



December 19, 2019

MEMORANDUM

To: Maria Smith, Ed. D, Acting Instructional Director
Cluster 3

David Brown, Principal
Hillcrest Heights Elementary School

From: Michele Winston, CPA, Director,
Internal Audit

Re: Financial Audit for July 1, 2016 through October 31, 2019

An audit was completed on the financial records of **Hillcrest Heights Elementary School** for the period July 1, 2016 through October 31, 2019. 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 in the audit are documented in the attached audit report.

As principal of the school, you will be responsible for preparing an action plan by **January 31, 2020** indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, email address internal.audit@pgcps.org. Please forward this template as a Microsoft Word document. A copy of your action plan should also be forwarded to Jerry Chandler, Business Analyst, email address: derrick.martin@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org.

Enclosure

cc: Alvin Thornton, Ph. D, Board Chair
Monica Goldson, Ed. D, Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, Esq., Director, Financial Services
Kassandra Lassiter, Ed. D, Associate Superintendent for Elementary Schools
Helen Coley, Ed. D, Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**Hillcrest Heights Elementary School
Student Activity Funds**

For the Period Ended October 31, 2019

Hillcrest Heights Elementary School
Student Activity Funds
Internal Audit Report
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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Hillcrest Heights Elementary School for the period July 1, 2016 through October 31, 2019. Hillcrest Heights 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:

- *Mismanagement of Disbursements*
- *Administration of Checks*
- *Mismanagement of Funds Received*
- *Record Retention*
- *Vending Machine Contract*
- *Deficits in Principal Sponsored Activities Fund Account*
- *Financial Reporting*

Individually or in the aggregate, these findings resulted in a material deviation from Board of Education (BOE) Policies, Procedures, and the requirements of the Accounting Procedures Manual for School Activity Funds (APM).

In our opinion, except for the deviations from the criteria described in the preceding paragraph, the SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended June 30, 2019.



Michele Winston, CPA, Director
Internal Audit

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Internal Audit Report
For the Period Ended October 31, 2019

SUMMARY

Internal Audit completed an audit of the student activity funds (SAF) for Hillcrest Heights Elementary School for the period July 1, 2016 through October 31, 2019. The audit was conducted as part of the department's annual audit plan.

The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures.

Detailed findings from the current audit are cited on the following pages with accompanying recommendations for corrective action.

OBJECTIVES

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

SCOPE

The audit was based on our review of bank statements, financial reports, selected cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period July 1, 2016 through October 31, 2019. In addition, 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

2020.01: Mismanagement of Disbursements

There were **15** of the **18** cash disbursements reviewed that were *not* processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Supporting Documentation*** - There was **1** instances where the amount on invoice did **not** match the amount recorded in the Accounting System and **2** instances where documentation to substantiate checks issued was incomplete or could not be located. In addition, there were 3 instances where the available funds amounts were not determined prior to approval of purchases.
- B. ***Inadequate Approval*** - There were **9** instances where expenditures were not adequately approved. Deficiencies noted included the School Funds Expenditure Forms (SFEF) were not approved in advance of purchases and orders, or SFEFs were not signed at all.
- C. ***Delinquent Vendor Payments*** - There were **4** instances where expenditures were not remitted to the vendor in a timely manner. The range of delinquency was between **2** and **94** days.
- D. ***Failure to use Sale Tax Exemption*** - There were **2** instances where sales tax was reimbursed to a staff members.
- E. ***Contracts*** - There were **3** instances where contracts for the book fair were not signed as required. The 3 Scholastic Bookfairs' *Certificates of Agreement* were not signed by bookfair chairpersons or the Principal.

The APM provides the following guidelines regarding the administration of Cash Disbursements:

- A. All checks must have itemized documentation attached to the School Funds Expenditure Form that supports the amount of the check.
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed (approved) by the principal.

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- C. Invoices are required to be paid within 30 days of receipt or by the invoice due date. Principals should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- D. Purchases made by schools are sales tax-exempt, if used in the conduct of school business. After the Principal pre-approves a School Funds Expenditure Request Form, a copy of the certificate is provided staff for presentation to the vendor when making the school purchase.
- E. The principal, as the fiduciary agent of the school, must approve and sign all agreements and contracts entered into for all school activities.

The recordkeeping staff did not follow established internal controls relative to management of disbursements. SFEFs were accepted from staff that were incomplete and/or lacked adequate supporting documentation. Both the former and current principal failed to approve all expenditures prior to ordering or purchasing goods or services.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Approving purchases without adequate documentation or failure to adequately approve expenditures could result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. The risk of insolvency is present when the available funds amounts are not determined prior to approval of purchases. Delinquent payments of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed. When the principal who is the fiduciary agent of the school is not the responsible staff member entering into contractual agreements on behalf of the school, the school's resources may be inappropriately obligated and the risk of insolvency increased.

Recommendation: The principal and recordkeeping staff must perform the following to improve the administration of disbursements:

- A. Internal controls must be established to ensure that all SFEF's are complete and has adequate supporting documentation prior to issuance of payments.
- B. The principal must ensure staff members are aware that pre-approval is required prior to the purchase of products or services and be held accountable for compliance. SFEFs should be entirely completed by staff. The principal should ensure all pre-approval details are provided on SFEFs prior to approving expenditures.
- C. The principal and recordkeeping staff must ensure vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- D. Internal controls must be established to ensure that a copy of the sales tax-exempt certificate is provided to staff for presentation to the vendor when making the school purchase.

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- E. Internal controls must be established to ensure that the principal, as the fiduciary agent of the school, approves and sign all agreements and contracts entered into for all school activities.

2020:02 Voided Checks

During the review of the school's voided checks, the following exceptions were noted:

- There were **5** instances where voided checks could not be located in the school's files to determine appropriate disposition.
- There were **3** instances where voided checks were not properly voided by removal of the signature line.

The APM requires that all voided checks must be entered in SFO and have "VOID" written across the face of the check. The signature line must be removed and the voided checks attached to approved SFEFs or Void Check Proof Sheets.

The recordkeeping staff did not follow established internal controls relative to administration of checks. An adequate filing system was not properly maintained by the former recordkeeping staff to ensure all financial records were adequately maintained. In addition, the Principal has not read the APM.

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

Recommendation: The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE. All voided checks must be entered in SFO and have "VOID" written across the face of the check. The signature line must be removed.

2020:03 Management of Funds Received

Collections reviewed were not always processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of funds received were noted:

A. *Monetary Transmittal Form Documentation (MTF)*

- *Inadequate Supporting Documentation* - There were **7** instances where cash receipts were not properly supported (incomplete MTF or no documentation).

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- ***Changes Made to MTFs***- There were **6** instances where changes made to MTFs were not done according to the MTF instructions. Changes were not initialed as required.
- B. ***Fundraiser Forms not completed*** - Staff failed to complete the Fundraiser Authorization Forms, Fundraiser Completion Reports and the Annual Fund Raising Summary Reports for all fundraising events.
- C. ***Transfer of Funds Received*** - There were **17** instances where supporting documentation was not available to determine if transfers was made in accordance with the requirements of the APM
- D. ***Delinquent Deposit*** - There were **6** instances where deposits were not made in a timely manner. The range of delinquency was **26** days

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

- A. MTFs should be supported with student remittance forms, fundraiser forms or other documentation that shows the source and purpose of funds. All funds collected should be remitted to the bookkeeper and properly supported with approved MTFs. Changes and alterations made to MTFs require initials.
- B. A Fundraiser Request and Authorization Form and Fundraiser Completion Report must be prepared by the sponsor and reviewed and acknowledged by the principal for each fundraiser. Additionally, the principal should prepare 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.
- C. Transfers should occur when expenditures are recorded in unrestricted (or net) accounts that lack a specific funding source. Funds must be transferred from an unrestricted account that has an available balance (e.g., fundraisers, unrestricted donations, prior year carryover, etc.).
- D. 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. If funds are kept on-hand at the school awaiting deposit, it must be kept in a secure location. It is important that schools establish internal controls to ensure frequent deposits occur.

BOE policies and procedures as established in the APM were not followed. The recordkeeping staff did not perform verification and maintenance of all MTFs and supporting documentation prior accepting MTFs and making deposits. The requirement for completion of fundraiser forms was not communicated to fundraising sponsors.

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Failure to adequately perform bookkeeping responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring all funds collected were subsequently remitted and deposited was not available. Delinquent deposits of funds impacts the accuracy of financial reporting upon which administrators rely to make financial decisions. Failure to initial changes on MTFs removes responsibility from the person making the change and affects the audit trail. Failure to complete fundraising forms removes audit evidence sufficient to provide administrators and interested personnel with information about fundraising results. Failure to complete transfers in accordance with the requirements of the APM could lead to inaccurate recording and reporting the school's financial transactions.

Recommendation: The following corrective actions should be implemented for Hillcrest Heights Elementary School receipts to be made in accordance with BOE policies and procedures:

- A. The recordkeeping staff must ensure that all MTF documentation is complete including verifying that all supporting documentation is attached along with the MTF prior to acceptance and deposit of funds. The bookkeeper should not accept the MTF if changes are not initialed.
- B. The recordkeeping staff must be reminded that all funds collected and remitted should be deposited on a daily basis especially funds in excess of **\$250.00**. Teachers must be informed that funds collected cannot be held overnight. The principal must provide the bookkeeper with adequate time to verify that funds collected are as indicated on the MTFs submitted and that deposits are made with the bank timely. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.
- C. The principal must establish internal controls to ensure that staff completes the required fundraising forms for fundraising events held. These documents must be maintained on file for public and auditor review upon request.
- D. The principal must establish internal controls to ensure that supporting documentation to validate all transfers between restricted fund accounts in accordance with the requirements of the APM.

2020.04 Record Retention

Supporting documentation to substantiate accounting transactions were not made available during the audit. The following exceptions were noted:

- A. There were **5** instances where voided checks documentation could not be located.

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- B. There were **17** instances where transfers documentation could not be located.
- C. There was **1** instances where the Year-end MTF envelope for a staff member did not contain all MTF remittances assigned.

According to Section 6.12 of Accounting Procedural Manual, *Record Retention*, All SAF records must be retained for a period of **7** years and or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.

The bookkeeper did not properly maintain an adequate filing system. The principal did not provide oversight. These actions caused the school to be non-compliant with BOE policies and procedures as established in the Accounting Procedural Manual.

Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

Recommendation: The principal must ensure proper custody of all records relating to SAF until they are audited. An adequate filing system must be implemented to help ensure that in the absence of the bookkeeper or principal, financial documents would be filed properly for future review.

2020.05 Vending Machines Contract

The school operates **1** faculty vending machine for soda. The following exceptions were noted regarding vending machine operations on the school premises:

- A current signed contract stipulating commissions due the school and frequency of commissions was not on file.
- The school has not received a commissions check since January 2018.

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 former principal did not ensure that the school established a contractual agreement for vending.

Due to the nonexistence of a valid contractual agreement for vending, the BOE cannot determine whether the school is deriving maximum benefits from the operation of the vending machines.

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Additionally, these funds could be used to offset the deficit in the Principal Sponsored Activities account.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are established, adhered to, and maintained on file in compliance with BOE policies and procedures. The principal should consult with Purchasing and Supply Services to identify an alternate vending company in absence of a contract. The principal should pursue collection of all outstanding commissions.

2020.06 Financial Reporting

Monthly bank reconciliations were not performed timely in 5 instances. The range of delinquency was 3 to 57 days.

The Principal is responsible for receiving the bank statement unopened. After reviewing the bank statement and cancelled checks, the Principal forwards the documents to the Bookkeeper for reconciliation. The bookkeeper should complete the bank reconciliation within seven (7) days after receiving the statement from the bank. Typically, this process is completed by the 15th of each month. The completed reconciliation should be returned to the Principal every month for review and approval. After review and approval, all reports and related documentation should be organized and maintained in three-ring binders identified by fiscal year. This is not only good accounting practice; it also facilitates review by auditors.

The former Principal did not exercise proper oversight to ensure that monthly reconciliations and financial reporting was complete by the 15th of each month. BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed.

Past and current financial information was not readily available for review by auditors as a result of the delinquencies.

Recommendation: The principal must establish procedures to ensure that monthly bank reconciliations and financial reporting occur by the 15th of each month. Related documentation should be organized and maintained in three-ring binders identified by fiscal year.

2020.07 Excessive Spending in Principal Sponsored Activity (PSA) Fund Account

The PSA-Food account had a deficit of **(\$1,940.50)** as of October 31, 2019. As of June 30, 2019 the deficit under the previous principal was (\$1611.65). This deficit has increased by (\$328.85) to the current amount.

According to the APM, expenditures for all restricted fund accounts, including the PSA fund account, are limited to the amount of funds collected for those activities. However, if restricted

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accounts exceed the available cash, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure all accounts are solvent at all times.

BOE policies and procedures as established in the **APM** regarding the use of restricted funds were not followed. The current principal, the former principal and the recordkeeping staff did not adequately monitor the PSA fund account to ensure that available funds were determined prior to approval of purchases for PSA.

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

Recommendation: The recordkeeping staff and principal must evaluate potential expenditures with regard to available resources and care must be exercised to ensure the resources are used for the maximum benefit of the students. Spending in the PSA account must cease until the account's deficit is resolved.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Hillcrest Heights Elementary School was issued for the period ended May 31, 2011. During that period, neither the principal nor the recordkeeping staff held their current positions. The previous audit report included **8** reportable conditions of which **3** are repeated in the current audit. The following findings were noted because of the prior audit and the status is indicated below:

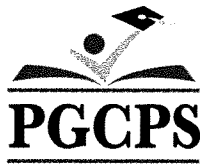
- **Management of Receipts** - Condition still exists. See Finding 2020.03 regarding *Mismanagement of Funds Received*.
- **Sales Tax not Collected and Posted For All Items Sold** – Controls appear to be working.
- **Separation of Duties**– Controls appear to be working.
- **Management of Disbursements** - Condition still exists. See Finding 2020.01 regarding, *Mismanagement of Disbursements*.
- **School Paid Sales Tax on Staff Reimbursements** - Condition still exists. See Finding 2020.01 regarding *Mismanagement of Disbursements*.
- **Payment for Services Rendered out of the SAF** – Controls appear to be working.
- **Contracts**– Controls appear to be working.

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- **Transactions Misclassified/ Posted Incorrectly**– Controls appear to be working.

ACKNOWLEDGEMENT

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



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Addendum

Pertinent Positions Noted Throughout Report:

- **Current Principal** – David Brown
- **Current Recordkeeping Staff** – Cassandra Brooks
- **Former Principal** – Traci Brown
- **Former Recordkeeping Staff** – Jessica Anderson