

December 7, 2017

MEMORANDUM

To: Tasheka Green, Instructional Director
Cluster 11

Shawn Hintz, Principal
Phyllis E. Williams Spanish Immersion School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period January 1, 2015 through September 30, 2017

An audit of the financial records of **Phyllis E. Williams Spanish Immersion School** was completed for the period January 1, 2015 through September 30, 2017. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual and Board of Education policies and procedures. 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. Please note that you are required to provide your action plan using the attached Microsoft word template. Please send a PDF and word version of your action plan 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, Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph.D., Chief Executive Officer of Schools
Monique Whittington-Davis, Ed. D., Deputy Superintendent
Carolyn Boston, Vice Chair, Board of Education
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Erica Berry Wilson, Esq., Board Executive Director
Michael Dougherty, Director, Financial Services
Alanna Cooper, Internal Auditor II

Internal Audit Report

Phyllis E. Williams
Spanish Immersion School
Student Activity Funds

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Internal Auditor's Report

We have examined the Student Activity Funds of Phyllis E. Williams Spanish Immersion School for the period January 1, 2015 through September 30, 2017. Phyllis E. Williams Spanish Immersion School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

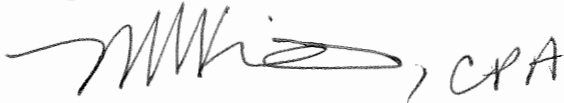
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we 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,*
- *Administration of Voided Checks,*
- *Financial Reporting,*
- *Fundraiser Forms, and*
- *Transfers Not Properly Approved*

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 September 30, 2017.



Michele Winston, CPA,
Director Internal Audit

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SUMMARY

The Internal Audit department completed an audit of the student activity funds (SAF) of Phyllis E. Williams Spanish Immersion School for the period January 1, 2015 through September 30, 2017. The audit was performed as part of the 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.

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 report 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 and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period January 1, 2015 through September 30, 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 **3** instances where MTF amounts in excess of \$250.00 were not deposited on the day of collection in accordance with the APM.
- B. ***Funds Placed in Drop Safe Without MTFs*** - The audit revealed that staff members dropped SAF in the safe without accompanying MTFs detailing funds remitted.
- C. ***Inadequate Documentation of Funds Received*** - There were **11** instances where the current and former bookkeeper accepted MTFs that were incomplete or inadequately documented. School staff omitted the bookkeeping classification in section 1 and remittance data in section 2 of MTFs. There were also **2** instances where changes on MTFs were not initialed as required. ***(This condition was also noted in the previous audit as of December 31, 2014.)***
- D. ***Year-End Monetary Transmittal Form Envelopes*** - The year-end MTF submission process was not operating as required by procedures outlined in the APM. There were **7** instances where the pink and yellow MTF remittance copies could not be located. There was **1** instance where a staff member did not include the yellow remittance copy of her MTF. ***(This condition was also noted in the previous audit as of December 31, 2014.)***
- E. ***Incomplete Monetary Transmittal Form Log*** - The MTF log was not maintained during the audit period. There were **3** instances where the dates MTFs were returned and the names of staff members who requested MTFs were not included on the MTF log. ***(This condition was also noted in the previous audit as of December 31, 2014.)***
- F. ***Drop Safe Log*** – There was no drop safe log maintained with the drop safe.

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- G. ***MTF Numbers and Deposit Dates Entered Incorrectly in SFO*** - There were 7 instances where MTF numbers and/or MTF dates were not entered accurately in SFO.
- H. ***Generic Deposit Slips*** - There were 2 instances where bank issued deposit slips were used in lieu of itemized deposit slips prepared by the former bookkeeper.

The APM provides the following guidelines regarding administration of funds received:

- 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. Depository (drop) safes are required for every school. A log should be maintained where staff members record their names and the date of the 'drop.' The funds 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.
- C. Staff members collecting funds are required to complete MTFs entirely and submit to the bookkeeper along with funds remitted. The following information must be included, 1) who collected funds; 2) when it was collected; 3) from whom it was collected; 4) the amount and form of the collection; and 5) the reason for collecting. Sections 1 and 2 of MTFs must be completed. The bookkeeper is prohibited from accepting MTFs where a pencil or white-out is used.
- D. Prior to departing the school at year-end, staff and program managers are required to submit the pink and yellow MTF remittance copies in sealed envelopes (with their signature over the seal) to the designated administrator. Year-end MTF envelopes should be stored in a location inaccessible to the bookkeeper.
- E. The bookkeeper is responsible for accounting for all MTFs issued to the school on a MTF log. This log should include a numerical list of the MTFs, the name of requester and dates the forms were issued, the dates returned to the bookkeeper and the total amounts of the MTFs.
- F. The bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions.
- G. The bookkeeper is required to complete bank deposit slips in duplicate, whether manually or in SFO, noting the amount of coins, currency and checks. All checks

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must be individually listed on the deposit slip with identifying information (e.g., last name and/or check number) to assist in tracing any item in the deposit that may be returned by the bank. The items listed on the deposit slip should be totaled on a calculator and the calculator tape saved as supporting documentation. Both the original and duplicate deposit slip should be taken to the bank to allow the duplicate to be validated. The validated copy is required to be filed at the school with the MTF that supports the deposit.

Contributory factors in the mismanagement of funds received are as follows:

- A. The former bookkeeper stated that staff remitted funds late in the school day which did not allow adequate time to process MTFs and deposit funds with the bank prior to closing. There were some instances where staff wrote the incorrect date on the originating MTF. These dates were not corrected on the MTF prior to processing.
- B. Neither the principal nor the current bookkeeper was aware of the requirement that a MTF must accompany funds dropped in the safe.
- C. The current bookkeeper usually returns incomplete MTFs to the preparer for correction, however there were a few instances where incomplete MTFs were not returned and were mistakenly processed with incomplete sections and changes that were not initialed.
- D. The SFO "*Receiptee History*" report was not printed and the individual responsible for collection did not know which envelopes to be submitted.
- E. The former bookkeeper completed the MTF log for each staff that signed out a MTF but was unable to consistently complete all fields of the log during the school year due to other competing responsibilities.
- F. The current bookkeeper was unaware that the number on the MTF and the date the funds were deposited should be recorded in SFO.
- G. The former bookkeeper stated that the school received deposit slips with inaccurate information and had to wait for an extensive period to obtain the corrected deposit slips.

The audit trail for ensuring that all SAF collected were processed in accordance with BOE policies, and is complete was compromised. Weak internal controls surrounding the administration of funds received increased the potential for loss of assets.

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Recommendation: The following is recommended for the principal and bookkeeper to properly manage funds received:

- A. The principal must implement internal controls that require staff members to remit funds timely and provide the bookkeeper with sufficient time for making timely deposits. The principal should consider establishing designated time periods for staff to remit funds to the bookkeeper. The bookkeeper must monitor MTF amounts to ensure amounts over \$250.00 are deposited with the bank daily.
- B. Staff must be required to prepare MTFs for all funds collected including those placed in the drop safe. The bookkeeper should promptly follow-up with staff when funds are found in the safe without an accompanying MTF. Staff should be held accountable for compliance.
- C. Staff must be required to complete the MTF log for each MTF as it is signed out and returned. The drop safe log must be completed by staff remitting funds in the bookkeeper's absence. The bookkeeper should review the MTF log and drop safe log periodically for completeness.
- D. The principal and bookkeeper should review with school staff proper completion and adequate support required for MTFs submitted to the bookkeeper. The bookkeeper should closely review MTF packages to ensure accuracy and completeness prior to acceptance and approval. Staff and the bookkeeper should be held accountable for compliance.
- E. The principal's designee must use the SFO "*Receiptee History*" report to be aware of the MTFs to be submitted by school staff. This report should be provided to the principal's designee for collection of MTF remittance envelopes. Envelopes remitted should be checked against this report.
- F. The bookkeeper should review the SFO Manual to become familiar with her responsibility for accurately entering required information in SFO.
- G. The bookkeeper should consistently monitor the quantity of required financial documents including deposit slips to ensure an adequate supply is available at all times.

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2018.02: Mismanagement of Disbursements

The audit revealed the following exceptions pertaining to the management of disbursements:

- A. ***Inadequate Documentation*** - There were **19** instances where expenditures reviewed did not have the appropriate approval documentation. The “funds available” section of School Funds Expenditure Forms (SFEFs) was not completed detailing the available balance in the respective fund accounts. In one of these instances, there was no invoice provided to substantiate a student field trip. ***(This condition was also noted in the previous audit as of December 31, 2014.)***
- B. ***Inadequate Principal Approval*** – There were **11** instances where SFEFs reviewed were not adequately approved by the principal. During the audit period staff members made purchases prior to the principal’s approval; also, approval dates were not always provided with the principal’s signature. There was an instance where the principal did not provide approval for **1** expenditure item. ***(This condition was also noted in the previous audit as of December 31, 2014.)***
- C. ***Sales Taxes Paid*** - There were **7** instances where sales taxes were paid for expenditures incurred on behalf of the school.
- D. ***Segregation of Duties*** - There was **1** instance where the principal approved his own expenditure and signed the corresponding check.

The APM provides the following guidelines relative to the administration of cash disbursements:

- A. The bookkeeper is required to determine if funds are available, initial, date and record the amount of funds available on the SFEF to provide information to facilitate the principal’s approval. Expenditures of SAF are required to be supported by itemized receipts or invoices.
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed, signed and dated (approved) by the principal.
- C. Purchases made by schools and PGCPS are sales tax-exempt, if used in the conduct of school business. After the principal approves a purchase, a copy of the sales tax exempt certificate is required to be provided to staff for presentation to the vendor when making school purchases.
- D. Check signers should not sign their own reimbursement checks. This responsibility lies with the two (2) alternate signers.

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Contributory factors in the mismanagement of disbursements are as follows:

- A. The former bookkeeper maintained invoices in the field trip packets and failed to attach a copy to the SFEF. Reportedly, the current bookkeeper was advised that an approximate amount is to be included for the total “funds available” which was her practice. In instances where she did not include the amounts of available funds she noted that she was knowledgeable of all the accounts that maintained available balances.
- B. The principal hastily approved some SFEFs and failed to consistently include the approval dates.
- C. Some staff members ignored the requirement to use the sales tax exemption certificate for school purchases.
- D. Reportedly, the principal was advised by Internal Audit that he was authorized to approve the SFEF for his own expenditures.

Lack of adequate documentation reduces assurance that purchases were made in accordance with BOE policy and procedures. The risk of insolvency and fraud is present when appropriate approval is not obtained prior to purchase; expenditures are not adequately documented; checks are not properly processed and when the payee and the signor on a check are the same. Funds are also expended unnecessarily when sales taxes are paid on exempt school purchases.

Recommendation: The principal and current bookkeeper must perform the following to improve the administration of disbursements:

- A. The current bookkeeper should ensure invoices are included as supporting documentation prior to processing requests for disbursements. The principal should also perform this verification before approving the SFEF.
- B. The current bookkeeper must review the status of impacted fund accounts noted on the SFEF within SFO to ensure solvency and enter the amount of “funds available” on the form. The principal must ensure this section is completed to facilitate informed fiscal decisions.
- C. The principal should ensure that staff members are reminded to provide the SFEF for approval and obtain the sales tax exempt certificate for all school purchases. Staff should be held accountable for compliance.
- D. The third signer should approve the principal’s expenditures to ensure adequate segregation of duties occurs.

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2018.03 Administration of Voided Checks

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

- A. *Voided Check Proof Sheets Not Approved* - There were **8** instances where voided checks proof sheets were not approved by the principal.
- B. *Voided Checks Not Mutilated* - There were **3** instances where the signature line was not removed from voided checks.

The 2008 School Accounting Manual Section 4.5.3 on *Cash Disbursements, Voiding Checks*, provides the following guidelines regarding the administration of checks, “when voiding a check, the physical check must still be accounted for. The word “VOID” is required to be written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer. A SFEF should also be completed and approved by the principal, noting the check was voided.”

During the transition to SFO, the current and former bookkeepers did not understand which forms were required to be approved by the principal. The current bookkeeper was not aware that the signature line must be removed from voided checks. The principal and current and former bookkeepers did not follow the policies and procedures specified by the BOE regarding administration of checks. Inappropriate administration of checks exposes the school to fraud, waste, and abuse of its resources. Failure to properly void checks could result in unauthorized check use and negotiation.

Recommendation: The current bookkeeper should contact the Accounting and Financial Reporting Office and reference the APM in instances where she is uncertain of the BOE policies and procedures pertaining to voided checks. The current bookkeeper should review the APM to familiarize herself with the policies and procedures relative to voided checks.

2018.04 Financial Reporting

The following exceptions relative to financial reporting were noted:

- A. *Financial Reports Not Completed Timely* - There were **7** instances during the audit period where monthly financial reports were not completed timely. In **2** of these instances, reports were completed approximately 1 month after the due date. *(This condition was also noted in the previous audit as of December 31, 2014.)*

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- B. ***Insolvency Report Not Properly Completed*** - The current bookkeeper did not accurately complete the *Insolvency Report* during the audit period. Unpaid bills were consistently indicated as \$0, without preparation of the *Unpaid Bills Determination Spreadsheet*.

The APM provides the following guidance pertaining to SAF financial reporting:

- A. Section 5.1.2 *Monthly Reconciliation and Financial Reporting Procedures* states that the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal is required to forward the documents to the bookkeeper for reconciliation. The reconciliation should be completed by the bookkeeper within 7 days of receiving the statement from the bank. The monthly financial reporting process is required to be completed by the 15th day of each month and reports presented to the principal for review.
- B. Section 5.2, *Financial Reporting Requirements*, states that the Insolvency Report should be completed monthly and requires the bookkeeper to record data to calculate the school's solvency. The bookkeeper must manually calculate the value of unpaid bills that exist at the end of each reporting period for both restricted and unrestricted funds to complete the report.

The former bookkeeper stated that financial reports were prepared late due to instances where she was on sick leave. The current bookkeeper was of the impression that since all bills were paid upon receipt of invoices, the *Unpaid Bills Determination Spreadsheet* was not required. The principal was unaware of the requirement to complete the *Unpaid Bills Determination Spreadsheet*. Delinquent reporting and inaccurate transaction details impact the timeliness and reliability of information used in the decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Failure to complete the Unpaid Bills Determination Spreadsheet can affect the school's solvency calculation on a monthly basis. Additionally, the principal and bookkeeper may be less aware of open invoices which can lead to untimely payments and/or interest and penalties.

Recommendation: The principal and current bookkeeper must perform the following to improve financial reporting:

- A. The current bookkeeper should ensure that financial reports are completed by the 15th day of each month and that all transactions are accurately entered in the SFO financial system. The principal should hold the current bookkeeper accountable for timely report submission and ensure that the monthly financial reports are thoroughly reviewed as evidenced by his signature. The principal and bookkeeper

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should use the school's online banking option to more promptly initiate the reconciliation process. The Accounting and Financial Reporting Office should hold the principal and bookkeeper accountable for compliance.

- B. The principal and current bookkeeper should collaboratively review open invoices during the monthly financial reporting process to ensure the *Unpaid Bills Determination Spreadsheet* is completed.

2018.05 Fundraiser Forms

The Fundraiser Request and Authorization Form, Fundraiser Completion Form, and annual fundraiser reports summarizing the school's fundraising activities were not completed for fundraisers held during the audit period. *(This condition was also noted in the previous audit as of December 31, 2014.)*

Section 7.2 of the APM on Fundraisers and Administrative Procedure 5135.1, *Fund Raising* requires the completion of Fundraiser Request and Authorization Forms, the Fundraiser Completion Form and annual fundraiser reports summarizing the school's fundraising activities held.

The current bookkeeper was unaware of the required forms for all fundraising activities held by student clubs/groups. Financial records are not complete and profit/loss ratio of fundraisers conducted could not be determined. The school is not in compliance with the APM and Administrative Procedure 5135.1 regarding administration of fundraising events.

Recommendation: The bookkeeper should review Administrative Procedure 5135.1 and Section 7.2 on of the APM to become aware of the requirements for administration of fundraisers. Fundraising sponsors should be held accountable for their role in request for approval and documentation of fundraisers.

2018.06 Transfers Not Properly Approved

The bookkeeper made journal entry transfers during the audit period. There were **5** instances where the principal did not approve the Fund Transfer Journal Entry Proof Sheet. There were **8** instances where the Fund Transfer Journal Entry Proof Sheet could not be located.

The APM Section 4.5.4.2 *Transfers Between Restricted and Unrestricted/Net Accounts* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal."

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Neither the principal nor the bookkeeper was aware that they needed to retain the Fund Transfer Journal Entry Proof Sheet and ensure it contains principal approval. Funds transferred from unrestricted to restricted accounts without principal approval can lead to misuse of school funds.

Recommendation: The principal and bookkeeper should ensure that only allowable transfers are completed with an approved Fund Transfer Journal Entry Proof Sheet retained on file as evidence of compliance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Phyllis E. Williams Spanish Immersion School was issued for the period ended December 31, 2014. During that period, the current principal and bookkeeper were not in their positions. The current principal's tenure began in July 2016 and the current bookkeeper's tenure began in September 2016. The following findings were noted as a result of that audit and the current status is indicated below.

- **Mismanagement of Funds Received** - Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** - Condition still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Review of Monthly Financial Reports** – Condition still exists. See **2018.04** regarding *Financial Reporting*.
- **Fundraiser Forms** - Condition still exists. See **2018.05** regarding *Fundraiser Forms*.
- **Contracts** – Controls appear to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Phyllis E. Williams Spanish Immersion School for their cooperation and assistance during the audit.