

November 13, 2018

MEMORANDUM

To: Ava Tasker Mitchell, Ph. D, Instructional Director
Cluster 1

Michelle Marek, Principal
Port Towns Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of August 31, 2018

An audit of the financial records **Port Towns Elementary School** was completed for the period July 1, 2015 through August 31, 2018. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education policies and procedures. The exceptions noted 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 APM. 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.

cc: Segun Eubanks, Ed. D, Board Chair
Monica Goldson, Ed. D, Interim Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Helen Coley, Ed. D., Chief, School Support and Leadership
Christian Rhodes, Chief of Staff
Kassandra Lassiter, Ed. D., Associate Superintendent of Elementary Schools
Erica Berry Wilson, Esq., Board Executive Director
J. Michael Dougherty, Director, Financial Services
Alicia Robinson, Internal Auditor II

Internal Audit Report

Port Towns Elementary School Student Activity Funds

For the Period Ended August 31, 2018

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Student Activity Funds
Internal Audit Report
For Period Ended August 31, 2018**

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Port Towns Elementary School for the period July 1, 2015 to August 31, 2018. Port Towns Elementary School's principal is responsible for administration of the SAF. Our responsibility is to express an opinion based on our examination.

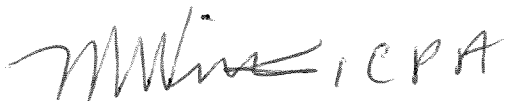
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following findings:

- *Delinquent Deposits,*
- *Mismanagement of Disbursements,*
- *Transactions Not Properly Recorded,*
- *Principal Sponsored Activity Fund Account Deficit,*
- *Voided Checks Not Properly Mutilated,*
- *Year-End Monetary Transmittal Form Envelope Submission, and*
- *Fundraiser Forms Not Completed.*

These findings, individually or in aggregate, resulted in a material deviation from Board of Education (BOE) policies and procedures and the requirements of the Accounting Procedures Manual for the 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 August 31, 2018.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Port Towns Elementary School for the period July 1, 2015 to August 31, 2018. The audit was conducted as part of the annual audit plan.

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 was in compliance with the policies and procedures of the Accounting Procedures Manual for School Activity Funds (APM) and the Board of Education (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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period July 1, 2015 to August 31, 2018. Also, available 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:

2019.01 Delinquent Deposits

There were at least **6** instances where staff members collected funds between **4** and **223** days, before remittance to the recordkeeping staff. A staff member misplaced funds, documented on MTF 247584, dated October 20, 2016 in one instance. The misplaced funds were not verified by the recordkeeping staff until May 31, 2017. *This finding was noted during the previous audit period ended June 2015.*

The APM section 4.5.2.2 (1), (2) *Collecting Funds* require **all** funds collected to be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely deposits with the financial institution. Deposits are recommended at least every other day when funds under \$250.00 are collected.

Staff failed to ensure that all funds were remitted daily to the recordkeeping staff. Staff held onto funds until most or all funds were collected. Internal controls are compromised when funds are retained in the school for several days. Delinquent remittance of funds to the recordkeeping staff violate the school's compliance with APM requirements. As a result, internal controls for ensuring all SAF collected and subsequently deposited was weakened and the potential for loss of assets increased.

Recommendation: The staff should be reminded that funds must be remitted daily to ensure prompt deposits to the financial institution. Staff members must be held accountable for remitting **all** funds on a daily basis to the recordkeeping staff. The principal should complete periodic review of cash receipt files to ensure compliance with Board policies and procedures.

2019.02 Mismanagement of Disbursements

There were at least **6** instances of non-compliance regarding disbursements as follows:

- A. ***Delinquent Payment of Invoices and/or Reimbursements:*** There were at least **5** instances where invoices and reimbursements requests were not paid timely. The delinquency ranged from approximately **19 to 68** days. *This finding was noted during the previous audit period ended June 2015.*
- B. ***Un-Approved Vendor:*** There was at least **1** instance where a staff member ordered two logos on December 15, 2016 totaling \$90.00 from an unapproved vendor. The staff member requested reimbursement on March 15, 2017 which was issued on March 17, 2017.

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The following guidance is established in the APM relative to administration of disbursements:

- A. Section 4.5.3.1 (2) *Cash Disbursement Inclusion of Supporting Documentation* requires invoices and/or reimbursements to be paid within 30 days of receipt or by the due date stipulated by the vendor.
- B. Bulletin S-18-09 *Payments from Student Activity Funds for Vendors and Individuals* indicates all vendors used by schools and offices must be added to the Oracle Financial System prior to any purchases being made.

The following cause resulted from the non-compliance regarding management of disbursements:

- A. Staff members held or misplaced receipts prior to submitting them to the recordkeeping staff.
- B. The staff member was unaware that the vendor was not approved.

The following effect resulted from the noncompliance of management of disbursements:

- A. Internal controls are compromised and financial records are distorted when payments and/or reimbursements are not issued accurately or timely. Inaccuracies also increase the risk of loss to students.
- B. Using non-approved vendors places the BOE at risk since the vendor has not been vetted to ensure legitimacy and that insurance is available if the product is defective.

Recommendation: The following recommendations are suggested for the school to adequately manage disbursements:

- A. The principal should establish procedures to ensure that all disbursements are made in accordance with the requirements of the BOE.
- B. Staff should be reminded that invoices and reimbursement request are to be submitted timely for payment. Requests for payments should be thoroughly reviewed to ensure accuracy and timely payments.
- C. Staff should be reminded that all vendors should be included in the Oracle Financial System. Schools should not conduct business with unapproved vendors.

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2019.03 Transactions Not Properly Recorded

There were at least **11** instances where receipts and disbursements were incorrectly posted to the Principal Sponsored Activity (PSA) fund account, “Restricted Donations” account and the “Unrestricted Donations” account. During FY 2018, the school received a \$500.00 donation from a local church. The donor did not specify the use of funds. The funds were posted to the Restricted Donations account and used to pay for teacher appreciation activities in FY 2018. Expenditures were posted directly to the “Unrestricted Donations” account when the expenditures should have been posted to the “Unrestricted Special Events” account. Also, student/parent activities were posted to the PSA account.

The APM section 3.2.2 *Ownership, Bookkeepers/Financial Secretaries* requires the recordkeeping staff to accurately record and report the school’s financial transactions.

The principal did not obtain written documentation indicating the donor’s intent for the donated funds and thought that the funds could have been posted to the “Restricted Donations” account and used for staff activities. The recordkeeping staff was not aware that the donated funds could not be used for staff activities unless specified by the donor. She was not aware that funds should not be posted directly to the Restricted Donations and/ or Unrestricted Donations account. Also, the recordkeeping staff was not aware that only staff related activities should be posted to the PSA fund account.

Internal controls are compromised and financial records are distorted when funds are not posted accurately. The principal cannot make an informed decision when financial records do not accurately represent the school’s financial status.

Recommendation: The principal should establish procedures to ensure that all transactions are made in accordance with the requirements of the BOE. Due care should be exercised when recording transactions to ensure correct posting and accurate financial reporting.

2019.04 Principal Sponsored Activity (PSA) Fund Account Deficit

The PSA fund account had a deficit of **(\$480.94)** as of August 31, 2018. The previous audit as of June 2015 indicated a deficit of **(\$1,707.40)**. The current principal inherited a deficit of **(\$2,071.00)** from the previous administration when the former principal retired as of June 2016. The PSA deficit steadily declined beginning in FY 2017 due to the current principal’s efforts to decrease spending on PSA related activities. *This finding was noted during the previous audit period ended June 2015.*

According to the APM, discretionary expenditures incurred by the principal on behalf of the school staff are grouped in the accounting category “Principal Sponsored Activities.” These activities must be of a professional nature that enhances the staff members’ job performance. Expenditures authorized are restricted to funds available from the sources outlined in the APM,

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which includes 100% of vending commissions in the Staff Lounge, 25% of vending commissions from student-accessed machines up to the first \$50,000, and 15% of school-wide fundraising profits.

The PSA funds account deficit decreased beginning FY 2017 and has continued through August 2018. Students continue to not receive the maximum possible benefit from the resources that should have been available to them.

Recommendation: The principal should continue to work towards the elimination of this deficit. This can be accomplished by continuing to cease spending from this account and transferring of authorized vending and fundraising proceeds until the deficit is fully resolved.

2019.05 Voided Checks Not Properly Mutilated

There were at least **15** instances where checks were not properly voided by removal of signature lines.

The APM, section 4.5.3.2, *Summary of Check Disbursement Procedures* requires voided checks to be defaced and filed in check order number with cancelled checks images`.

The recordkeeping staff was not aware that voided checks had to have the signature line removed. Inappropriate administration of checks exposes the school to check fraud, waste and abuse of its resources.

Recommendation: The principal should establish procedures to ensure that there is proper administration of checks. Voided checks should be properly mutilated and retained on file.

2019.06 Year-End Monetary Transmittal Form Envelope Submission

The year-end MTF submission process was not operating as outlined in the APM. There were instances where at least **6** staff members did not submit some or all of their year-end MTF remittances. Also, MTFs were stored in the front office storage room where the recordkeeping staff has access.

The APM section 4.5.2.2 (1) *Collecting Funds: Completing the Monetary Transmittal Form* states that each staff collecting SAF is responsible to maintain an envelope containing all the MTF (pink and yellow) remittances for MTFs prepared during the school year. Staff is required to submit copies in signed, sealed envelopes to the designated administrator during the year-end check out process. The envelopes should remain sealed until requested by Internal Audit. The year-end MTF envelopes should be retained in a place that is not accessible to the recordkeeping staff.

The administrator responsible for collecting the end of year MTFs did not ensure that all staff submitted all their MTF envelopes during the year-end check out process. Also, the

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administration was not aware that the year-end MTFs should be stored in a place inaccessible to the recordkeeping staff.

The audit trail for reviewing cash receipts was compromised. As a result, internal controls for ensuring that all SAF collected were subsequently deposited and recorded was weakened and the potential for loss of assets increased.

Recommendation: Staff must be reminded of their responsibility for MTF envelope submission. Staff members must be held accountable for including all MTFs in their MTF envelopes as part of the year-end check out process.

The principal should require a copy of the Receiptee History report to be provided to the administrator for collecting MTF envelopes at year-end. The principal or designee should ensure that all end of year MTF envelopes are collected, sealed and retained in a secure place that is not accessible to the recordkeeping staff, until reviewed by Internal Audit.

2019.07 Fundraiser Forms Not Completed

Requirements for administering fundraisers during the audit period were not followed. The school held bookfair fundraising activities during the audit period. However, Fundraiser Completion Reports for the school-wide fundraisers were not completed. The Annual Fundraising Summary Reports were not prepared at year-end. *This finding was noted during the previous audit period ended June 2015.*

Administrative Procedure 5135.1, *Fundraising* requires schools to complete Fundraiser Completion Reports and the annual reports summarizing fundraising activities for all school-wide fundraisers sponsored. These documents must be maintained on file for public and auditor review upon request.

The principal was not aware of the requirement for fundraising form completion. The recordkeeping staff had an idea of the fundraiser forms requirement but did not research to ensure compliance. It could not be readily determined whether the school's fundraisers yielded an overall profit for the school. Pertinent financial information for the principal to make fiscal decisions was not available.

Recommendation: The principal or designee must be reminded of the requirement to complete the Fundraiser Completion Forms at the end of each fundraiser. Also, at the end of the school year, the principal or designee should complete a report that summarizes the year's fundraising activities.

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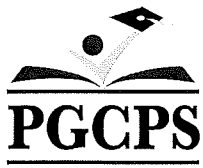
STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Port Towns Elementary School was issued for the period ended June 2015. The current principal was not on staff. Her tenure began in July 2016. The recordkeeping staff was on staff. There were 4 findings noted as a result of that audit and the current status is indicated below:

- **Delinquent Deposits** - Condition still exists. See **Finding 2019.01** regarding *Delinquent Deposits*.
- **Delinquent Payment of Invoices and Reimbursements** – Condition still exists. See **Finding 2019.02** regarding *Mismanagement of Disbursements*.
- **Principal Sponsored Activity (PSA) Account Deficit** – Condition still exists. See **Finding 2019.04** regarding *Principal Sponsored Activity Fund Account Deficit*.
- **Failure to Complete the Fund Raising Completion and Annual Fund Raising Summary Reports** – Condition still exists. See **Finding 2019.07** regarding *Fundraiser Reports Not Completed*.

ACKNOWLEDGEMENT

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



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ADDENDUM

Personnel Noted in the Report:

- **Principal:** Ms. Michelle Marek
- **Former Principal:** Mrs. Lisa Farabaugh
- **Recordkeeping Staff:** Mrs. Juanita Doby