



November 15, 2019

MEMORANDUM

To: Susan Holiday, Instructional Director
Cluster 2

Cecelia Jones-Bowlding, Principal
Glenarden Woods Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for June 1, 2017 through August 31, 2019

An audit of the financial records of Glenarden Woods Elementary School was completed for the period June 1, 2017 through August 31, 2019. The audit indicates that the school's internal controls require improvements 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 by **December 15, 2019** 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 Derrick Martin, Internal Auditor II, email address: derrick.martin@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org. Please send the WORD and PDF version of your action plan and other correspondence.

Enclosure

cc: Alvin Thornton, Ph. D., Chairman, Board of Education
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, CPA, Director, Financial Services
Kassandra Lassiter, Ed. D., Associate Superintendent for Elementary Schools
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Dan Reagan, Internal Auditor II

Internal Audit Report

**Glenarden Woods Elementary School
Student Activity Funds**

For the Period Ended August 31, 2019

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Glenarden Woods Elementary School for the period June 1, 2017 through August 31, 2019. Glenarden Woods 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;*
- *Year-End Monetary Transmittal Form Procedures Not Followed;*
- *Unpaid Bills Spreadsheets Not Completed;*
- *Voided Checks Not Properly Defaced; and*
- *Club Budgets Not Developed,*

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 August 31, 2019.



Michele Winston, CPA, Director
Internal Audit

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SUMMARY

Internal Audit completed an audit of the student activity funds (SAF) for Glenarden Woods Elementary School for the period June 1, 2017 to August 31, 2019. The audit was conducted following an anonymous hotline complaint that fraudulent financial practices were occurring at the school. The complaint was documented as Hotline PGCPs 19-07-0010.

The audit and investigation indicate that the school's internal controls require improvements 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 along 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 Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period June 1, 2017 to August 31, 2019. In addition, 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:

2020.01 Mismanagement of Disbursements

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

- A. ***Lack of Proper Pre-Approval:*** There were **12** instances where the principal did not provide written pre-approval prior of the commitment of funds. The pre-approval was made by the TAG Coordinator instead of the principal without a written delegation of duties in 2 instances. The financial recordkeeping staff did not indicate the amount of funds available in the relevant fund accounts on the School Funds Expenditure Form (SFEF) to assist the pre-approval process in **7** instances. ***(This condition was also noted in the previous audit as of May 31, 2017)***

- B. ***Inadequate Support:*** There were **3** instances, where expenditures were not adequately supported by invoices and or store receipts. ***(This condition was also noted in the previous audit as of May 31, 2017)***

- C. ***Unavailable Documentation:*** Cancelled check images could not be located in **3** instances. ***(This condition was also noted in the previous audit as of May 31, 2017)***

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

- A. 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 the amount of funds available in the relevant account prior to the principal providing pre-approval. The APM, Section 3.2.1, *Principals*, states that the principals is responsible for pre-approval of all expenditures from the SAF. If the principal anticipates an extended absence, the pre-approval function may be delegated to a vice-principal or alternate administrator. It is necessary that the principal sign a written delegation naming the designee and the specific timeframe of his/her absence.

- B. All checks must have itemized documentation attached to the SFEF that supports the amount of the check. Examples of supporting documents are cash register receipts, invoices, bills of sale, etc. Examples of documents that are not itemized invoices or receipts include credit card receipts, statements, order confirmations, price quotes and packing slips.

- C. Images of cancelled checks must be returned with the bank statement. Once received, these images are to be maintained in a separate cancelled check file for the entire year. The bookkeeper must safeguard the images of cancelled checks, including endorsement

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information on the back of checks. SFEFs and supporting documentation should be filed in a three-ring binder by check number. All SAF records must be retained for a period of 7 years and/or until audited, including the current fiscal year.

The principal provided training to staff to improve the pre-approval process for staff reimbursements following the previous audit. However, she did not establish processes to ensure that field trip expenditures and her own reimbursements were properly pre-approved. Although field trip details go through a pre-approval process, the principal did not have field trip sponsors complete SFEFs during this process. Rather, they were usually completed when checks were processed, on the day of the field trip, after the commitment of funds.

The principal was not fully aware of the parameters for completing SFEFs for her own reimbursements. For a short time, she thought that she could not sign those SFEFs for pre-approval, and had the TAG Coordinator provide the pre-approval. In other situations, there were no signatures on those SFEFs. Principals should provide pre-approvals of all expenditures so that it is determined that funds are available and that the vendor is approved by the BOE.

The financial recordkeeping staff did not hold staff members accountable by ensuring that reimbursement requests were supported by invoices, cash register receipts or contracts instead of order forms or credit card transaction forms.

The missing cancelled check images identified were from the 2016-2017 school year. The school underwent a renovation and operated out of Robert Goddard Middle School in 2016-2017. The cancelled check images may have been lost during the move back to the Glenarden Woods Elementary School building in the summer of 2017.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Specifically, the lack of pre-approval process can lead to insolvent accounts, since available funds are not considered when checks are processed. Inappropriate support for expenditures can lead to incorrect check amounts and potential fraud. Finally, missing check images compromises the audit trail necessary to ensure that SAF is properly administered.

Recommendation: The principal should include SFEFs as part of the field trip approval package to ensure expenditures are properly pre-approved. She should also ensure that her own reimbursements are accompanied by a properly completed SFEF.

The current financial recordkeeping staff should ensure that all expenditures are properly supported before processing payments. Efforts should continue in filing and maintaining all cancelled check images returned from the bank as required by the APM.

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2020.02 Mismanagement of Funds Received

The following exceptions pertaining to the management of SAF collection were identified:

- A. ***Delinquent Deposits:*** There were **14** instances where deposits were not made timely following initial collection of funds. Deposits were made up to 15 days after initial collection by staff members. *(This condition was also noted in the previous audit as of May 31, 2017)*

- B. ***Accounting Errors:*** There were **16** instances where receipts were recorded in incorrect accounts in SFO. *(This condition was also noted in the previous audit as of May 31, 2017)*

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that staff members collecting money are required to complete a MTF and submit it to the Bookkeeper with the money collected on the same day as collection. Bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250 should be kept in the building overnight.

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. In addition, they must make the Principal aware when either a lack of time or distractions are adversely affecting the ability to successfully complete their bookkeeping duties.

The APM, 4.3, *Fund Accounts*, states that restricted funds are those 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.

The current financial recordkeeping staff was not fully aware of the requirements for timely deposits. It was understood that collection of more than \$250.00 had to be deposited on the same day, but not that all deposits had to be made at least every other day. Daily bank deposits was not part of the financial recordkeeping staff's schedule.

During 2019, the entirety of the "After-School ROAR" program activities was posted in the unrestricted "Fundraiser/ROAR" account (#702.09), rather than the restricted "After School Program/ROAR program" account (#404). As a result, restricted activity fees and fundraisers were incorrectly accounted for in an unrestricted account. The current financial recordkeeping staff was unaware that restricted fundraisers and other specific receipts should be managed in restricted accounts.

The lack of effective internal controls over cash collections constitute non-compliance with Board policies and procedures and have increased the financial risk to the school. Specifically, the practice of delinquent deposits increases the chance of funds being lost or stolen. The

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practice of accounting for restricted funds in an unrestricted account increases the risk of funds collected for a specific purpose are not available for the intended use.

Recommendation: The following should be implemented to ensure proper administration of collection:

- A. The current financial recordkeeping staff should incorporate bank deposits into the daily schedule, to ensure that all deposits are made timely. The principal should provide time and oversight to facilitate timely deposits.

- B. The current financial recordkeeping staff, in coordination with Accounting and Financial Reporting, should move all After School ROAR program funds to the restricted account and ensure that all future activity is properly accounted for there. Accounting and Financial Reporting can be requested to create sub-accounts if necessary.

2020.03 Year-End Monetary Transmittal Form Procedures Not Followed

The following exceptions pertaining to the end-of-year MTF procedures were identified:

- A. ***Cash Collections Found in Envelope:*** Currency and checks totaling **\$249.00** in un-deposited funds collected during June 2018 were found in a staff members' sealed envelope with a completed MTF. The current financial recordkeeping staff deposited the funds on September 26, 2019 after they were discovered.

- B. ***Missing Monetary Transmittal Form Envelope:*** One employee's 2018 end of year MTF envelope could not be located. As such , **17** MTFs, totaling **\$19,982.22** were not verified.

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

- A. Staff members collecting funds are required to complete an MTF and remit funds to the bookkeeper on the day of collection.

- B. Pink MTF remittance copies are required to be retained by the preparer. The white and yellow MTF remittance copies are submitted to the bookkeeper with remitted funds. After approving MTFs, the Bookkeeper returns the yellow MTF remittance copies to the originator. Prior to departing the school at year-end, faculty and program managers seal envelopes containing yellow and pink MTF remittance copies (with their signature over the seal) and submit them to the designated administrator.

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The MTF was dated June 22, 2018, and the cash was placed in the envelope by accident due to the lack of time during the end of the school year, according to the staff member. The principal has since provided training to staff to inform them that all cash needs to be turned into the front office prior to their departure.

The current financial recordkeeping staff have established effective controls regarding end of year envelopes submission by providing the principal with a listing of all receiptees that are required to turn in envelopes each year. However, the principal did not ensure that all receiptees had turned in envelopes. The missing envelope was for a staff member that had transferred to another school during the year.

The ineffective year-end MTF process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The **\$249.00** collected in 2018 was not available to benefit students during the period collected. The missing MTFs represents a compromise of the audit trail necessary to ensure that all SAF collected were subsequently remitted.

Recommendation: The principal should continue to provide training to staff to ensure that all cash is properly and promptly remitted for deposit by the financial recordkeeping staff.

The current financial recordkeeping staff should continue to provide the principal a listing of all receiptees to facilitate retrieval of all MTF envelopes. The principal should provide a final check to ensure that all envelopes have been collected before the end of each school year, including staff members that have left during the year. The principal should consider requiring return of MTF remittance documents as part of the checkout procedures for all staff.

2020.04 Unpaid Bills Spreadsheets Not Completed

The current financial recordkeeping staff did not complete the Unpaid Bills Determination Spreadsheet for 7 months during FY 2019 and FY 2020.

The APM, Section 5.2, *Financial Reporting Requirements*, states that the Insolvency Report should be completed monthly and requires the bookkeeper to manually record data in order to calculate the school's solvency. The bookkeeper must manually calculate the value of unpaid bills that existed as of the end of each reporting period for both restricted and unrestricted funds to complete the report.

The current financial recordkeeping staff was aware of the purpose of the Unpaid Bills Determination Spreadsheet and had completed it properly earlier in FY 2019. However, due to several requirements in the monthly reporting process, the financial recordkeeping staff was not always diligent to ensure that the Unpaid Bills Determination Spreadsheet was completed.

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Failure to complete the Unpaid Bills Determination Spreadsheet and carry forward the unpaid bills amount affected the school's solvency calculation on a monthly basis, which is critical for the principal to assess the current financial status of the school.

Recommendation: The principal and current financial recordkeeping staff should familiarize themselves with the specific requirements for the Unpaid Bills Determination Spreadsheet in the APM, and ensure that the unpaid bills determination is included in the solvency calculation each month.

2020.05 Voided Checks Not Properly Defaced

There were **3** instances where voided checks were not properly defaced by removal of the signature line. There were **2** separate instances where voided checks could not be located to ensure that they were properly defaced. (*This condition was also noted in the previous audit as of May 31, 2017*)

The APM, Section 4.5.3, *Cash Disbursements*, states that voided checks must be defaced and filed in check number order with cancelled check images. The checks should be noted as voided in SFO.

The current financial recordkeeping staff was not aware of the requirement to deface voided checks by removal of the signature line. Failure to properly deface and file voided checks represents non-compliance with BOE policies and procedures and increases the risk of check fraud for the school.

Recommendation: The financial recordkeeping staff should deface all voided checks and ensure that they are filed in numerical order in the check file and recorded in SFO. The principal should provide oversight to this process.

2020.06 Club Budgets Not Developed

The school has several clubs that conduct financial activity under the "After School ROAR" program (See Finding 2020.02). The school's clubs have not developed and submitted annual budgets to the financial recordkeeping staff.

The APM, **Section 7.3**, *Class and Club Accounts*, states that a copy of annual budgets for all school clubs should be provided to the school's bookkeeper.

The principal and financial recordkeeping staff were unaware of the requirement for club budgets. The lack of club and class budgeting constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases the coordination between club sponsors and the school administration relative to planning and executing necessary payments. A budgeting process will decrease the risk of insolvent accounts.

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Recommendation: The principal and financial recordkeeping staff should develop a budget template for club sponsors to use during the 2019-2020 school year.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Glenarden Woods Elementary School was issued for the period ended May 31, 2017. The principal has been at the school during the entire audit period. The current financial recordkeeping staff began in September 2018. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Funds Received** – Condition still exists. See Finding 2020.02 regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** - Condition still exists. See Finding 2020.01 regarding *Mismanagement of Disbursements*.
- **Administration of Voided Checks** – Condition still exists. See Finding 2020.05 regarding *Voided Checks Not Properly Defaced*.
- **Fundraiser Forms Not Completed** – Controls appear to be working.
- **Insecure Location for Funds Awaiting Deposit** – Controls appear to be working.
- **Management Oversight** – Controls appear to be working.

ACKNOWLEDGEMENT

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



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Appendix A

Noted Personnel:

- Principal – Cecelia Jones-Bowling
- Current Financial Recordkeeping Staff – Leander Coles
- Previous Financial Recordkeeping Staff – Bernice McCullough
- TAG Coordinator – Carolyn Monroe