



July 17, 2019

**MEMORANDUM**

To: Ava Tasker-Mitchell, Ph.D., Instructional Director  
Cluster 1

Renita Alexander, Principal  
Robert Frost Elementary School

From: Michele Winston, CPA, Director,  
Internal Audit

Re: School Activity Funds Audit for July 1, 2016 through January 31, 2019

An audit of the financial records of **Robert Frost Elementary School** was completed for the period July 1, 2016 through January 31, 2019. The audit indicates that the school's financial records and procedures 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 **August 16, 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](mailto:internal.audit@pgcps.org). A copy of your action plan should also be forwarded to Jerry Chandler, Business Analyst, email address: [jerry.chandler@pgcps.org](mailto:jerry.chandler@pgcps.org); Deborah Smalls, Business Operations Technician, email address: [deborah.smalls@pgcps.org](mailto:deborah.smalls@pgcps.org); and Joeday Newsom, Esq, Ethics Compliance Officer, email address: [joeday.newsom@pgcps.org](mailto:joeday.newsom@pgcps.org).

Enclosure

cc: Alvin Thornton, Ph. D., Board Chair  
Monica Goldson, Ed. D., Chief Executive Officer  
Members, Board of Education  
Christian Rhodes, Chief of Staff  
Michael Herbstman, Chief Financial Officer  
James Dougherty, Esq., Director, Financial Services  
Kassandra Lassiter, Ed. D., Associate Superintendent 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  
Kelvin Campbell, Internal Auditor II

**Internal Audit Report**

**Robert Frost Elementary School  
Student Activity Funds**

**For the Period Ended January 31, 2019**

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Robert Frost Elementary School for the period July 1, 2016 through January 31, 2019. Robert Frost 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*
- *Noncompliance with Authorized Signers Requirement*
- *Record Retention*
- *Vending Machine Contract*
- *Excessive Spending in Restricted Accounts*
- *Financial Reporting*
- *Un-deposited Funds*
- *Management Oversight*

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 January 31, 2019.



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 Robert Frost Elementary School for the period July 1, 2016 through January 31, 2019. 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. Missing funds totaling \$12,181.94 were identified and reported in an Investigative Audit Report dated April 7, 2019.

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 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 July 1, 2016 through January 31, 2019. 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

**2020:01 Mismanagement of Disbursements**

The following exceptions pertaining to management of disbursements were noted:

- A. ***Un-located Cash Disbursement Documentation:*** There were **14** instances where cash disbursement documentation could not be located (refer to records retention finding at 2020:04 below)
- B. ***Inadequate Approval and incomplete School Funds Expenditure Forms (SFEF) –*** There was **1** instance where an expenditure was not adequately approved and **1** instance where a SFEFs was ***not*** completed.
- C. ***Voided Checks -*** During the review of the school's voided checks, the following exceptions were noted:
  - 1. There was **1** instance where a check marked as void was reconciled in the school's bank account.
  - 2. There were **3** instances where voided checks could not be located in the school's files to determine appropriate disposition.
  - 3. There were **3** instances where void check proof sheets were not properly approved by the principal.

The APM provides the following guidelines regarding the administration of Cash Disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed (approved) by the principal. All disbursements must be adequately supported.
- B. All voided checks must be defaced, filed in check number order with cancelled check images, and entered into the accounting system. Void Check Proof Sheets must be completed and approved by the principal during the check voiding process.

The recordkeeping did not follow established internal controls relative to management of disbursements. SFEFs were accepted from staff that were incomplete. The principal has not read the APM to properly understand her responsibility relative to approval of SFEFs and ensuring adherence to the check voiding process.

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Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Approving purchases without adequate documentation or failure to adequately approve expenditures could result in payment for goods and services not received and increases the school's vulnerability to potential misuse or waste of resources. Failure to follow the check voiding process increases the risk of check fraud.

**Recommendation:** The principal and recordkeeping staff must perform the following to improve the administration of disbursements:

- A. The principal must ensure staff members are aware that pre-approval is required prior to the purchase of goods or services and are 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. Disbursements must be supported with invoices, receipts, contracts etc. to substantiate processing of the transaction.
- B. Internal controls to ensure that only 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 consistently.

**2020:02 Management of Funds Received**

The following exceptions pertaining to management of collections were noted:

- A. ***Monetary Transmittal Form Documentation (MTF)*** - There were **2** instances where funds collected were not properly supported (incomplete MTF, no supporting documentation or no validated bank deposit ticket).
- B. ***Delinquent Deposit*** - There was **1** instance where a deposit was **18** days delinquent.
- C. ***Fundraiser Forms Not Completed*** - Staff failed to complete the Fundraiser Authorization Forms, Fundraiser Completion Reports and the Annual Fund Raising Summary Reports for all fundraising events.
- D. ***Transfer of Funds Received*** - There were **10** instances where it could not be determined whether transfers had been made in accordance with the requirements of the APM. Evidence to substantiate compliance with the fund transfer guidelines was not available for review.
- E. ***Un-located Cash Receipts Documentation:*** There were **5** instances where cash receipt documentation was not available for review.

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The APM provides the following guidelines regarding the administration of funds received:

- A. MTFs are required to be supported with student remittance forms, fundraiser forms or other documentation that shows the source and purpose of funds. All funds collected must be remitted to the bookkeeper and properly supported with approved MTFs.
- B. Deposit of all funds received are required 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 available funds (e.g., fundraisers, unrestricted donations, prior year carryover, etc.).

BOE policies and procedures as established in the APM were not followed. In addition, the principal has not read the APM resulting in inadequate oversight of staff. The recordkeeping staff did not perform verification and maintenance of all MTFs and supporting documentation prior accepting MTFs and making deposits. The requirement for completion of fundraiser forms was not communicated to fundraising sponsors.

Failure to adequately perform recordkeeping responsibilities relative to the processing of funds received constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring all funds collected are subsequently 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 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 the requirements of the APM could lead to inaccurate recording and reporting of the school's financial transactions.

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

- The recordkeeping staff must ensure that all MTF documentation is complete including verifying that all supporting documentation is attached along with the MTF prior to acceptance and deposit of funds.



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- The recordkeeping staff must be reminded that all funds collected and remitted should be deposited on a daily basis especially funds in excess of **\$250.00**. Teachers must be informed that funds collected should not be held overnight. The principal must provide the recordkeeping staff with adequate time to verify that funds collected are as indicated on the MTFs submitted and that deposits are made with the bank timely. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.
- 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 and made available for public and auditor review upon request.
- The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved as required. Evidence to substantiate compliance with the **fund** transfer guidelines must be retained on file for review.

**2020:03 Noncompliance with Authorized Signers Requirement**

Authorized signatories on the school's bank account included the principal and 2 secretaries. Most of the checks processed during the audit period were signed by the 2 secretaries. The former recordkeeping staff was still a signatory on the school's bank account as of this report issuance date.

According to the APM, 3 individuals should be designated as check signers on the school's bank account as listed on the bank "Signature Card". The 2 standard check signers should be the school principal and bookkeeper/secretary. The third alternate check signer must be a vice principal or other school administrator.

Established internal controls relative to authorized signatories were not followed. In addition, the principal has not read the APM. Failure to follow instructions for authorized signatories places the school in a position of non-compliance with BOE policies and procedures and increases the school's financial risk.

**Recommendation:** The principal must take action to update authorized signatories of the school's bank account. This includes removing the former recordkeeping staff and adding the vice principal. Additionally, the principal must take some time to familiarize herself with the requirements of the APM and establish internal controls to ensure that the bank signature card is appropriately updated.

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**2020:04 Record Retention**

Supporting documentation to substantiate accounting transactions were not made available during the audit. The following exceptions were noted:

- There were **14** instances where cash disbursements documentation could not be located.
- There were **5** instances where cash receipt documentation was not available for review.
- There were **3** instances where voided checks were missing, and
- There were **10** instances where documentation to support transfers were not provided.

According to Section 6.12 of the APM, *Record Retention*, All SAF records must be retained for a period of 7 years and or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, MTFs, School Funds Expenditure Forms (SFEFs), cancelled checks and contracts.

The recordkeeping staff did not properly maintain an adequate filing system and oversight was not provided by the principal. These actions caused the school to be non-compliant with BOE policies and procedures as established in the APM.

Failure to make financial records available for 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 until they are audited. An adequate records management system must be implemented to help ensure that in the absence of the recordkeeping staff or principal, financial documents would be filed properly to ensure accessibility for future review.

**2020:05 Vending Machine Contract**

There was a snack vending machine in operation on the school premises during the audit period for school staff. A current signed contract stipulating commissions due the school and frequency of commissions was not on file.

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 because she did not read the APM.

Due to the nonexistence of a valid contractual agreement for vending, the BOE cannot determine if the school is deriving maximum benefits from the operation of the vending machines.

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Additionally, a portion of these funds could have been available to offset the deficit of (\$559.50) in the PSA account (*See Finding 2020:06*).

**Recommendation:** The principal must establish procedures to ensure that current vending 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 the absence of a contract.

**2020:06 Excessive Spending in Restricted Accounts**

The SAF included 3 restricted fund accounts with deficits totaling (\$1,529.18) as of January 31, 2019. The following is a listing of accounts with deficits:

- Employee Sunshine Fund account has a deficit of (\$187.85),
- Principal Sponsored Activities account has a deficit of (\$559.90) and
- BOE to Reimburse account has a deficit of (\$781.43)

Expenditures for all restricted accounts are limited to the amount of funds collected for those activities. The Employee Sunshine Fund and Principal Sponsored Activities deficits includes excessive expenditures for staff social activities. When restricted accounts exceed the available cash, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure all accounts are solvent at all times.

The principal and the recordkeeping staff did not monitor accounts to ensure that all restricted funds were available prior to making expenditures. BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed. Students are not receiving the maximum possible benefit of the resources that should have been available to them.

**Recommendation:** The principal must evaluate all potential expenditures with regard to available resources and care must be exercised to ensure the resources are used for the maximum benefit of the students. Spending in these accounts must cease until the accounts' deficits are resolved.

**2020:07 Financial Reporting**

Monthly bank reconciliations were not done timely in 20 instances. The range of delinquency was 2 to 80 days. In addition, a complete set of monthly financial reports could not be located for the entire audit period.

According to the APM, the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the recordkeeping staff for reconciliation. The recordkeeping staff should complete the reconciliation within 7 days after receiving the statement from the bank. Typically, this process

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is completed by the 15th of each month. The completed reconciliation should be returned to the principal every month for review and approval. After review and approval, all reports and related documentation should be organized and maintained in three-ring binders identified by fiscal year. This is not only good accounting practice; it also facilitates review by auditors.

The principal did not exercise proper oversight to ensure that monthly reconciliations were completed by the 15<sup>th</sup> of each month. BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed. Past and current up to date financial information was not ready available for review by auditors.

**Recommendation:** The principal must establish procedures to ensure that monthly reconciliations occur by the 15<sup>th</sup> of each month and related documentation are organized and maintained in three-ring binders organized by fiscal year.

**2020:08 Un-deposited Funds**

There were at least **5** documented instances where checks remitted to the school were not reflected in the accounting system or in the bank account of Robert Frost Elementary School. Un-Cashed Checks totaled **\$1,821.00** and included the following:

- A. There were **4** checks from Lifetouch for Student Pictures Commission totaling **\$1,607.00** included in the school's former recordkeeping staff's files. The dates ranged from 6/23/17 to 12/31/18. On 2 occasions, Lifetouch sent reminders to the school.
- B. In addition, there was 1 check from Strawbridge Studios Inc., for Student Pictures Commission for **\$214.00**. This check was dated 6/4/2014 and was also included in the former recordkeeping staff's file.

After the recordkeeping staff counts and verifies funds turned in each day, he/she should immediately endorse all checks using a stamp that contains endorsement information as follows: *For Deposit Only: School Name (Name of Account on Bank Statement) and Bank Account Number.*

BOE policies and procedures as established in the APM were not followed. The former recordkeeping staff did not always count and verify funds turned in each day and endorse all checks received by the school. Also, there was insufficient management oversight into the cash receipt process. Students are not receiving the maximum possible benefit of the resources that should have been available to them.

**Recommendation:** The principal must contact the vendors to seek reissuance of the checks. The principal must establish procedures to ensure that all future checks are endorsed and deposited into the school's bank account promptly.

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**2020.09 Management Oversight**

The principal did not exercise proper oversight during the administration of SAF during the audit period.

The principal is the fiduciary agent for SAF. In this role, she is responsible for ensuring that these funds are administered in accordance with PGCPs policies and procedures and spent to provide the maximum benefit possible to the students. *"It is also important that the principal, who is ultimately responsible for these funds, be aware that the success of the internal control system rests largely with them."*

Based on the number of repeat noncompliance and reportable control weaknesses, the principal did not follow BOE policies and procedures as established in the APM.

**Recommendation:** The principal should carefully review the policies and procedures as defined in APM. She should be consistently involved in the daily operations as it relates to the administration of the school's resources. Improvement of the internal control environment should be emphasized by focusing on these four basic principles:

- ❖ Clearly defined lines of authority and responsibility
- ❖ Segregation of duties
- ❖ Maintenance of adequate documents and records
- ❖ Limited access to assets, and
- ❖ Independent checks on performance

**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Robert Frost Elementary School was issued for the period ended January 31, 2012. During that period, the principal and recordkeeping staff were not in their current positions. The previous audit report had 6 reportable conditions, of which 4 are repeated in the current audit. The following findings were noted as a result of the prior audit and the status is indicated below:

- **Mismanagement of Receipts** - Condition still exists. See Finding 2020:02 and 2020:04 regarding *Mismanagement of Funds Received and Record Retention*.
- **Grants** - Controls appear to be working.
- **Mismanagement of Disbursements** - Condition still exists. See Finding 2020:01 regarding *Mismanagement of Disbursements*.

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- **Check Signers** - Condition still exists. See **Finding 2020:03** regarding *Noncompliance with Authorized Signers Requirement*
- **Transactions Misclassified/Posted to the Wrong Account**- Controls appear to be working.
- **Contracts** - Condition still exists. See **Finding 2020:05** regarding *Vending Machine Contract*.

**ACKNOWLEDGEMENT**

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