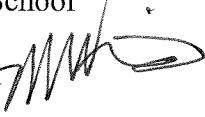


March 12, 2018

MEMORANDUM

To: Kathleen Brady, Instructional Director
Cluster 12

Clareta Spinks, Principal
Seabrook Elementary School

From: Michele Winston, CPA 
Director Internal Audit

Re: Financial Audit for Period June 1, 2016 to November 30, 2017

An audit was completed on the financial records of **Seabrook Elementary School** for the period June 1, 2016 to November 30, 2017. The audit results indicate that the school's internal controls require further improvement 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 for School Activity Funds. Please note that you are required to provide your signed and dated 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
- Members, Board of Education
- Monique Whittington Davis, Ed. D., Deputy Superintendent
- J. Michael Dougherty, Director, Financial Services
- John Pfister, Chief Financial Officer
- Melissa McGuire, Ed. D., Associate Superintendent, Area III
- Erica Berry Wilson, Esq., Executive Director, Board of Education
- Daniel Reagan, Internal Auditor II

Internal Audit Report

Seabrook Elementary School Student Activity Funds

For the Period Ended November 30, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Seabrook Elementary School for the period June 1, 2016 to November 30, 2017. Seabrook 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:

- *Errors on Bank Reconciliations;*
- *Delinquent Deposits and Failure to Use the Endorsement Stamp;*
- *Mismanaged Disbursements;*
- *Deficit in the Principal Sponsored Activities Account;*
- *Voided Checks Not Properly Administered;*
- *Fundraiser Forms Not Completed; and*
- *Failure to Maintain a Current Vending Contract*

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 November 30, 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 Seabrook Elementary School for the period June 1, 2016 through November 30, 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 require further 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, available cancelled checks and all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period June 1, 2016 to November 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 Errors on Bank Reconciliations

The following errors were identified on certain bank reconciliations for the audit period:

- Bank reconciliations for August, September and October 2016 were inaccurate. An amount from a previous checking account was excluded from the system of record, causing bank statement balances to not be properly reconciled to the accounting records.

Month	Bank Statement Balances	Reconciliation Balance	Difference
August 2016	\$18,296.69	\$17,399.72	\$896.97
September 2016	\$18,017.54	\$17,120.57	\$896.97
October 2016	\$22,857.58	\$21,960.61	\$896.97

- Unsupported bank fees were listed on the bank reconciliations for the months June, July and August 2016.
- A deposit in transit in the amount of \$140.00 was incorrectly included as a reconciling item on the August 2016 bank reconciliation. The deposit was confirmed on August 26 and was included on the bank statement.

The APM, Section 5.1, *Bank Statement Reconciliations* states that a bank reconciliation is the process of matching the school's records with data on the bank statement and accounting for any differences. Independent verification is performed by the Principal when he/she performing reviews.

All PGCPS schools were required to transition their bank accounts to SunTrust in July 2016. Seabrook Elementary School's SunTrust account was opened in July 2016. Treasury Operations triggered an automatic transfer of the majority of the school's funds in their Capital One checking account to Sun Trust bank on August 3, 2016. A remaining balance of \$896.97 was left in the Capital One existing bank account to cover outstanding checks. During the time that the school had two bank accounts, only the SunTrust balance was included in the bank reconciliation and the Capitol One bank balance was not accounted for. Invalid Deposit in Transit and Bank Fee adjusting items were likely included in error to complete the bank reconciliation process.

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The remaining \$896.97 was consolidated into the SunTrust account in November 2016 reconciliation as an "Uncategorized Deposit" and the \$140 Deposit in Transit was incorrectly voided.

Neither the Principal's reviews nor Accounting and Financial Reporting's trimester reviews detected the above discrepancies.

Beginning in November 2016, the bank reconciliations were reconciled properly to the total bank statement amount and the School Funds Online account. However, the bank reconciliation errors represent significant financial risk for Seabrook Elementary School. The bank reconciliation process is the most effective internal control to ensure that funds are properly deposited and recorded. The invalid bank fees and Deposit in Transit during the July-October 2016 time period, and the incorrect adjustments made in November 2016 indicate a possibility that not all funds were properly deposited and recorded during this time period.

Recommendation: Recordkeeping staff should ensure that all entries on the bank reconciliation are supported. Further, the Principal's monthly reviews, and Accounting and Financial Reporting's trimester reviews should include detailed reviews of the reconciliation to ensure that bank statement amounts are correct and that adjusting entries are valid.

2018.02 Delinquent Deposits and Failure to Use the Endorsement Stamp

The following issues were identified relative to timely deposits and endorsement of checks issued to the school.

- A. There were 6 instances where deposits were made between 1 and 66 days after collection. (*This finding was noted during the previous audit period ended May 31, 2016.*)
- B. ***Endorsement Stamp:*** Checks were not endorsed with a pre-made stamp as required by the APM

The following guidelines are provided for processing collections:

- A. The APM, Section 4.5.2.2, *Cash Receipts, Procedures* requires school staff to make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.
- B. After verification of funds turned in each day, the recordkeeping staff is required to immediately endorse all checks using a stamp that contains the following

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endorsement information, "For Deposit Only: School Name (Name of Account on Bank Statement) and Bank Account Number"

Controls under the previous recordkeeping staff were not effective in ensuring timely deposits. Observed controls have been strengthened under the current staff responsible for accounting duties. The current recordkeeping staff explained that the school's endorsement stamp has not been located since her arrival in October 2017.

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 and inaccurate financial statements. Also, failure to maintain an endorsement stamp increases the chance of check fraud.

Recommendation: The recordkeeping staff should continue to make timely deposits, and the principal should provide oversight of the process for depositing SAF. In addition, the principal should ensure recurring training is provided to staff to facilitate timely deposits. The principal should immediately obtain an endorsement stamp for the school.

2018.03 Mismanagement of Disbursements

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

- A. ***Inadequate Approvals:*** There were **17** instances where the recordkeeping staff did not indicate the amount of funds available for the relevant fund accounts on the School Funds Expenditure Form (SFEF) prior to principal's pre-approval of expenditures.
- B. ***Unapproved Vendors:*** There were **3** instances where staff members made purchases from vendors that were not approved in SFO, and were reimbursed for those purchases.
- C. ***Missing Supporting Documentation:*** There were **13** cancelled check images and **1** SFEF that could not be located for review.

The APM, Section 4.5.3, *Cash Disbursements*, includes the following provisions for administering disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF is required to be completed and signed by the principal. The form includes space for the recordkeeping staff to indicate funds available in the relevant account prior to the principal providing pre-approval.

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- B. All checks must be written to an approved/active vendor in SFO.

- C. Once received with bank statements, images of cancelled checks are required to be maintained in a separate cancelled check file. The APM, Section 6.12, *Record Retention*, also states that all SAF records must be retained for a period of 7 years. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Funds, Expenditure Forms, cancelled checks and contracts.

The principal and recordkeeping staff have not established consistent procedures to ensure that the SFEFs were properly completed to show funds available for each request for expenditure.

The majority of expenditures at the school were reimbursement checks to employees. However, the principal has not established effective internal controls to ensure staff members' reimbursement requests only involved approved vendors.

Cancelled check images are currently returned to the school with the bank statements. However, the previous recordkeeping staff did not make front and back copies of cancelled check images prior to sending them to Accounting and Financial Reporting as part of the trimester reporting process. Numbered pages of bank statements were often missing from the school's files resulting in missing cancelled check images.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to complete the SFEF properly can lead to insolvent accounts when the principal is not made aware of all disbursements being made by the school (See Finding 2018.04). Inappropriate use of the "Reimbursement" vendor option has led to the use of unapproved vendors and increases the school's susceptibility to fraud and unsatisfactory service. Missing SFEFs and cancelled check images also compromises the audit trail needed to ensure SAF are expended appropriately. *(This finding was noted during the previous audit period ended May 31, 2016.)*

Recommendation: The principal should establish procedures to ensure that SFEFs are properly completed with information regarding funds available for requested expenditure. Further, SFEFs should not be pre-approved for purchases from vendors that are not approved in SFO.

The current recordkeeping staff should ensure that copies of entire bank statements, with images of all cancelled checks, are maintained at the school.

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2018.04 Deficit in the Principal Sponsored Activities Account

The Principal-Sponsored Activities (PSA) fund account is insolvent in the amount of (\$775.86) as of the audit date. This deficit did not exist as of the previous audit date of May 31, 2016. Checks were processed after the fund account became insolvent. The school processed 10 checks totaling \$469.98 during FY 2018.

The APM, Section 9.6, PSA for Staff, states that discretionary expenditures incurred by the principal on behalf of school staff are grouped in the PSA accounting category. These activities must be of a professional nature that enhances staff members' job performance. If the PSA account has a deficit, faculty spending must be ceased until the existing PSA deficit is resolved. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the following sources:

- 100% of Vending commission from machines located in the staff lounge
- 25% of student vending commission
- 15% of school-wide fundraiser profits, including picture commissions
- Up to 25% of senior class residual funds.

Transfers to the PSA Account have not been properly made during the audit period. Fundraiser profits of \$1,051.07 were eligible to be transferred to the PSA account as of November 30, 2017; however, only \$605.32 was transferred. A transfer from the Claire's Gourmet account appears to have been intended for the PSA Account in November 2016, but was mistakenly transferred to the Allotment account.

The principal did not conduct a thorough review of the PSA account to ensure that all eligible funds were properly transferred. Reportedly, she was aware that FY 2018 expenditures were being charged against an insolvent account but she did not halt expenditures in an effort promote a positive working culture.

Failure to fully cease PSA spending while the fund account is insolvent constitutes non-compliance with BOE policies and procedures. The PSA deficit represents funds that were collected for students' use but are no longer available to benefit the student body.

Recommendation: The principal and current recordkeeping staff should conduct a detailed analysis of FY 2017 and FY 2018 fundraiser profits to ensure that all eligible funds are transferred to the PSA fund account. Accurate transfers from fundraising accounts to the PSA Account should be included in the school's new fundraising procedures (See Finding 2018.06).

Expenditures out of the PSA fund account should be discontinued until the account is solvent.

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2018.05 Voided Checks Not Properly Administered

There were **26** instances where voided checks were not properly approved by the principal.

The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and unable to be used, the physical check must still be accounted for. The word "VOID" is 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 to keep the empty transaction in the system. A SFEF should also be completed for the principal's approval.

The principal and recordkeeping staff were not aware of the specific requirements for the approval of voided checks. Reportedly, the principal did not review voided checks as part of her monthly review and was therefore unaware of the large volume of voided checks due to the prior recordkeeping staff's unfamiliarity with SFO. The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. The lack of principal approval of voided checks increases the risk of check fraud. (*This finding was noted during the previous audit period ended May 31, 2016.*)

Recommendation: The principal and current recordkeeping staff should familiarize themselves with the procedures for voiding checks as outlined in the APM and demonstrate compliance by approving, recording, and maintaining voided checks. The principal must include review of voided checks as part of the monthly reporting process to monitor the volume of voided checks.

2018.06 Fundraiser Forms Not Completed

Required fundraiser forms were not always completed during the audit period. Fundraiser Completion Reports for **7** fundraisers were not completed. Further, annual fundraising reports were not prepared.

The APM, Section 7.2.2, *Fundraising Procedures*, requires that fundraisers are formally approved by the principal using a Fundraiser Request and Authorization Form. Fundraiser Completion Report must be prepared by the sponsor at the conclusion of a fundraising event. Additionally, the principal should prepare or instruct the preparation of an annual report summarizing all fundraising activities concluded during the year. The data in this annual report should be available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

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The principal and recordkeeping staff were aware of the requirements for fundraiser forms, but did not establish effective controls to ensure that all required forms were completed. 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. Further, Fundraiser Completion Reports bolster the budgeting process which can ensure optimal performance by each fundraiser. *(This finding was noted during the previous audit period ended May 31, 2016.)*

Recommendation: The principal and current recordkeeping staff should develop and document specific procedures for staff members that are organizing and completing fundraisers. Fundraiser Completion Reports should be prepared for all fundraisers. The recordkeeping staff should manage the process by distributing and maintaining the forms and the principal should enforce controls by holding staff members accountable. The principal should also compile an annual fundraising summary using the Fundraiser Completion Reports or information within SFO.

2018.07 Failure to Maintain a Current Vending Contract

The contract for vending machines has not been renewed to ensure that it remains active. The most recent contract expired August 9, 2017.

The APM, Section 9.8, *Vending Machine Sales*, states that all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency these commissions are remitted. The contract term cannot exceed one year.

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

Recommendation: The principal should contact the vendor and obtain a signed contract for the vending machine operations. The contract should stipulate the frequency and percentage of commissions. The contract should be renewed annually.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Seabrook Elementary School was issued for the period ended May 31, 2016. The principal has been in place for the entire current audit period. The current bookkeeper's tenure began in October 2017. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Missing Funds** – Controls appear to be working.
- **Mismanagement of Funds Received** – Condition still partially exists. See **Finding 2018.02** regarding *Delinquent Deposits and Failure to Use the Endorsement Stamp*
- **Mismanagement of Disbursements** – Condition still partially exists. See **Finding 2018.03** regarding *Mismanagement of Disbursements*.
- **Administration of Voided Checks** - Condition still partially exists. See **Finding 2018.05** regarding *Voided Checks Not Properly Administered*.
- **Year-End Monetary Transmittal Form Procedures Not Followed** – Controls appear to be working.
- **Fundraiser Forms Not Completed** – Condition still exists. See **Finding 2018.06** regarding *Fundraiser Forms Not Completed*.
- **Insecure Location for Funds Awaiting Deposit** – Controls appear to be working.

ACKNOWLEDGEMENT

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