



November 3, 2017

MEMORANDUM

To: Brian Baudoin, Instructional Director
Cluster 7

Lance Pace, Principal
Imagine Foundations at Leeland Public Charter School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period July 1, 2016 to August 31, 2017

An audit of the financial records of **Imagine Foundations at Leeland Public Charter School** was completed for the period July 1, 2016 to August 31, 2017. The audit results indicate that improvement is necessary to ensure compliance with board policies. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within **30** days, indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. 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, Attention: Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: Deborah.smalls@pgcps.org.

This report is intended solely for information and use of the Board Chair and Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended to be and should not be used by anyone other than the specified parties.

Enclosure

- cc: Segun Eubanks, Ed. D., Board Chair
- Kevin M. Maxwell, Ph. D, Chief Executive Officer
- Carolyn Boston, Vice Chair, Board of Education
- Raaheela Ahmed, Board Member, District 5
- Monique Whittington Davis, Ed. D., Deputy Superintendent
- Raymond Brown, Chief Financial Officer
- Helen Coley, Ed. D., Associate Superintendent, Area II
- Loretta White-Khaaalid, Executive Assistant Charters & Contract Schools
- Erica Berry Wilson, Esq., Executive Director, Board of Education
- Daniel Reagan, Internal Auditor II

Internal Audit Report

Imagine Foundations at Leeland Public
Charter School
Student Activity Funds

For the Period Ended August 31, 2017

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Student Activity Funds
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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Imagine Foundations at Leeland Public Charter School for the period July 1, 2016 to August 31, 2017. Imagine Foundations at Leeland Public Charter 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 Funds Received;*
- *Mismanagement of Disbursements;*
- *Financial Reports Not Approved by Principal;*
- *Stale Dated Checks; and*
- *Fundraiser Forms Not Completed.*

Individually or in 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 deviation 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 August 31, 2017.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Imagine Foundations at Leeland Public Charter School for the period July 1, 2016 to August 31, 2017. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures have improved but controls over SAF continue to require strengthening 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.

This report is intended solely for information and use of the Board Chair, Chief Executive Officer and other parties specifically stated in the accompanying transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

OBJECTIVES

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school was in compliance with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

SCOPE

The audit was based on our review of selected bank statements, financial reports, cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period July 1, 2016 to August 31, 2017. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01 Mismanagement of Funds Received

The following exceptions pertaining to the management of funds received were identified:

- A. ***Delinquent Deposits*** - There were **8** instances where funds were deposited between 2 and 105 days after collection.
- B. ***Incorrect Remittance Information*** - There were **2** instances where remittance information did not match the collection and deposit amount.
- C. ***Monetary Transmittal Form Log*** - A MTF log was not maintained for MTFs issued and returned by staff.
- D. ***Endorsement Stamp*** - Checks received for deposit were not immediately being endorsed with the pre-made stamp.

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

- A. Bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight.
- B. The MTF must be entirely completed with information pertaining to who collected the funds, date of collection, source of funds collected, the reason for collection, and the amount and form of collection.
- C. A MTF log is required to be maintained by the bookkeeper to include a numerical list of the MTF's, the name of individuals and dates MTFs were issued, the date returned to the bookkeeper, and the total amount of the MTF.
- D. After the bookkeeper verifies funds remitted each day, he/she should immediately endorse all checks using a stamp that contains such endorsement information (For deposit only, school name and bank account number).

The former bookkeeper was on extended leave from August 2016 until June 2017, when she retired. As a result, the school was without a dedicated and trained bookkeeper for a majority of the audit period. Another secretary, who is the current bookkeeper handled accounting duties during this period among several other front office duties. Reportedly,

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he did not receive training from the Accounting and Financial Reporting Office until May 2017, and did not officially replace the former bookkeeper until July 2017.

The current bookkeeper explained that he was not aware of the requirements for timely bank deposits until receiving training in May 2017. He also explained that he was currently unaware of the requirements for MTF remittance information, MTF logs, or a check endorsing stamp.

The principal avoided administering the school's checking account for a majority of the audit period since there was no bookkeeper on staff. The principal felt that financial training for principals were not extensive enough.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely deposits can lead to lost or stolen funds. Incomplete remittance information compromises the audit trail necessary to detect fraud and ensure compliance. The lack of a MTF log also increases the risk of lost or stolen funds, since the bookkeeper would be unaware of an MTF that is not returned. Further, the lack of immediate endorsement of checks with a stamp increases the risk of check fraud.

Recommendation: The bookkeeper and principal should familiarize themselves with the APM's procedures for collection and processing of SAF. Internal controls to ensure compliance should be developed and documented. Staff should be trained on the documented controls, specifically as it relates to the MTF log, accurate remittance information, and timely deposits.

2018.02 Mismanagement of Disbursements

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

- A. ***No Approvals*** - School Funds Expenditure Forms (SFEFs) were not approved by the principal for the 5 disbursements reviewed.
- B. ***Delinquent Payments*** - There were 2 instances where payments were made after the due date on the invoice.
- C. ***Maintenance of Cancelled Check Images*** – Images of cancelled checks were not maintained at the school for the disbursements selected for review.
- D. ***Check Signers*** – The list of the school's check signers is not up-to-date. The current bookkeeper has not been added as a check signer on the school's checking account.

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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.
- B. Invoices are required to be paid within 30 days of receipt. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- C. Once received with the bank statement, cancelled check images are required to be maintained in a separate cancelled check file for the entire school year.
- D. The principal and the bookkeeper are required to be the 2 standard check signers on the school's bank account.

The former bookkeeper was on extended leave from August 2016 until June 2017 prior to her retirement. As a result, the school was without a dedicated and trained bookkeeper for a majority of the audit period. Another secretary, who is the current bookkeeper, handled accounting duties during this period among several other front office duties. He did not receive training from the Accounting and Financial Reporting Office until May 2017, and did not officially replace the former bookkeeper until July 2017.

The current bookkeeper explained that he was not aware of the requirements for disbursement approvals or cancelled check image maintenance. He also explained that his competing priorities during the audit period prevented timely payment of invoices.

The principal avoided administering the school's checking account for a majority of the audit period since there was not a bookkeeper on staff. The principal felt that financial training for principals were not extensive enough. According to the principal, one attempt to add the current bookkeeper as a check signer on the bank account was made, but he was told by bank personnel that all check signers had to be present. Since the third check signor was not present at the time, the change was not made.

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

- A. Inadequate approval of expenditures can also lead to insolvent accounts.
- B. Delinquent payments can result in late fees to the school and can lead to sub-standard service from vendors in the future.
- C. Without images of cancelled checks, critical payee information is lost.

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- D. Without the current bookkeeper being a check signer, the process for writing checks will be time-consuming and cumbersome since the third check signer has to be available to sign checks.

Recommendation: The bookkeeper and principal should familiarize themselves with the APM's procedures for disbursements and develop and document internal controls to ensure compliance.

- A. The staff should be trained, specifically as it relates to submitting SFEFs prior to purchase, and completing them after purchase, to ensure principal's pre-approval and post approval.
- B. The principal should provide oversight to the disbursement process, to include monthly reviews of open invoices to ensure that bills are paid to vendors timely.
- C. Review of financial records, including cancelled checks, should be performed to ensure that adequate evidence is maintained in an organized manner to provide a sufficient audit trail.
- D. The principal should ensure that the current bookkeeper is added as a check signer on the bank account.

2018.03 Financial Reports Not Approved by Principal

The principal did not provide signatory approval on financial reports during the audit period.

The APM, Section 5.2, *Financial Reporting Requirements*, outlines the following responsibilities for principals:

- Obtain financial reports from the bookkeeper by the 15th of each month.
- Review monthly reports to verify the bank statement is reconciled correctly, financial reports are in agreement with the bank reconciliation, and that the school is solvent.
- Sign and date the financial report checklist, after verifying that reports are balanced.

The former bookkeeper was on extended leave from August 2016 until June 2017 prior to retirement. As a result, the school was without a dedicated and trained bookkeeper for the majority of the audit period. The School Activity Fund Support Specialist completed bank reconciliations and financial reports for the school during this period. Reports were

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emailed to the principal for review. Beginning in July 2017, the current bookkeeper began completing the financial reports at the school.

The principal avoided administering the school's checking account for a majority of the audit period since there was not a Bookkeeper on staff. The principal stated that financial training for principals should be more extensive.

Failure to perform monthly reporting responsibilities represents noncompliance with BOE policies and procedures. Bank reconciliations are the primary internal control to prevent fraud at the school level. Without reviewing and approving bank reconciliations, the principal is not able to detect potential missing or stolen funds.

Recommendation: The current bookkeeper and principal should familiarize themselves with the APM requirements for financial reporting and develop internal controls to ensure compliance. Specifically, the principal should set up monthly meetings with the current bookkeeper to review financial reports and resolve any discrepancy. Evidence of financial reports review must be documented.

2018.04 Stale Dated Checks

There were 3 checks, dated from May 2016 through June 2016, totaling \$70.00 have not been written off and remain outstanding on the school's bank reconciliations.

The APM, Section 4.5.3, *Cash Disbursements*, states that if a check from SAF has not been cashed within a reasonable time, at least six months; it is referred to as a stale check. The bookkeeper is required to investigate the circumstances concerning the issuance of the check and attempt to determine from the payee why the check was not cashed. After this determination, the stale check is either reissued or "written off."

The current bookkeeper was unaware of the requirements and procedures for identifying and writing off stale checks when conducting bank reconciliations. The School Activity Fund Specialist stated that she did not write the checks off during her reconciliations due to the lack of time.

Failure to identify and write off stale checks represents noncompliance with BOE policies and procedures and affects the accuracy of the school's financial statements.

Recommendation: The current bookkeeper and principal should familiarize themselves with the requirements for resolution of stale checks and develop internal controls to ensure compliance. Specifically, the new bookkeeper should investigate the circumstances of the 3 stale checks and attempt to determine from the payee why the check was not cashed. The current bookkeeper should consult with the Accounting and

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Financial Reporting Office or the TRA School Software Solutions helpdesk for instructions on how to write the checks off.

2018.05 Fundraiser Form Not Completed

A Fundraiser Completion Report was not completed for the school's only school-wide fundraiser during the audit period.

Administrative Procedure 5135.1, *Fundraising*, requires Fundraiser Completion Report forms to be completed for all fundraising activities.

The current bookkeeper and principal were unaware of the specific requirements for fundraiser forms. Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures. In addition, it decreases transparency of fundraising activities and the associated profits to interested parents and community members.

Recommendation: The principal and bookkeeper should familiarize themselves with the procedures for completing fundraiser forms and establish procedures to ensure compliance. The required reports must be maintained on file for public and auditor review.

2018.06 Management Oversight

The principal did not exercise proper oversight in the administration of the SAF during the current audit period. This audit report includes 5 other findings partially resulting from the lack of management oversight during the audit period.

The APM, Section 3.2.1, *Principals*, states that the principal is the fiduciary agent for SAF. As such, responsibility for accounting, safeguarding and managing the SAF, in accordance with PGCPS policies and procedures, rest solely with the principal.

The principal has not provided adequate attention to the school's checking account to establish and implement effective financial controls.

Substantial financial risks currently exist at Imagine Foundations at Leeland Public Charter School in the absence of effective management oversight. Specifically, the principal stated that field trips and fundraising activities were partially avoided during the audit period as a result of the previous bookkeeper's absence. The current lack of SAF knowledge in the front office has resulted in a decrease in critical school activities.

Recommendation: The principal should carefully review the policies and procedures as defined in the APM and develop internal controls to ensure compliance. He should be consistently involved in the daily operations as it relates to the administration of the

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school's resources. Improvement of the internal control environment should be emphasized by focusing on these five basic principles:

- Clearly Defined Lines of Authority and Responsibility;
- Segregation of Duties;
- Maintenance of Adequate Documents and Records;
- Limited Access to Assets; and
- Independent Checks on Performance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Imagine Foundations at Leeland Public Charter School was issued for the period ended **June 30, 2016**. The principal has been in place for the entire audit period. The current bookkeeper handled partial accounting duties from August 2016 through June 2017. Beginning July 2017 through the end of the audit period, the current bookkeeper began handling all accounting duties. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Funds Collected and Expended Outside of School Activity Funds** – Controls appear to be working.
- **Inadequate Support of Expenditures** – Controls appear to be working.
- **Administration of Voided Checks** – Controls appear to be working.
- **Year-End Monetary Transmittal Forms Procedures Not Followed** – Controls appear to be working.
- **Expired Contract for Vending Machines** – Controls appear to be working.
- **Fundraiser Forms Not Completed** – Condition still exists. **See Finding 2018.05** regarding *Fundraiser Form Not Completed*.
- **Unpaid Bills Spreadsheet Not Completed** – Controls appear to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Imagine Foundations at Leeland Public Charter School for their cooperation and assistance during the audit.