




June 10, 2020

MEMORANDUM

To: Susan Holiday
Instructional Director, Cluster 2

Jason Simmons, Principal
Northview Elementary School

From: Michele Winston, CPA 
Director Internal Audit

Re: Financial Audit for July 1, 2016 to February 29, 2020

An audit was completed on the financial records of **Northview Elementary School** for the period July 1, 2016 to February 29, 2020. The audit indicates that the school's internal controls require improvement to be in full compliance 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 **July 10, 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 copy of your action plan should 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
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Members, Board of Education
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Internal Audit Report

**Northview Elementary School
Student Activity Funds**

For the Period Ended February 29, 2020

Table of Contents

INTERNAL AUDITOR’S REPORT.....	3
SUMMARY	4
OBJECTIVES	4
SCOPE	4
FINDINGS AND RECOMMENDATIONS.....	5
STATUS OF PRIOR AUDIT FINDINGS	12
ACKNOWLEDGEMENT	13

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Northview Elementary School for the period July 1, 2016 to February 29, 2020. Northview 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:

- *Mismanagement of Funds Received;*
- *Mismanagement of Disbursements;*
- *Year-End Monetary Transmittal Form Procedures Not Followed;*
- *Excessive Spending in Restricted Accounts;*
- *Fundraiser Forms Not Completed*
- *Lack of Drop Safe to Secure Funds Awaiting Deposit; and*
- *Failure to Maintain a Current Vending Contract.*

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 February 29, 2020.



Michele Winston, CPA, Director
Internal Audit

SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for Northview Elementary School for the period July 1, 2016 to February 29, 2020.

The audit indicates that the school's internal controls 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 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 July 1, 2016 to February 29, 2020. In addition, selected receipts, disbursements and supporting documentation were reviewed for the said period.

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2020.01 Mismanagement of Funds Received

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

- A. ***Delinquent Deposits:*** There were **24** instances where the deposits were not made timely following initial collection of funds. Deposits were made up to 16 days after initial collection by the staff member. ***(This condition was also noted in the previous audit as of October 31, 2013).***
- B. ***Accounting Errors:*** There were **6** instances where incorrect MTF numbers were entered into School Funds Online (SFO). In one additional instance, the receiptee was misidentified in SFO.
- C. ***Change on Monetary Transmittal Form Not Properly Initialed:*** There was **1** instance where the financial recordkeeping staff initialed a deduction of \$30 on an MTF, but this change was not also initialed by the originator.
- D. ***Sales Taxes Excluded:*** There were **4** instances where sales tax was not calculated for Agenda Books sold to students.

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

- A. All funds collected must be remitted to the bookkeeper on the same day collected, along with a completed MTF. The bookkeeper must make deposit of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight.
- B. If corrections are necessary, the originator of the MTF must make the correction by drawing a line through the original entry and rewriting the correct entry next to the incorrect entry. The reason for the correction must be noted on the MTF and the originator must sign the correction.
- C. 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.

- D. The APM, Section 8.3, *Sales Tax Procedures* states that when a school engages in the resale of items, adherence to Maryland Comptroller of the Treasury regulations is required. This involves collection and remittance of sales tax for merchandise sold that is not fundraising-related.

The financial recordkeeping staff explained that staff members are encouraged to complete MTFs and remit funds daily, but that requirement has not been enforced. Often, staff collect funds over several days and remit the funds on a MTF to the front office, resulting in the delinquent deposits to the bank.

Reportedly the financial recordkeeping staff do not always have the opportunity to record receipts in SFO on the same day as deposited due to competing priorities. This has resulted in some discrepancies in the accounting records, especially as it pertains to MTF numbers.

The financial recordkeeping staff was not specifically aware that MTF changes had to be signed by the originator.

Despite being aware of sales tax procedures, the financial recordkeeping staff had forgotten to account for sales taxes during the 2020 agenda books sales.

The lack of effective internal controls over cash collections constitute non-compliance with Board policies and procedures and have increased the risk of lost or stolen funds. Specifically, funds collected by staff and not timely submitted to the front office are not properly safeguarded or accounted for. The lack of proper accounting in SFO mitigates the effectiveness of the audit trail used to track the collection of funds. Further, the lack of originator signature on an MTF change circumvents the key controls used to ensure that all funds collected are deposited. Failure to account for sales tax represents non-compliance with the Maryland Comptroller of the Treasury requirements and the APM.

Recommendation: The principal and financial recordkeeping staff should immediately design internal controls for enforcing the specific requirements for cash collection as outlined in the APM.

- A. The requirements for timely remittance of funds should be communicated to staff beginning in Fiscal Year 2021. The financial recordkeeping staff should monitor compliance and communicate issues to the principal.
- B. The financial recordkeeping staff should diligently record receipts in SFO and avoid accounting errors, to include entering accurate MTF details, and correct remittance of sales tax.
- C. The financial recordkeeping staff should ensure that all changes made on MTFs are signed by the originator of that form.

2020.02 Mismanagement of Disbursements

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

- A. ***Lack of Proper Pre-Approval:*** There were **7** instances where the principal did not provide written pre-approval on School Funds Expenditure Forms (SFEF) prior to the commitment of funds. There was **1** other instance where the principal did not date his pre-approval. A determination of whether the approval was appropriate could not be made. Further, there were **35** instances where the financial recordkeeping staff did not indicate the amount of funds available in the relevant account on the SFEF.
- B. ***Comingled Expenditures:*** There were **6** instances where reimbursement receipts submitted by staff included personal items comingled with school purchases for which reimbursements were requested.
- C. ***Missing Cancelled Check Images:*** There were **6** instances where cancelled check images could not be located for review.

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 recordkeeping staff to indicate the amount of funds available in the relevant account prior to the principal providing pre-approval.
- B. 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 information on the back of checks.
- C. The APM, Section 8.3, *Sales Tax Procedures*, states that personal items should be purchased on a separate receipt so as not to commingle school and personal expenditures.

The principal and financial recordkeeping staff were aware that purchases needed to be pre-approved; however, an effective control environment was not established to communicate and enforce requirements. For instance, the principal provided reimbursement to staff who made purchases before completing a SFEF. Further, field trip expenses are not pre-approved on SFEFs during the initial field trip approval stage. SFEFs are usually completed when invoices from vendors arrive, after the funds have already been committed.

The financial recordkeeping staff only recently became aware of the prohibition on comingled items on reimbursement receipts. Staff was recently trained.

Cancelled check images are returned as part of the bank statement, but in some cases, the financial recordkeeping staff has not maintained each page of the bank statement copy. As such, all cancelled check images are not retained.

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 has led to insolvent accounts (*See Finding 2020.04*), because available funds are not considered when funds are committed. This practice could lead to overall insolvency of the school's SAF.

The practice of commingling personal and school expenses on receipts can lead to overpayments to staff. The failure to maintain all cancelled check images compromises the audit trail necessary to validate the effectiveness of internal controls and to investigate fraud, if necessary.

Recommendation: The principal and financial recordkeeping staff should develop and document internal controls over the expenditure pre-approval process, and train school staff accordingly.

- A. All reimbursement requests should be pre-approved prior to the commitment of school funds or purchase of items. Further, field trip expenses should be pre-approved on a SFEEF during the initial field trip approval process, prior to the commitment of funds to vendors.
- B. The financial recordkeeping staff should continue to communicate with staff regarding the prohibition of commingled expenses on reimbursement receipts. The principal should hold staff accountable for compliance.
- C. The financial recordkeeping staff should ensure that all pages of the bank statements are maintained to ensure compliance with the requirement for retaining cancelled check images.

2020.03 Year-End Monetary Transmittal Form Procedures Not Followed

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

- A. ***Missing Monetary Transmittal Forms:*** End of year MTFs for the 2017-2018 school year could not be located at the school. Further, 1 employees' end of year MTF envelope for school year 2018-2019 could not be located (4 MTFs, totaling \$2,087.)
- B. ***Financial Recordkeeping Staff Access to Pink Monetary Transmittal Form Remittances:*** There were 52 instances where the financial recordkeeping staff's signature was found on the pink MTF remittance, which compromises the staff members' initial record of collection.

C. ***Lack of Segregation of Duties:*** During the audit period, the financial recordkeeping staff has been responsible for collecting and storing end of year MTF envelopes.

The APM, Section 4.5.2.2, *Cash Receipts: General Policies*, requires the pink MTF remittance copies 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 yellow MTF remittances to the originator. Prior to departing the school at year-end, faculty and program managers seal envelopes containing yellow and pink MTF remittances (with their signature over the seal) and submit them to the designated administrator. The bookkeeper will print the SFO “*Receiptee History*” Report and submit it to the designated administrator. This alerts the administrator which MTF envelope packages to expect.

The APM, Exhibit B, *Staff Responsibility for School Activity Funds*, states that bookkeepers should not accept year-end MTF envelopes from staff. The principal should designate an administrator to collect signed, sealed MTF envelopes from staff collecting funds during the year.

The APM, Section 6.12, *Record Retention*, states that all SAF records must be retained for a period of seven years, including the current fiscal year.

The Principal and financial recordkeeping staff were not aware of the specific requirements for end-of-year MTF envelopes. They were not aware that a designated administrator, other than the financial recordkeeping staff, should be responsible for the collection and storage of MTFs. Further, the record retention practices at the school were not effective for easy retrieval of all relevant SAF documentation.

The financial recordkeeping staff was also not aware that staff members should retain pink MTF remittances before remitting funds, in order to provide an independent record of collection. Staff had not been trained on this procedure.

The ineffective year-end MTF process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The audit trail for ensuring that all SAF collected were subsequently remitted and deposited was compromised.

Recommendation: The principal and financial recordkeeping staff should immediately familiarize themselves with the specific requirements for end-of-year MTF collection in the APM. The principal should develop and document specific internal controls to mirror those requirements. The internal controls should include responsibilities for staff members, the financial recordkeeping staff, the designated administrator, and the principal. The principal should provide enforcement of controls to ensure envelopes are properly collected, sealed, and signed.

Further, the principal and financial recordkeeping staff should improve procedures for record retention to ensure that all SAF files are organized by year and easily retrievable.

2020.04 Excessive Spending in Restricted Accounts

The school's Year to Date Report includes **3** restricted fund accounts with deficits totaling **(\$665.11)** as of February 29, 2020. The following is a listing of accounts with deficits:

- Cheerleading Club: (\$306.55)
- Yearbook: (\$191.56)
- Scholastic: (\$167.00)

The APM Section 4.3, *Fund Accounts*, explains that restricted accounts contain all funds that are deposited into the SAF for a specific purpose and cannot be used for any other reason. Expenditures for all restricted accounts are therefore limited to the amount of funds collected for those activities.

The financial recordkeeping staff explained that the deficits were a result of sponsors for each of these accounts underestimating collections that were made after an expenditure made in advance. Reportedly, the Cheerleading Club and Scholastic expenditure estimates were not well planned. Also, the COVID-19 school closures in March 2020 unexpectedly limited expected yearbook sales.

The ineffective management of restricted accounts constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Students are not receiving the maximum possible benefit of the resources that should have been available to them.

Recommendation: The principal and staff should continue to initiate the sale of 2020 yearbooks in the 2020-21 school year in an attempt to bring the account to solvency. The principal should review all requested expenditure balances carefully prior to pre-approval to ensure that collection estimates are sufficient to cover the costs (*See Finding 2020.02, Lack of Proper Pre-Approval*).

2020.05 Fundraiser Forms Not Completed

Fundraiser Completion Reports, and Annual Fundraising Summaries have not been completed during the audit period. The school conducted **11** school-wide fundraisers during the audit period.

The APM, Section 7.2.2, *Fundraising Procedures*, states that Fundraiser Completion Reports must be prepared by the sponsors at the conclusion of all fundraisers. Additionally, the Principal should facilitate preparation of an annual report summarizing all fundraising activities concluded during the year. The data in this annual report should be available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

The principal and financial recordkeeping staff were unaware of the requirements for completion of fundraiser forms.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, Fundraiser Completion Reports bolster the budgeting process which can ensure optimal performance by each fundraiser.

Recommendation: The principal and financial recordkeeping staff should document and develop internal controls for fundraising. The controls should include specific responsibilities for the fundraising sponsors, financial recordkeeping staff and principal. Training for staff should be provided before the 2020-21 school year fundraising activities begin.

2020.06 Lack of Drop Safe to Secure Funds Awaiting Deposit

The school's safe for funds awaiting deposit is not bolted to the floor, is not in an accessible location, and does not have the functionality to allow for drops by staff.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that if money is kept on-hand at the school awaiting deposit, it must be kept in a secure location. A secure location is a locked fireproof safe, which only the principal and bookkeeper can access the contents. Drop safes are required for every school. The safe should be bolted to the floor and in a location accessible to staff which will facilitate submitting money, even if the bookkeeper is unavailable. A log should be maintained where staff members record their name and the date of the 'drop'. The money should be sealed in an envelope with the completed, signed MTF enclosed. On the following day, the staff member dropping off money should make sure the bookkeeper has a record of the deposit. Money should never be dropped without a MTF.

The principal and bookkeeper were not aware of the requirement for a drop-safe. The lack of drop-safe constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Without an accessible drop-safe, staff members have kept funds overnight (*See Finding 2020.01*) which greatly increased the chance of lost or stolen funds.

Recommendation: The principal or financial recordkeeping staff should coordinate with the Office of the Chief Financial Officer to determine the most efficient way to obtain and install a drop-safe prior to the 2020-21 school year.

2020.07 Failure to Maintain a Current Vending Contract

The school does not have an active contract with the vendor for the staff soda vending machine currently located at the school.

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 and financial recordkeeping staff were not aware of the requirement for annual vending contracts. Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of active contract prevents the school from having any recourse if there are issues with service or commissions.

Recommendation: The current financial recordkeeping staff should contact the vendor and obtain a signed contract for the vending machine operation. The contract should stipulate the frequency and percentage of commissions. The contract should be renewed annually. Purchasing and Supply Services should be contacted in the event a signed contract cannot be secured with the vendor.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Northview Elementary School** was issued for the period ended **October 31, 2013**. The principal and financial recordkeeping staff were in their current positions as of the last audit date. There were **3** findings noted in the prior audit with one repeated. 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 2020.01 regarding *Mismanagement of Funds Received*.

- **Transactions Incorrectly Posted** – Controls appear to be working.
- **Delinquent Payment of Invoices** – Controls appear to be working.

ACKNOWLEDGEMENT

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