




April 20, 2020

MEMORANDUM

To: Kristil Fossett, Ed. D., Instructional Director
Cluster 8

Michelle H. Pegram, Principal
Samuel P. Massie Academy

From: Michele Winston, CPA, Director 
Internal Audit

Re: Samuel P. Massie Academy - Financial Audit for July 1, 2018 through January 31, 2021

An audit was completed on the financial records of **Samuel P. Massie Academy School** for the period July 1, 2018 through January 31, 2021. The audit indicates 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. 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 **May 20, 2021** 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. **Please forward this template as a Microsoft Word document.** A 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; Katrina Greene, Student Activity Fund Support Specialist, email address: katrina.greene@pgcps.org and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org.

Enclosure

cc: Juanita Miller, Ed. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Michael Herbstman, Chief Financial Officer
James Dougherty, Esq., Director Financial Services
David Curry, 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
Katrina Greene, Student Activity Funds Support Specialist
Janice Walters-Semple, CPA, Supervisor, Internal Audit
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**Samuel P. Massie Academy
School Activity Funds**

For the Period Ended January 31, 2021

Samuel P. Massie Academy
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Internal Audit Report
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Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Samuel P. Massie Academy for the period July 1, 2018 through January 31, 2021. Samuel P. Massie Academy'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 Disbursements,*
- *Administration of Voided Checks,*
- *Mismanagement of Funds Received,*
- *Excessive Spending in Restricted Accounts,*
- *Record Retention,*
- *Delinquent Bank Reconciliations, and*
- *Warehouse Membership Cards*

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 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, 2021.



Michele Winston, CPA, Director
Internal Audit

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SUMMARY

Internal Audit completed an audit of the school activity funds (SAF) for Samuel P. Massie Academy for the period July 1, 2018 through January 31, 2021. 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.

This audit report includes 7 findings that occurred under the leadership of the current principal. A listing of the findings and the personnel responsible are included in the appendix at the end of the audit report. 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, 2018 through January 31, 2021. In addition, selected receipts, disbursements, and supporting documentation were reviewed for the said period. This is an audit of funds related to students' activities at the school and does not include SOR funds or any funds not derived from students' activities for the audit period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations.

2021.01: Mismanagement of Disbursements

The school's cash disbursements 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. The principal did not pre-approve the School Fund Expenditure Form (SFEF) prior to purchases being made.
- B. *Delinquent Vendor Payments* – There were **4** instances where payments for expenditures were not remitted to vendors in a timely manner. The range of delinquency was between **32 and 106** days.
- C. *Inadequate Supporting Documentation* – There were **6** instances where expenditures did not have adequate supporting documentation or the SFEF was not complete.

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 should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- C. Each expenditure must have itemized documentation attached to the SFEF that supports the amount of the check.

Failure to provide sufficient training to staff with regards to the pre-approval process for school expenditures lead to staff ordering goods and services prior to obtaining approval from the principal. Neither the principal nor recordkeeping staff reviewed invoices and statements for past due amounts to ensure payments were made in a timely manner. Review of supporting

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documentation was not always performed prior to the issuance checks. Additionally, the principal and the recordkeeping staff did not read the APM.

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

Recommendation: The principal and recordkeeping staff must read the APM and 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 SFEF's prior to approving expenditures.
- B. The principal and recordkeeping staff must regularly review open invoice files to ensure that vendor payments are issued timely, within 30 days of receipt, or by the invoice due date.
- C. Internal controls must be established to ensure that all SFEFs include adequate supporting documentation prior to issuance of payments.

2021:02 Administration of Voided Checks

The following exceptions were noted relative to the administration of voided checks

- There were **8** instances where voided checks were not properly voided by removal of the signature line.
- There were **5** instance where voided checks were not entered into the School Funds Online accounting system.

The APM provides the following guidelines regarding the administration of voided checks. All voided checks are required to be entered in SFO and have "VOID" written across the face of the check. It also requires the signature line to be removed and that voided checks are attached to approved Void Check Proof Sheets.

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The recordkeeping staff did not follow established internal controls relative to administration of checks. The recordkeeping staff indicated they forgot the policies relative to administration of voided checks.

Mismanagement of voided checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to properly void checks could result in unauthorized negotiation of checks.

Recommendation: The recordkeeping staff must be reminded of the importance of administering voided checks as required by the BOE. The recordkeeping staff must review the APM to be reminded that all voided checks must be entered in SFO and have “VOID” written across the face of the check. Also, the signature line must be removed from voided checks as required.

2021:03 Mismanagement of Funds Received

Cash receipts 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 Supporting Documentation*** - There were **5** instances where collections were not properly supported with student remittance forms, fundraiser forms, mandatory ticket report or other documentation that shows the source and purpose of funds or incomplete MTF.
- B. ***Delinquent Deposits*** – There were **6** instances where deposits were not made in a timely manner. The range of delinquency was **3** to **14** days.

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 MTFs.
- B. Deposits 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.

The recordkeeping staff did not perform verification of supporting documentation prior to accepting and approving MTFs and making deposits. Additionally, the recordkeeping staff held funds collected by staff before remittance to the bank. The recordkeeping staff indicated the front office is extremely busy resulting in her inability to check the drop safe on some days.

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Failure to adequately perform recordkeeping responsibilities by ensuring that collections are adequately supported removes evidence necessary to support the accuracy of funds received.

Delinquent deposits of funds impacts the accuracy of financial reporting upon which administrators rely to make financial decisions.

Recommendation: The following corrective actions should be implemented to help ensure compliance with BOE policies and procedures. The principal must familiarize herself with the APM and hold the recordkeeping staff accountable for compliance. Specifically:

- A. The recordkeeping staff must ensure that all collection documentation is adequate by verifying that all appropriate support is attached to the MTF prior to approval.
- B. The recordkeeping staff must deposit all funds collected and remitted daily, especially funds in excess of **\$250.00**. The principal must provide the recordkeeping staff with adequate time to access the drop safe daily, verify that funds collected are as indicated on the accompanying MTFs, and make bank deposits timely. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required.

2021.04 Excessive Spending in Restricted Accounts

The following restricted fund accounts contained deficits which aggregated to approximately **(\$8,176.65)** as of January 31, 2021.

<u>Account #</u>	<u>Account Description</u>	<u>Amount</u>
311.00	Boys /Girls Basketball League	(\$817.46)
402.00	Book fair-Restricted	(\$1,426.80)
480.00	Yearbook	(\$5,389.43)
490.00	BOE to Reimburse	(\$49.50)
565.00	Materials of Instruction	(\$306.56)
590.00	Music	(\$186.90)
	Total	(\$8,176.65)

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted accounts exceed the available cash, the account is insolvent. As the fiduciary agent for SAF, the principal should ensure all accounts are always solvent.

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The current recordkeeping staff indicated that insolvencies in the Boys/Girls Basketball League, Book fair-Restricted and Yearbook accounts existed prior to her appointment to the position. Reportedly, the yearbooks arrived late and the school was unable to sell the books in the subsequent years. Funds were not collected prior to ordering the yearbooks.

Insolvencies in the Boys /Girls Basketball League, Book fair-Restricted and Yearbook accounts existed since the school's financial accounts' conversion to the School Funds Online accounting software in January 2015.

In addition, the school has not established an effective expenditure pre-approval process to ensure that funds are available before purchases are made (*See Finding 2021.01*).

Students are not receiving the maximum possible benefit of the resources that should have been available to them when restricted accounts are insolvent.

Recommendation: The principal and recordkeeping staff should evaluate all potential expenditures regarding available resources. Care must be exercised to ensure that expenditures are only approved based on the availability of funds in the corresponding restricted account and that resources are used for the maximum benefit of the students. Spending in these accounts must cease until the account deficits are resolved. The principal should consult with the Accounting and Financial Reporting Office regarding resolving these deficits.

2021.05 Record Retention

Supporting documentation for - **1** Cash Receipt, **4** voided checks, **8** journal entry transfers, and **7** MTFs were not made available for review during the audit.

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 records management system to facilitate filing and retrieval of financial records. The principal did not provide the necessary oversight for this process. These actions have caused the school to be noncompliant with BOE policies and procedures relative to record retention.

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 organization and custody of all records relating to SAF for a period of **7** years or until audited. An adequate filing system must be implemented to help ensure that in the absence of the recordkeeping staff or principal, financial

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documents are retrievable. Management oversight must be provided for consistent and reliable records management.

2021:06 Delinquent Bank Reconciliations

There were **7** instances where monthly bank reconciliations were not prepared and approved by the 15th of each month. The range of delinquency was **2 to 79** days.

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 bookkeeper for reconciliation. The bookkeeper is required to complete the reconciliation within 7 days after receiving the statement from the bank. This process is required to be completed by the 15th of each month. The completed reconciliation is required to 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 bank reconciliation was performed by the 15th of each month as required. Failure to complete, review and approve monthly bank reconciliations in a timely manner increases financial risk the school.

Recommendation: The principal must establish procedures to ensure completion, review and approval of monthly bank reconciliations by the 15th of each month and ensure that related documentation is maintained and is retrievable upon request.

2021:07 Wholesale Membership Cards

The school has **3** wholesale membership accounts with Costco, BJ's and Sam's Club. The membership accounts were not limited to one in the name of the school and one in the principal's name. The Costco and BJ's membership accounts are in the principal's and recordkeeping staff names. The Sam's Club membership account is in the principal's and assistant principal's name. The membership cards are kept on their person and not in the schools' safe until needed.

The Sam's Club membership account is a Sam's Plus account. Sam's Plus Members get 2% Cash Rewards back on qualifying pre-tax purchases with a maximum reward of **\$500** per 12-month membership period. Cash Rewards are awarded annually and loaded on to the membership card for use in-club, on SamsClub.com® or **redeemable for cash**. A member can accumulate a Maximum Balance of **\$2,000** in earned Cash Rewards on a membership card. IA could not determine how much Cash Rewards this account has accumulated or if those rewards were redeemed for cash. The principal indicated the membership allows earlier shop times that do not interfere with school hours and Cash Rewards go directly on to the membership card, where they are able to use it in the store to purchase incentive items for the students. The early shopping hours are Monday – Friday 8 – 10am and Saturday 8 – 9am. The school hours are 7:45

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am to 2:25pm. The cost for this account is **\$100.00** compared to **\$45.00** for the regular club account.

According to the APM, Club membership cards, if deemed necessary by the principal, shall be limited to one in the name of the school and one in the principal's name. These membership cards are for school business only and should be kept in the school safe until needed.

BOE policies and procedures as established in the APM were not followed relative to ownership of the Warehouse membership cards. Reportedly, the principal decided to purchase the Sam's Club Plus membership instead of the standard Sam's Club membership for convenience.

Failure to comply with the guidelines outlined in the APM has resulted in violation of policies and procedures of the BOE and provides the opportunity for misuse of the school's sales tax exempt status and potential personal use of rewards that are intended for students.

Recommendation: The principal should request that the recordkeeping staff and vice principal return the membership cards to the school. These warehouse membership cards should be destroyed and ownership changed to Samuel P. Massie Academy. The principal should provide confirmation of the account ownership to Internal Audit. Additionally, the principal and recordkeeping staff should review use of Sam's Club Plus membership to determine if the standard Sam's Club membership is more economical.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Samuel P. Massie Academy was issued for the period ended December 31, 2012. During that period, the current principal held that position however, the current recordkeeping staff did not. The previous audit report included **12** reportable conditions, of which **4** are repeated in the current audit. The following findings were noted in the prior audit, and the current status is indicated below:

- **Funds Not Deposited** - Controls appear to be working.
- **Delinquent Deposits** - Condition still exists. **See Finding 2021.03, *Mismanagement of Funds Received.***
- **Management of Funds Received** - Condition still exists. **See Finding 2021.03, *Mismanagement of Funds Received.***
- **Separation of Duties** - Controls appear to be working.
- **Fundraiser Forms** - Controls appear to be working.

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- **Sales Tax not Collected and Posted for All Items Sold** - Controls appear to be working.
- **Management of Disbursements** - Condition still exists. **See Finding 2021.01, *Mismanagement of Disbursements*.**
- **Payment for Services Rendered** - Controls appear to be working
- **Contracts** - Controls appear to be working
- **Delinquent Payment of Invoices** - Condition still exists. **See Finding 2021.01, *Mismanagement of Disbursements***
- **Principal Sponsored Activity (PSA) Overspending** - Controls appear to be working
- **Management Oversight** - Controls appear to be working

ACKNOWLEDGEMENT

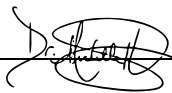
We would like to thank the principal and staff of Samuel P. Massie Academy for their cooperation and assistance extended during the audit.

**Prince George's County Public Schools
Internal Audit Department
School/Office: Samuel P. Massie Academy**

Response Date May 20, 2021

	Findings	Recommendations	Concur Non-Concur Partially Concur	Action Plan	Corrective Action Date	Status Implemented Partially Implemented Not Implemented
1.	<u>2021.01: Mismanagement of Disbursements</u>	<p>The principal and recordkeeping staff must read the APM and perform the following to improve the administration of disbursements:</p> <p>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 SFEF's prior to approving expenditures.</p> <p>B. The principal and recordkeeping staff must regularly review open invoice files to ensure that vendor payments are issued timely, within 30 days of receipt or by the invoice due date.</p> <p>C. Internal controls must be established to ensure that all SFEFs include adequate supporting documentation prior to issuance of payments.</p>	Concur	<p>Principal and bookkeeper will ensure staff is properly trained and adheres to APM.</p> <p>Pre-approval will be completed prior to funds being spent.</p> <p>Principal and recordkeeping staff will meet weekly to review invoices and ensure payment is made in a timely fashion.</p> <p>Supporting documents will be received prior to payments.</p>	April 2021	Implemented

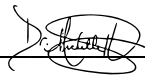
Principal Signature _____



Date April 26, 2021

2.	<u>2021:02</u> <u>Administration of</u> <u>Voided Checks</u>	The recordkeeping staff must be reminded of the importance of administering voided checks as required by the BOE. The recordkeeping staff must review the APM to be reminded that all voided checks must be entered in SFO and have "VOID" written across the face of the check. Also, the signature line must be removed from voided checks as required.	Concur	Bookkeeper is aware that void must be written on checks and the bottom of checks will be cut as explained	April 2021	Implemented
3.	<u>2021:03</u> <u>Mismanagement of</u> <u>Funds Received</u>	<p>The following corrective actions should be implemented to help ensure compliance with BOE policies and procedures. The principal must familiarize herself with the APM and hold the recordkeeping staff accountable for compliance. Specifically:</p> <p>A. The recordkeeping staff must ensure that all collection documentation is adequate by verifying that all appropriate support is attached to the MTF prior to approval.</p> <p>B. The recordkeeping staff must deposit all funds collected and remitted daily, especially funds in excess of \$250.00. The principal must provide the recordkeeping staff with adequate time to access the drop safe daily, verify that funds collected are as indicated on the accompanying MTFs, and make bank deposits timely. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required.</p>	Partially Concur	<p>Documentation was evident for all expenditures and bookkeeper has been reminded.</p> <p>Principal will ensure this is discussed at weekly meetings.</p> <p>Due to the pandemic, the lines at the bank were long but deposits will be made on a regular basis going forward.</p> <p>Funds will not exceed \$250.00</p> <p>Principal will review deposit records to monitor whether deposits are evident and timely.</p>	April 2021	Implemented
4.	<u>2021.04 Excessive</u> <u>Spending in</u> <u>Restricted Accounts</u>	The principal and recordkeeping staff should evaluate all potential expenditures regarding available resources. Care must be exercised to ensure that expenditures are only approved based on the availability of funds in the corresponding restricted account and that resources are used for the maximum benefit of	Concur	<p>All expenditures will be approved prior to money being spent.</p> <p>Funds will be checked prior to granting approval.</p> <p>Bookkeeper met with appropriate personnel for retraining.</p>	April 2022	Implemented

Principal Signature _____



Date April 26, 2021

		the students. Spending in these accounts must cease until the account deficits are resolved. The principal should consult with the Accounting and Financial Reporting Office regarding resolving these deficits.				
5.	<u>2021.05 Record Retention</u>	The principal must ensure proper organization and custody of all records relating to SAF for a period of 7 years or until audited. An adequate filing system must be implemented to help ensure that in the absence of the recordkeeping staff or principal, financial documents are retrievable. Management oversight must be provided for consistent and reliable records management.	Partially concur	All files are stored and kept for a number of years necessary. They are kept in a plastic bin indicating respective timeframes.	April 2021	Implemented
6.	<u>2021.06 Delinquent Bank Reconciliations</u>	The principal must establish procedures to ensure completion, review and approval of monthly bank reconciliations by the 15 th of each month and ensure that related documentation is maintained and is retrievable upon request.	Partially concur	Reconciliations occurred but due to pandemic, we had to wait on bank statements. Reconciliations will occur monthly as required.	April 2021	Implemented
7.	<u>2021:07 Wholesale Membership Cards</u>	The principal should request that the recordkeeping staff and vice principal return the membership cards to the school. These warehouse membership cards should be destroyed and ownership changed to Samuel P. Massie Academy. The principal should provide confirmation of the account ownership to Internal Audit. Additionally, the principal and recordkeeping staff should review use of Sam's Club Plus membership to determine if the standard Sam's Club membership is more economical.	Concur	Membership cards are housed at the school. The Sam's membership was changed to a basic plan as requested.	May 2021	Implemented

Principal Signature _____



Date April 26, 2021