typically this process should be completed by the 15<sup>th</sup> of each month. The completed reconciliations should be returned to the Principal every month for review and approval.

The principal and financial recordkeeping staff have not established a practice of completing bank reconciliations and corresponding reports on a monthly basis. In several instances, all reconciliations were completed at once before a quarterly or trimester submission to Accounting and Financial Reporting.

The school has experienced 2 extended absences from their financial recordkeeping staff during the audit period, including from December 2017 through the end of the FY 2018 school year. The principal has contacted Human Resources to request coverage, but has been unsuccessful. Without an acting bookkeeper, Accounting and Financial Reporting has had to complete the school's bank reconciliations at the end of each trimester.

Untimely and unapproved bank reconciliations constitute non-compliance with Board policies and procedures, and increases financial risk to the school. The bank reconciliation is the most important control to prevent and detect fraud.

**Recommendation:** The new principal and financial recordkeeping staff should develop and document a procedure to ensure bank reconciliations and corresponding reports are completed and approved monthly.

The Instructional Director, in coordination with Human Resources, should ensure that the school is properly staffed to manage the SAF for the 2018-2019 school year.

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**2018.05 Year-End Monetary Transmittal Forms Submission Procedures Not Followed**

The school has not instituted a year-end MTF collection process. Administrative staff members maintained both pink and yellow copies of their MTF remittances instead of placing them in sealed envelopes and submitting them to a designated staff during the year end check-out process.

The APM, **Section 4.5.2.2, *Cash Receipts Procedures***, states that the pink copy of the MTF is to be maintained by the preparer of the form after it is initially completed. The white and yellow copies are submitted to the bookkeeper with funds. After approving the MTF, the bookkeeper returns the yellow copy to the originator. Prior to departing at year-end, faculty and program managers are required to submit the pink and yellow copies of the MTFs in a sealed envelope with their signature over the seal to the designated administrator.

The principal was unaware that administrative staff was required to submit their MTF remittance copies at the end of each year. She was aware of the requirement in the APM, but thought it only applied to teachers.

The ineffective end-of-year MTF process constitutes non-compliance with BOE policies and procedures. The audit trail for ensuring that student activity funds collected were subsequently remitted and deposited was compromised.

**Recommendation:** The new principal and financial recordkeeping staff should develop and document year-end MTF submission procedures, to include front office staff.

**2018.06 Voided Checks Not Properly Administered**

The following exceptions pertaining to voided checks were identified:

- A. ***Voided Check Approval:*** The void check proof sheets were not approved by the principal in **9** instances.
- B. ***Signature Lines:*** Hard-copy checks were not properly voided with the removal of the signature line in **8** instances.
- C. ***Recording of Voided Checks:*** Voided checks were not properly entered into SFO in **2** instances.
- D. ***Missing Voided Checks:*** Hard-copy voided checks could not be located in **2** instances.

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The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and unable to be used, the physical check must still be accounted for. The word “VOID” is written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer to keep the empty transaction in the system. A SFEF should also be completed for the principal’s approval.

The Principal and financial recordkeeping staff were not aware of the specific requirements for the approval of voided checks.

The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. The lack of principal approval and proper defacement of voided checks increases the risk of check fraud.

**Recommendation:** The new principal and financial recordkeeping staff should familiarize themselves with the procedures for voiding checks as outlined in the APM and demonstrate compliance by approving, recording, and maintaining voided checks.

### **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for **Tanglewood Regional School** was issued for the period ended **June 30, 2014**. The principal and financial recordkeeping staff were in their current position for the entire audit period. However, the principal retired at the end of the 2017-2018 school year, and the bookkeeper has been on extended sick leave since December 2017. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Funds Received** – Condition partially exists. See **Finding 2018.02** regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** – Condition partially exists. See **Finding 2018.03** regarding *Mismanagement of Disbursements*.
- **Equipment Purchased with SAF not Recorded on Self-Insurance Forms** – Controls appear to be working.

### **ACKNOWLEDGEMENT**

We would like to thank the principal and staff of Tanglewood Regional School for their cooperation and assistance during the audit.