


June 19, 2020

MEMORANDUM

To: Susan Holiday, Instructional Director
Area 1

Carolyn Poole, Principal
Perrywood Elementary School

From: Michele Winston, CPA, Director 
Internal Audit

Re: Student Activity Funds Financial Audit as of February 29, 2020

An audit of the financial records of **Perrywood Elementary School** was completed for the period July 1, 2016 through February 29, 2020. 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 by July 20, 2020, 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, email address: internal.audit@pgcps.org. A copy of the action plan should be forwarded to Danyelle Washington, Business Analyst, email address: dany.washington@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.

cc: Alvin Thornton, Ph. D., Chairman, Board of Education
Monica Goldson, Ed. D., Chief Executive Officer of Schools
Members, Board of Education
Christian Rhodes, Chief of Staff
Helen Coley, Ed. D., Chief, School Support and Leadership
Kassandra Lassiter, Ed. D., Associate Superintendent
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Internal Audit Report

Perrywood Elementary School Student Activity Funds

For the Period Ended February 29, 2020

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Perrywood Elementary School for the period July 1, 2016 to February 29, 2020. Perrywood Elementary School's principal is responsible for the 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 Generally Accepted Government Auditing Standards 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*
- *Delinquent Financial Reporting*
- *Vending Contract Not on File*
- *Principal Sponsored Activity (PSA) Account Deficit*
- *Fundraiser Reports Not Completed*
- *Improvement Needed in Management Oversight*

The findings 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, the SAF referred to above, has been administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended February 29, 2020.

Michele Winston, CPA
Director, Internal Audit



SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Perrywood Elementary School for the period July 1, 2016 to February 29, 2020. 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, 2016 to February 29, 2020. Also, available receipts, disbursements and supporting documentation were reviewed for the said period.

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2020.01 Mismanagement of Disbursements

There were at least **9** instances of non-compliance regarding disbursements. The following indicates the instances of non-compliance:

- A. ***Insufficient Documentation:*** There were at least **3** instances where checks were issued without sufficient document. Checks were issued using price quotes received for items purchased for the school's Before and After Care, field day and media center. There were no invoices available for checks issued.
- B. ***Delinquent Payments and/or Reimbursements:*** There were at least **2** instances where a vendor payment and reimbursement were delinquent. The delinquency ranged from **10 to 13** days. The previous recordkeeping staff received an invoice dated July 11, 2018 for agenda books in one instance; however; the payment was not issued until August 20, 2018 resulting in delinquency of 10 days. In addition, the current recordkeeping staff submitted receipts for reimbursement for cumulative purchases made with invoices ranging from July 30, 2019 to August 21, 2019, but the reimbursement was not issued until September 11, 2019 resulting in delinquency of 13 days. ***This finding was noted during the previous audit period ended December 2013.***
- C. ***Sales Taxes Paid:*** There were at least **2** instances where the current recordkeeping staff paid sales taxes for items purchased for the school. During FY 2019, the current recordkeeping staff paid sales taxes of \$20.25 and \$4.61 that were included in payments made for student shirts & honor roll pizza purchases.
- D. ***Transactions Not Properly Posted:*** There were at least **2** instances where funds were inaccurately recorded. The current recording keeping staff issued check # 4380 for \$296.79 that was posted to the "Special Events" Account. Included in this amount, was \$163.00 for food purchased for staff that should have been posted to "Principal Sponsored Activity (PSA)" fund account. Also, the current recordkeeping staff issued check # 4393 for \$377.12 which should have been posted to "Special Events" instead of "Donations." ***This finding was noted during the previous audit period ended December 2013.***

The following criteria is established in the Accounting Procedures Manual:

- A. Section 4.5.3.1 (2) *Cash Disbursement Inclusion of Supporting Documentation* requires that all checks have itemized documentation attached to the School Funds Expenditure Form (SFEF) that supports the amount of the payment. Price quotes are not an acceptable documentation. Invoices and/or reimbursements should be paid within 30 days of receipt and have appropriate documentation.
- B. Section 4.5.3.1 *Procedures, Inclusion of Supporting Documentation*, states that 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.

- C. Section 8 (3) *Sales Tax Procedures* requires that purchases made by the school and PGCPs are tax-exempt, if used in the conduct of school business. The tax-exempt certificate should be provided to the vendor when making the school purchase. Sales tax will not be reimbursed if paid when purchasing items for education purposes.
- D. Section 3.2.2 *Ownership, Bookkeepers/Financial Secretaries* requires the bookkeeper or financial secretary to accurately record and report the school's financial transactions. Also, the APM section 4.3.2 *Fund Account Procedures* states transactions should be recorded in the most specific account related to the activity.

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

- A. Internal controls were not established for school staff and the recordkeeping staff to ensure that appropriate documentation was completed for all checks issued.
- B. Staff failed to ensure appropriate documentation including invoices and receipts were submitted timely for payment. Also, staff members failed to obtain invoices once purchases were made and did not follow up to ensure invoices were available for the initial payment. The recordkeeping staff was not aware that a quote is not sufficient documentation for payment.
- C. The recordkeeping staff did not review all expenditures documentation (invoice/receipt) to ensure that sales taxes were not paid.
- D. The recordkeeping staff did not have sufficient knowledge of the chart of accounts and purpose; therefore, transactions were improperly posted.

Internal controls are compromised when sufficient documentation is not provided to substantiate payments and/or reimbursement. Reimbursement of sales tax does not ensure the SAF is expended with fidelity. Delinquent payments to vendors could impact vendor relationships and may result in additional costs to the school in the form of late fees. Also, misclassified transactions impact the accuracy of the financial records and the principal's ability to make informed decisions.

Recommendations: The following recommendations are suggested to comply with management of funds disbursed:

- A. The principal should establish procedures to ensure that all disbursements are made in accordance with the APM and sound business practices. The recordkeeping staff and school staff must be held accountable for compliance.
- B. The staff and recordkeeping staff should be reminded that sufficient, adequate documentation is required for all checks issued. Staff should be informed of the forms of documentation that are appropriate to substantiate disbursements.
- C. The staff members should be reminded of the importance of submitting payment requests timely for payment. The recordkeeping staff should ensure that invoices and reimbursement requests are processed timely.

- D . The recordkeeping staff should review all disbursement documents to ensure that sales taxes are not paid. The sales tax-exempt certificate should be used when making school-related purchases. When purchasing from a vendor, the tax-exempt certificate should be made available to ensure that sales tax is not charged.
- E . The recordkeeping staff should review the APM to obtain sufficient knowledge to accurately post transactions to ensure financial records are not distorted.

2020.02 Delinquent Financial Reporting

There were at least **3** instances where monthly financial reports were either not completed timely or not reviewed timely. The delinquency ranged from **10** to **84** days.

The APM section *5.1.2 Monthly Reconciliation and Financial Reporting* states that the bookkeeper is required to complete the reconciliation within 7 days after receiving the statement from the bank. All financial reports should be completed by the 15th of each month and submitted to the principal for review and approval.

The current recordkeeping staff indicated that in **2** instances she was out of the country or out of state and did not prepare the bank reconciliations prior to her departure. The reason for the third delinquent could not be determined since this was completed during the former recordkeeping staff's tenure, who has since retired.

The principal's fiscal responsibility is compromised when monthly reporting is not available and/or reviewed timely.

Recommendations: The principal and recordkeeping staff should ensure that monthly financial reporting is accomplished in accordance with scheduled requirements included in the APM. The principal and recordkeeping staff should meet on a monthly basis to review and approve financial reports.

2020.03 Vending Contract Not on File

The school has **1** beverage/snack vending machine located in the staff lounge for school staff. A signed vending contract was not on file at the school for the audit period as required.

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

The principal and former recordkeeping staff contacted the vendor. The vendor placed the vending machines in the staff lounge, but no contract was ever signed and maintained on file at the school. The principal and current recordkeeping staff met with the vendor on January 23, 2019 regarding the terms of the agreement, but the vendor never provided a contractual agreement for the vending machine. The current recordkeeping staff indicated she didn't have contact information for the vendor and that the only time she was able to contact him was when he was servicing the machines.

The vending company representative met with the principal on June 10, 2020 and back dated contracts were signed as of February 1, 2019 and February 1, 2020.

Internal controls for monitoring vending revenues was not sufficient to ensure that contract terms were followed and all revenue earned was received.

Recommendation: The principal must ensure that a current signed vending contract stipulating commissions due the school and frequency of these commissions is always on file at the school. The contract term cannot exceed one year. The principal should seek guidance from the Purchasing and Supply Services to ensure compliance with BOE policies and procedures.

2020.04 Principal Sponsored Activity (PSA) Account Deficit

The Principal Sponsored Activity (PSA) fund account had a deficit of **(\$409.50)** as of February 29, 2020.

The APM, section 9.6 *Principal Sponsored Activities (PSA) for Staff* indicates discretionary expenditures incurred by the principal on behalf of the school staff are grouped in the PSA accounting category. These activities must of a professional nature that enhances the staff member's job performance. Expenditures for authorized principal sponsored activities are restricted to funds available from the sources as outlined in the manual, which includes:

- 100% vending commissions in the staff lounge,
- 25% of vending commissions from student accessed machines up to the first \$50,000.00 and
- 15% of school-wide fundraising profits.

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

The current recordkeeping staff incorrectly posted PSA disbursements to other accounts. After correcting that error, the PSA account deficit increased. Also, the principal expended PSA funds that were not available.

Overspending in restricted accounts results in insufficient funds being available to administer student activities. Also, inaccurate accounting of funds, misrepresents account balances for the principal to make fiscally responsible decisions.

Recommendations: The principal should work towards the elimination of the PSA deficit. This can be accomplished by ceasing spending from this account and transferring authorized vending and fundraising proceeds until the deficit is fully resolved.

2020.05 Fundraiser Reports Not Completed

Requirements for administering fundraisers were not completed during the audit period. The school held several fundraising activities during the audit period for book fairs and student pictures. However, Fundraiser Completion Reports and the annual reports summarizing fundraising activities were completed.

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

The principal and recordkeeping staff were not aware of the fundraiser requirements relative to completion of fundraising reports.

It could not be readily determined whether the school's fundraisers yielded an overall profit. As a result, pertinent financial information for the school's administrators to make fiscal decisions was not available.

Recommendations: The principal must establish procedures to ensure completion of all Fundraiser Completion Reports for providing the results of each fundraising activity held during the school year. Also, the principal or designee should complete reports at the end of each school year to summarize fundraising activities for that period. Required reports must be maintained on file for public and auditor review.

2020.06 Improvement Needed in Management Oversight

The previous audit report for Perrywood Elementary School was issued for the period ended December 2013. There are **3** repeated reportable conditions identified during this audit.

The principal is the fiduciary agent for the SAF. In this role, the principal is responsible for ensuring that these funds are administered in accordance with PGCPs policies and procedures and spent to provide the maximum benefit possible to the students. "It is also important that the principal, who is ultimately responsible for these funds, is aware that the success of the internal control system rests largely with them."

Students are not receiving the maximum possible benefit of the resources available to them when SAF are not properly administered. *This finding was noted during the previous audit period ended December 2013.*

Recommendations: The principal should continue to carefully review the APM and establish internal controls that ensure that school funds are administered effectively to ensure fiscal accountability. The principal must also continue to be involved in the daily operations as it relates

to the administration of the school's resources. Continued improvement of the internal control environment should be emphasized by focusing on these **5** basic principles of internal control:

- ❖ **Clearly defined lines of authority and responsibility,**
- ❖ **Segregation of duties,**
- ❖ **Maintenance of adequate documents and records,**
- ❖ **Limited access to assets, and**
- ❖ **Independent checks on performance.**

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Perrywood Elementary School was issued for the period ended December 31, 2013. The current principal was on staff during the previous audit; however, the current recordkeeping staff was not on staff. There were 6 findings noted as a result of the previous audit and 3 are repeated in this audit and summarized below:

- **Delinquent Deposits** – Controls appear to be working.
- **Transactions not Properly Posted** – Condition still exists. **See Finding 2020.01** regarding *Mismanagement of Disbursements: Transactions not Properly Posted*.
- **Delinquent Payments and/or Reimbursements** – Condition still exists. **See Finding 2020.01** regarding *Mismanagement of Disbursements: Delinquent Payments and/or Reimbursements*.
- **Year-End Monetary Transmittal Forms not Returned** – Controls appear to be working.
- **Lack of Inventory Documentation** – Controls appear to be working.
- **Prior Audit Findings/Management Oversight** – Condition still exists. **See Finding 2020.06** regarding *Improvement Needed in Management Oversight*.

ACKNOWLEDGEMENT

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