

November 6, 2019

**MEMORANDUM**

To: Denise Greene, Ed. D, Instructional Director  
Cluster 5

HeNina Bunch, Principal  
Patuxent Elementary School

From: Michele Winston, CPA, Director,  
Internal Audit

Re: Financial Audit for December 1, 2013 through June 30, 2019

An audit was completed on the financial records of Patuxent Elementary School for the period December 1, 2013 through June 30, 2019. The audit indicates 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 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 6, 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). **Please forward this template as a Microsoft Word document.** A copy of your action plan should also be forwarded to Derrick Martin, Financial Auditor II, email address: [derrick.martin@pgcps.org](mailto:derrick.martin@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  
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**

**Patuxent Elementary School  
Student Activity Funds**

**For the Period Ended June 30, 2019**

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**Internal Auditor's Report**

We have examined the Student Activity Funds (SAF) of Patuxent Elementary School for the period December 1, 2013 through June 30, 2019. Patuxent Elementary School 's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

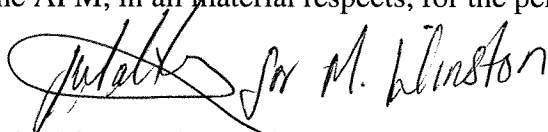
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures, as 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,*
- *Administration of Voided Checks,*
- *Mismanagement of Funds Received,*
- *Record Retention,*
- *Vending Machines Contract,*
- *Monthly Bank Reconciliation and Financial Reporting, and*
- *Inappropriate Use of Reimbursement Vendor Options*

Individually or in the aggregate, these findings resulted in a material deviation from Board of Education (BOE) Policies, 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 June 30, 2019.



Michele Winston, CPA, Director  
Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit of the student activity funds (SAF) for Patuxent Elementary School for the period December 1, 2013 through June 30, 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.

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, 2017 through June 30, 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**

There were **17** instances where cash disbursements reviewed 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 were **4** instances where expenditures were not adequately approved. School Funds Expenditure Forms (SFEFs) were approved after purchases were made or items ordered from vendors or SFEFs were not signed by the former principal.
- 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 **34** and **188** days.
- C. ***Inadequate Supporting Documentation*** - There were **10** instances where documentation to substantiate checks issued was incomplete or could not be located. The section on the SFEF for inclusion of available funds was often incomplete.

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.
- B. Invoices are required to be paid within 30 days of receipt or by the invoice due date. Principals should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- C. All checks must have itemized documentation attached to the SFEF that supports the amount of the check.

The recordkeeping staff did not follow established internal controls relative to management of disbursements. SFEFs were accepted from staff that were incomplete and/or lacked adequate supporting documentation. In addition, the recordkeeping staff failed to research the balance available on the relevant account and record that amount on the SFEF.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Approving purchases without

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adequate documentation or failure to adequately approve expenditures could result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. The risk of insolvency is present when the available funds amounts are not determined prior to approval of purchases. Delinquent payments of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed.

**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 products or services and be 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.
- B. The principal and recordkeeping staff must ensure must ensure vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- C. Internal controls must be established to ensure that all SFEF's are complete and has adequate supporting documentation prior to issuance of payments.

**2020:02 Administration of Voided Checks**

During the review of the school's voided checks, the following exceptions were noted:

- A. There were **4** instances where voided checks could not be located in the school's files to determine whether they were appropriately processed.
- B. There was **1** instances where a check was voided and reissued in SFO on the same date and with the same check number.

The APM requires all voided checks to be entered in SFO and have "VOID" written across the face of the check. The APM also requires retention of financial records for a period of 7 years or until audited.

An adequate filing system was not properly maintained to ensure that all financial records were adequately maintained. The recordkeeping staff was not aware that a voided check number cannot be reused.

Mismanagement of checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff.

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**Recommendation:** The recordkeeping staff must be reminded of the importance of voiding 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 voided checks must be retained for the required period.

**2020:03 Mismanagement of Funds Received**

***A. Monetary Transmittal Form Documentation:***

- 1) ***Inadequate Support*** - There were **30** instances where cash receipts were not properly supported (missing verified deposit slips and SFO deposit analysis sheets.)
- 2) ***Inappropriate Changes*** - There were **7** instances where changes made to MTFs were not initialed according to the MTF instructions.

***B. Fundraiser Forms not completed*** - Staff failed to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and annual fundraising reports for all fundraising events held during the audit period.

***C. Transfer of Funds Received*** - There were **2** instances where transfers were not made in accordance with the requirements of the APM.

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 bookkeeper and properly supported with approved MTFs. Changes and alterations made to MTFs require initials.
- B. A Fundraiser Completion Report must be prepared by the sponsor, reviewed and acknowledged by the Principal. Additionally, the Principal should prepare 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.
- C. Restricted transfers are only authorized if reviewed and approved by the principal.

Internal controls to ensure that funds received were administered as required were not established.

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 were subsequently remitted and deposited was not available. Failure to initial changes on MTFs removes responsibility from the person making the change



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and affects the audit trail. 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 Patuxent Elementary School's collections are processed in accordance with BOE policies and procedures:

- A. The principal and recordkeeping staff must establish internal controls to 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. The recordkeeping staff should not accept the MTF if changes are not initialed.
- B. 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 for public and auditor review upon request.
- C. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal.

**2020:04 Record Retention**

The following supporting documentation could not be located to facilitate the audit for:

- 5 transfers of restricted funds
- 3 MTFs from year-end envelopes

According to the APM, Section 6.12, *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, SFEFs, cancelled checks and contracts.

The recordkeeping staff did not maintain an adequate filing system for the school's financial records. The principal did not provide oversight for adequate records management. 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 an audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

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**Recommendation:** The principal must oversee the implementation of an adequate records management system facilitates access to the school's financial records in the absence of the recordkeeping staff. All financial records must be made available for auditors' review.

**2020:05 Vending Machines Contract**

The school operates a soda vending machine for its faculty. There is no current contract stipulating commissions due the school and frequency of commissions 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.

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. Additionally, these funds could be used to offset the negative balance in the Principal Sponsored Activities account.

**Recommendation:** The principal must establish procedures to ensure that a vending machine contract is 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 machine company in the absence of a contract.

**2020:06 Monthly Bank Reconciliation and Financial Reporting**

Monthly bank reconciliations and financial reporting were not performed by the 15<sup>th</sup> of each month as required by the APM. There were **21** instances where the bank accounts were not reconciled timely. The delinquency ranged from 2 to 29 days.

According to the APM, the bookkeeper is required to complete the reconciliation within 7 days after receiving the statement from the bank. Typically, this process is completed by the 15<sup>th</sup> 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 practice facilitates review by auditors.

The former principal did not exercise proper oversight to ensure that monthly reconciliations and financial reporting was not 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. Financial information was not readily available for review.

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**Recommendation:** The principal must establish procedures to ensure that monthly bank reconciliation and financial reporting occur by the 15<sup>th</sup> of each month and related documentation are organized and maintained as required by the APM.

**2020:7 Inappropriate Use of Reimbursement Vendor Options**

The recordkeeping staff inappropriately processed **99** refunds to parents totaling **\$7,437.25** using the “Reimbursement Vendor” option.

Expenditures posted to SFO are primarily those paid to PGCPs approved vendors. The payee defaults to this listing of vendors when checks are written in SFO. The “*Reimbursement Vendor*” option was created to post reimbursable expenses to the staff and the “*Refund Vendor*” option was created to post refundable expenses to parents. The “*Advance Vendor*” option was created to post reimbursement expenses for staff when the exact amount is not known.

Reportedly, the Accounting and Financial Reporting Office has not provided appropriate training pertaining to use of the Advance and Reimbursement Vendor options when posting disbursements. BOE policies and procedures as established in SFO regarding the use of the Advance and Reimbursement Vendor accounts were not followed.

As a result, the school’s financial records may not have been accurately stated. Refunds were inappropriately made through use of “*Reimbursement,*” option in SFO. Failure to follow instructions for processing refunds places the school system in a position of non-compliance BOE policies and procedures.

**Recommendation:** The principal must establish procedures to ensure that financial recordkeeping staff properly post all future cash disbursements accurately in SFO. Recordkeeping staff should be held accountable for compliance. Additionally, the principal should contact Accounting and Financial Reporting regarding appropriate training pertaining to use of the Reimbursement Vendor option when posting disbursements.

**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Patuxent Elementary School was issued for the period ending November 30, 2013. During that period, the principal was not in her current position. However, the recordkeeping staff was in her position. The previous audit report had **4** reportable conditions, of which **3** are repeated in the current audit. The following findings were noted in the prior audit and the status is indicated below:

- **Mismanagement of Funds Received** - Condition still exists. See **Finding 2020.03** regarding *Mismanagement of Funds Received*

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- **Checks not Properly Voided** - Condition still exists. See **Findings 2020.02** regarding *Administration of Voided Checks*
- **Record Retention** - Condition still exists. See **Findings 2020.04** regarding *Record Retention*
- **Transactions Incorrectly Posted** – Controls appear to be working.

**ACKNOWLEDGEMENT**

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