

August 19, 2020

MEMORANDUM

To: Maria Smith, Ed. D, Instructional Director
Cluster 3

Aundrea McCall, Ed. D, Principal
Indian Queen Elementary School

From: Michele Winston, CPA, Director,
Internal Audit

Re: Financial Audit for July 1, 2016 through May 31, 2020

An audit of the financial records of **Indian Queen Elementary School** was completed for the period July 1, 2016 through May 31, 2020. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual (APM) for School Activity Funds (SAF) and Board of Education (BOE) 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 **September 21, 2020** 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 the Microsoft word version and a signed PDF copy of your action plan should also be forwarded to Danyelle Washington, Business Analyst, email address: dany.washington@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.

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, Esq., Director, Financial Services
Kassandra Lassiter, Ed. D., Associate Superintendent
Helen Coley, Ed. D., Chief, School Support and Leadership
Jeffrey Carpenter, Director Employee Labor Relations
Joeday Newsom, Esq., Ethics Compliance Officer
Robin Welsh, Director of Monitoring and Accountability
Suzann King, Esq., Executive Director, Board of Education
Janice Walters-Semple, CPA, Internal Audit Supervisor
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**Indian Queen Elementary School
School Activity Funds**

For the Period Ended May 31, 2020

Indian Queen Elementary School
School Activity Funds
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For the Period Ended May 31, 2020

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Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Indian Queen Elementary School for the period July 1, 2016 through May 31, 2020. Indian Queen 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 Generally Accepted Government Auditing Standards 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:

- *Missing Funds,*
- *Mismanagement of Disbursements,*
- *Administration of Checks,*
- *Mismanagement of Funds Received, and*
- *Excessive Spending in Restricted Accounts*

Individually or taken together, these findings resulted in a material deviation from Board of Education (BOE) policies, procedures, and the requirements of the Accounting Procedures Manual (APM) for SAF.

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 May 31, 2020.

Michele Winston, CPA, Director
Internal Audit



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SUMMARY

The Internal Audit (IA) department completed an audit of the student activity funds (SAF) for Indian Queen Elementary School for the period July 1, 2016 through May 31, 2020. 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.

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 MTF envelopes submitted by staff for the period July 1, 2016 through May 31, 2020. 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.

2021.01 Missing Funds

During the review of the FY 2019 collections, supporting documentation from a school dance provided evidence that **\$1,072.00** was collected by the principal. However, the MTF 294486 and funds remitted only documented **\$785.00** which was approved by the recordkeeping staff. As a result, the school suffered a loss of **\$287.00**.

According to the APM, staff members collecting funds are required to complete a MTF and submit it to the bookkeeper on the day of collection along with the funds collected. School personnel are prohibited from removing collected funds from school premises. The recordkeeping staff is responsible for accurately recording and reporting the school's financial transactions and to be a good custodian of funds.

Established internal controls relative to cash management were not followed. The recordkeeping staff did not adequately review the supporting documentation to ensure the accuracy of funds collected and deposited. The internal control weaknesses resulted in identified loss of funds to the school of **\$287.00**. Funds collected for fundraising activities were not available to satisfy students' needs.

Recommendation: The principal must take appropriate action to ensure restitution is provided to the school. Otherwise, the Employee and Labor Relations Office should review and determine the appropriate action for the loss of funds.

2021.02 Mismanagement of Disbursements

There were **18** of the **36** cash disbursements reviewed that were *not* processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of disbursements were noted:

- A. *Inadequate Approval* – There was **1** instance where an expenditure was not adequately approved. The principal did not sign the School Funds Expenditure Form.

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- B. ***Delinquent Vendor Payments*** – There were **3** instances where payments were not remitted to vendors in a timely manner. The range of delinquency was between 40 and 84 days.

- C. ***Contracts*** - There were **2** instances where Lifetouch Yearbook Publication Agreements were incomplete. The contract did not contain the base book price, shipping and handling charge and final price per book. Also, there was 1 instance where a contract was not signed by the principal.

- D. ***Misclassified Checks*** - There were **12** instances where expenditures were not appropriately classified and transactions were not recorded in the most specific account relating to the activity in SFO.

The APM provides the following guidelines regarding the administration of cash disbursements:

- A. Prior to ordering or purchasing goods or services, an SFEF must be completed and signed (approved) by the principal.

- B. Invoices are required to be paid within 30 days of receipt or by the invoice due date. Principals are required to review invoices and statements for past due amounts and ensure that payments are made in a timely manner.

- C. The principal, as the fiduciary agent of the school, must approve and sign all agreements and contracts entered into for all school activities.

- D. Transactions should be recorded in the most specific account relating to the activity. If transactions fit an established category and are expected to occur frequently, it is easier to monitor and track such transactions in a separate account.

The recordkeeping staff did not follow established internal controls relative to management of disbursements. A review of supporting documentation was not performed prior to issuance of the check. The Principal failed to review invoices for past due amounts and to ensure that payments were made in a timely manner. Reportedly, the principal's failure to approve and sign the Lifetouch contract agreements was an oversight. The recordkeeping staff misclassified the expenditures as a result of misunderstanding the principal's indication on the SFEF to use

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fundraising funds. Hence, the checks were posted directly to “Fundraising” instead of the accounts that most directly described the expenditures.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to adequately approve expenditures and approve and sign all agreements entered into for all school activities could result in unintended purchase of goods and services, and increases the school's vulnerability to potential misuse or waste of resources. Delinquent payment 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 record expenditures properly makes it difficult for management to monitor and track transactions.

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

- A. Internal controls must be established to ensure that the principal approves all expenditures prior to the issuance of the checks. The principal and the recordkeeping staff should review the APM to ensure that the requirements for processing payments are consistently applied.
- B. The principal and recordkeeping staff must ensure vendor payments are issued timely, within 30 days of receipt or by the invoice due date.
- C. The principal as the fiduciary agent of the school, must sign all agreements entered into for all school activities and ensure that the details of those contracts are complete.
- D. The principal and recordkeeping staff must ensure all expenditures are properly recorded in SFO. Also, a chart of accounts should be printed and reviewed to help facilitate this recommendation.

2021:03 Administration of Checks

The following exceptions pertaining to administration of checks were noted:

- A. ***Voided Checks*** - There were **6** instances where checks were not properly voided by removal of the signature line. Also, there was **23** instances where voided checks could not be located for review.

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- B. **Approved Signatures** – There were 3 instances where the 2 approved signatures (one by the principal and one by the recordkeeping staff or an alternate in absence of either the principal or recordkeeping staff) were not affixed to school checks generated from SFO.

The APM provides the following guidelines regarding the administration of checks:

- A. All voided checks must be entered in SFO and have “VOID” written across the face of the check. The signature line must be removed and the voided checks attached to approved SFEF’s or Void Check Proof Sheets.
- B. Two authorized signatures are required on all checks. In accordance with Administrative Procedure 4180, *School Bank Accounts*. The two standard check signers should be the principal and the recordkeeping staff. The third signer must be a vice-principal or school administrator.

The recordkeeping staff did not follow established internal controls relative to administration of checks. Checks were issued without the two standard check signers and the signature line on all voided checks was not removed. There was no review performed prior to issuance of checks and the recordkeeping staff indicated that she was not properly trained. In addition, an adequate filing system was not properly maintained by the former recordkeeping staff to ensure retrieval of all financial records

Mismanagement of checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Issuing checks without the required signatures could result in payment for goods and services that were not received and increases the school’s vulnerability to potential misuse or waste of its resources. Failure to properly void checks could result in unauthorized negotiation of checks

Recommendation: The following corrective actions should be implemented for checks to be administered in accordance with BOE policies and procedures:

- A. The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE. All voided checks must be entered in SFO and have “VOID” written across the face of the check. The signature line must be removed. The recordkeeping staff must be held accountable for compliance.
- B. The principal must ensure that two approved signatures are affixed to school checks – one by the principal and one by the bookkeeper or an alternate in absence of either the principal or bookkeeper. The recordkeeping staff must contact the Accounting and Financial Reporting Office to obtain additional training relative to the administration of checks.

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2021:04 Mismanagement of Funds Received

There were **11** instances reviewed where funds collected were *not* processed in accordance with BOE policies and procedures as noted below.

- A. *Inadequate Supporting Documentation* - There were **5** instances where collections were not properly supported (incomplete MTF or no documentation).
- B. *Changes to Monetary Transmittal Forms* - There were **2** instances where changes made to MTFs were not done according to the MTF instructions.
- C. *Delinquent Deposit* – There were **2** instances where deposits were not made in a timely manner. The range of delinquency was up to **8** days.
- D. *Transfer of Funds Received* - There were **3** instances where supporting documentation to determine whether transfers were made in accordance with the requirements of the APM could not be located for review.
- E. *Year-End Monetary Transmittal Form Envelopes Submission* – There were **2** instances where the pink MTF remittance could not be located and **1** instance where both the pink and yellow MTF remittances could not be located for review.

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 recordkeeping staff and properly supported with approved MTF's.
- B. MTF changes and alterations require initials.
- C. 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.
- D. Transfers should occur 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.). Each transfer must be properly substantiated.

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

Internal controls to ensure collections were processed as required were not always enforced. The recordkeeping staff did not perform verification of supporting documentation prior to accepting and approving MTFs and making deposits. School staff were not held accountable for remitting funds to the recordkeeping staff on the day of collection and initialing changes to MTFs. All supporting documentation to determine if transfers were made in accordance with the requirements of the APM were not properly filed and retained. The staff member whose MTF envelope was reviewed lost the missing MTF remittances for the specific MTFs identified as lacking.

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 subsequently remitted and deposited was not always available when collections were not properly supported and when the staff member did not properly secure the MTF remittances as required. 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 affects the audit trail.

Failure to complete transfers in accordance with the requirements of the APM could lead to inaccurate recording and reporting the school's financial transactions

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

- A. The recordkeeping staff must ensure that all MTF documentation is adequate by verifying that all supporting documentation is attached and changes and alterations made to MTF's are initialed prior to acceptance and deposit of funds.
- B. The recordkeeping staff must deposit all funds collected and remitted on a daily basis, especially funds in excess of **\$250.00**. Teachers must be informed that funds collected cannot be held overnight. The Principal must provide the bookkeeper with adequate time to verify that funds collected are as indicated on the accompanying MTFs and to make bank deposits 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.

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- C. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal. The requirement for transfers to be adequately supported should also be enforced.

- D. Staff must be reminded of their responsibility relative to MTF envelopes submission during the year-end checkout process. The recordkeeping staff should print the “*Receiptee History*” report from the accounting system and provide it to the administrator responsible for collecting MTF envelopes. The principal should instruct the administrator to obtain MTF envelopes based on the printed report. Each employee must be held accountable for returning MTF envelopes, including all processed MTFs, as part of the year-end checkout process. The principal should conduct yearly training to remind the staff of their responsibility relative to retaining MTF remittances and returning them in envelopes during the year-end checkout process.

2021.05 Excessive Spending in Restricted Accounts

There was **1** restricted fund account, *Field Trips*, with a deficit of **(\$576.84)** as of May 31, 2020.

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for the related activities. When restricted expenditures exceed the available funds, the restricted account is insolvent. As the fiduciary agent for SAF, the principal is required to ensure that the restricted accounts are solvent at all times.

The principal and recordkeeping staff did not review the SFEF by ensuring that the Field Trip fund account had sufficient funds prior to approving the related expenditure. BOE policies and procedures as established in the APM regarding the use of restricted funds was not always followed. Expenditures have been made without regard for the availability of specified resources.

Recommendation: The principal must establish procedures to ensure that all potential expenditures are evaluated with regard to available resources and care is exercised to ensure that resources are used for the maximum benefit of the students. Spending in Field Trip fund account must cease until the account’s deficit is resolved.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Indian Queen Elementary School was issued for the period ended June 30, 2016. During that period, the principal was new to the school and the current recordkeeping staff was not in her current position. The previous audit report had **6** reportable conditions, of which **3** are repeated in the current audit. The following findings were noted as a result of the prior audit, and the status is indicated below:

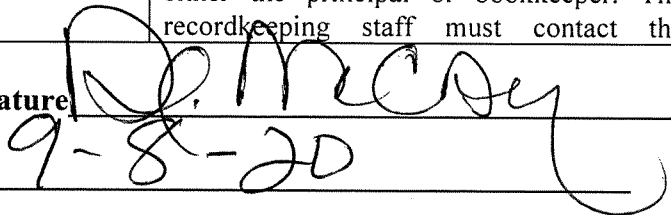
- **Management of Disbursements** - Condition still exists. See Finding 2021.02 regarding *Mismanagement of Disbursements*.
- **Management of Receipts** - Condition still exists. See Finding 2021.04 regarding *Mismanagement of Funds Received*.
- **Excessive Spending in Principal Sponsored Activities** - Condition still exists. See Finding 2021.05 regarding *Excessive Spending in Restricted Accounts*.
- **Vending Machines Contract** - Controls appear to be working.
- **Fundraiser Forms** - Controls appear to be working.

ACKNOWLEDGEMENT

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

		<p>C. The principal as the fiduciary agent of the school, must sign all agreements entered into for all school activities and ensure that the details of those contracts are complete.</p> <p>D. The principal and recordkeeping staff must ensure all expenditures are properly recorded in SFO. Also, a chart of accounts should be printed and reviewed to help facilitate this recommendation.</p>	<p>Concur</p> <p>Concur</p>	<p>Ensure complete review of yearbook contract (and all contracts) by Principal</p> <p>Require record keeping staff to engage in professional development regarding chart of accounts; Principal will refrain from instructing which accounts to draw from; Principal will engage in professional development with Ethics Officer to determine appropriateness of expenditure recording</p>	<p>On-going</p> <p>October 31, 2021 / on-going</p>	
3.	<u>2021:03 Administration of Checks</u>	<p>The following corrective actions should be implemented for checks to be administered in accordance with BOE policies and procedures:</p> <p>A. The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE. All voided checks must be entered in SFO and have "VOID" written across the face of the check. The signature line must be removed. The recordkeeping staff must be held accountable for compliance.</p> <p>B. The principal must ensure that two approved signatures are affixed to school checks – one by the principal and one by the bookkeeper or an alternate in absence of either the principal or bookkeeper. The recordkeeping staff must contact the</p>	<p>Partially concur</p> <p>Partially occur</p>	<p>Ensure signature lines are removed from voided checks (Note: Checks were voided; the signature line was not remove but the word was written across the check and entered into SFO)</p> <p>Principal will be the 2nd to sign the checks in order to ensure that the other signature is affixed; Once return to normal schedule occurs due to COVID, record keeping staff</p>	<p>On-going</p> <p>On-going / before end of SY20-21</p>	

Principal Signature



Date

9-8-20

		Accounting and Financial Reporting Office to obtain additional training relative to the administration of checks.		will be added as a signatory (Note: Signatures were established before 2012 when this Principal arrived; it was not "found" in the last audit that the record keeping staff had to be one of the approved signatures)		
4.	<u>2021:04</u> <u>Mismanagement of Funds Received</u>	<p>The following corrective actions should be implemented for Indian Queen Elementary School's collections to be made in accordance with BOE policies and procedures:</p> <p>A. The recordkeeping staff must ensure that all MTF documentation is adequate by verifying that all supporting documentation is attached and changes and alterations made to MTF's are initialed prior to acceptance and deposit of funds.</p> <p>B. The recordkeeping staff must deposit all funds collected and remitted on a daily basis, especially funds in excess of \$250.00. Teachers must be informed that funds collected cannot be held overnight. The Principal must provide the bookkeeper with adequate time to verify that funds collected are as indicated on the accompanying MTFs and to make bank deposits 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.</p>	<p>Concur</p> <p>Concur</p>	<p>Adequate, private time will be made for record keeping staff to have uninterrupted time to engage in fiduciary management</p> <p>Adequate, private time will be made for record keeping staff to have uninterrupted time to engage in fiduciary management</p>	<p>Immediately</p> <p>Immediately</p>	

Principal Signature

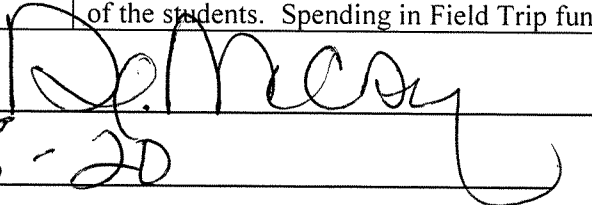
D. McLean

Date

9-8-20

		<p>C. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal. The requirement for transfers to be adequately supported should also be enforced.</p> <p>D. Staff must be reminded of their responsibility relative to MTF envelopes submission during the year-end checkout process. The recordkeeping staff should print the "Receiptee History" report from the accounting system and provide it to the administrator responsible for collecting MTF envelopes. The principal should instruct the administrator to obtain MTF envelopes based on the printed report. Each employee must be held accountable for returning MTF envelopes, including all processed MTFs, as part of the year-end checkout process. The principal should conduct yearly training to remind the staff of their responsibility relative to retaining MTF remittances and returning them in envelopes during the year-end checkout process.</p>	<p>Concur</p> <p>Concur</p>	<p>Adequate, private time will be made for record keeping staff to have uninterrupted time to engage in fiduciary management; Require record keeping staff to engage in professional development regarding transfers between restricted accounts</p> <p>Restrict collection of funds to non-classroom based staff to provide adequate time/attention to task; Utilize the Receiptee History Report; Require record keeping staff to engage in professional development regarding MTFs; Continue bi-yearly professional development to all staff</p>	<p>On-going</p> <p>On-going</p>	
5.	<u>2021.05 Excessive Spending in Restricted Accounts</u>	The principal must establish procedures to ensure that all potential expenditures are evaluated with regard to available resources and care is exercised to ensure that resources are used for the maximum benefit of the students. Spending in Field Trip fund	Partially Concur	Continue controls in place; Principal will engage in professional development with Ethics Officer to determine how deposits are to be handled (i.e., trip venues) which led	Immediately / On-going	

Principal Signature

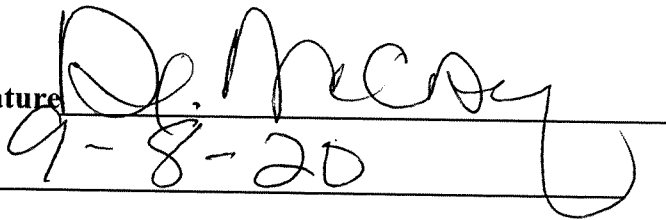


Date

9-8-20

		account must cease until the account's deficit is resolved.		to this finding (and cancelation due to COVID) Note: One account is not solvent due to the transfer concerns noted in 2021.04 C; the funds are in the 6 th grade account established for 6th grade EOY field trip and refunds should be drawn from there, not field trips; concern is being resolved with refunds to parents due to COVID closure		
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Principal Signature



Date

9-8-20

