



April 8, 2020

**MEMORANDUM**

To: Niki Brown, Ed. D, Instructional Director  
Area 1

Telene Shipley, Principal  
Ridgecrest Elementary School

From: Michele Winston, CPA, Director,   
Internal Audit

Re: Financial Audit for July 1, 2017 through December 31, 2019

An audit of the financial records of **Ridgecrest Elementary School** was completed for the period July 1, 2017 through December 31, 2019. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual (APM) for School Activity Funds (SAF) and Board of Education (BOE) 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 **May 8, 2020** indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your signed action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, email address [internal.audit@pgcps.org](mailto:internal.audit@pgcps.org). **Please forward this template as a Microsoft Word document.** A copy of your action plan should also be forwarded to Danyelle Washington, Business Analyst, email address: [dany.washington@pgcps.org](mailto:dany.washington@pgcps.org); Deborah Smalls, Business Operations Technician, email address: [deborah.smalls@pgcps.org](mailto:deborah.smalls@pgcps.org); and Joeday Newsom, Esq., Ethics Compliance Officer, email address: [joeday.newsom@pgcps.org](mailto:joeday.newsom@pgcps.org).

Enclosure

- cc: Alvin Thornton, Ph. D., Chairman, Board of Education  
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Rhonda Carter, Internal Auditor II

**Internal Audit Report**

**Ridgecrest Elementary School  
School Activity Funds**

**For the Period Ended December 31, 2019**

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## Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Ridgecrest Elementary School for the period July 1, 2017 through December 31, 2019. Ridgecrest 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 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:

- *Missing Funds*
- *Mismanagement of Disbursements*
- *Administration of Checks*
- *Mismanagement of Funds Received*
- *Record Retention*
- *Vending Machines Contract*
  
- *Monthly Bank Reconciliation and Financial Reporting*
- *Excessive Spending in Restricted Accounts*
- *Non-Compliance with Authorized Signers Requirement*
- *Year-End Monetary Transmittal Form (MTF) Envelopes Collection Processor* 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 (APM) for SAF.

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 December 31, 2019.

Michele Winston, CPA, Director  
Internal Audit



## **SUMMARY**

An audit of the SAF for Ridgecrest Elementary School was completed for the period July 1, 2017 through December 31, 2019. The audit was conducted 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 APM for School Activity Funds and 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 MTF envelopes submitted by staff for the period July 1, 2017 through August 31, 2019. In addition, selected 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 Missing Funds**

The audit revealed the following pertaining to missing SAFs where the remitted funds for the MTFs did not match supporting documentation. As a result, Ridgecrest Elementary School suffered an aggregate loss of **\$2,351.57**:

- There was **1** instance during FY 2019 where supporting documentation from a book fair totaling **\$5,023.07** was collected by a staff member. However, that staff member only documented **\$4,678.00** on the MTF, which was approved by the recordkeeping staff. The missing funds totaled **\$345.07**.
- There was **1** instance in FY 2020 where supporting documentation from a candy fundraiser indicated total proceeds of **\$10,530.00**. However, funds reemitted on 2 MTFs totaled **\$8,523.50 (\$8,349.00 + 174.50)**, which were approved by the recordkeeping staff. The missing funds totaled **\$2,006.50**.

According to the APM, the role of the principal includes ensuring physical control and security of cash and other assets and supervising the recordkeeping staff. The recordkeeping staff is responsible for recording and reporting accurately the school's financial transactions and to be a good custodian of funds. Staff is required to remit funds accompanied by a monetary transmittal form (MTF) and supporting documentation substantiating the amount of funds remitted. Recordkeeping staff is required to verify that the funds remitted and supporting documentation match prior to approving the MTF document.

Established internal controls relative to cash management were not followed. Reportedly, the principal and recordkeeping staff counted the funds; however, the MTF was given to a third staff member for approval. The principal and recordkeeping staff did not ensure the accuracy of funds collected and deposited. The internal control weaknesses resulted in identified total loss of funds to the school of **\$2,351.57**.

These funds were collected for specific school activities and are unavailable to satisfy students' needs.

**Recommendation:** The principal and recordkeeping staff should be jointly accountable for missing bookfair funds of **\$2,006.50 (\$1,003.25 each)** and, in addition, the recordkeeping staff is accountable for a total of **\$1,348.32** which includes \$345.07 missing candy fundraiser funds.

The Employee and Labor Relations Office (ELRO) should determine appropriate disciplinary action against the Principal and recordkeeping staff to ensure restitution to the school gets resolved.

### **2020.02 Mismanagement of Disbursements**

Cash disbursements 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 Approval*** – There were **8** instances where expenditures were not adequately approved. School Fund Expenditure Forms (SFEFs) were missing in **5** instances.
- B. ***Delinquent Vendor Payments*** – There were **4** instances where expenditures were not remitted to vendor in a timely manner. The range of delinquency was between 5 and 14 days.
- C. ***Inadequate Supporting Documentation*** - There was 1 instance where the documentation to substantiate a check issued did not agree with the amount recorded in the accounting system. It appears that the teacher was underpaid by **\$27.00**.

The APM provides the following guidelines regarding the administration of cash disbursements:

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

The recordkeeping staff did not follow established internal controls relative to management of disbursements. The current and former principal allowed expenditures to be incurred without adequate approval. Checks were issued without completion of an SFEF. Review of supporting documentation was not completed prior to the issuance of checks. Also, the recordkeeping staff did not properly maintain an adequate filing system. The current principal and the recordkeeping staff did not read the APM.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Approving purchases without adequate documentation 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. Delinquent payment of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed.

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

- A. The principal must ensure staff members are aware that pre-approval is required prior to the purchase of products or services and are held accountable for compliance. SFEFs should always be entirely completed by staff. The principal should ensure all pre-approval details are provided on SFEFs prior to approving expenditures.
- B. The Principal and recordkeeping staff must ensure vendor payments are issued timely, within 30 days of receipt or by the invoice due date.
- C. Internal controls must be established to ensure that all SFEF's are complete and have adequate supporting documentation prior to issuance of payments.
- D. The principal and recordkeeping staff must make a concerted effort to read the APM

### **2020:03 Administration of Voided Checks**

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

- There were **2** instances where voided checks were not properly voided by removal of the signature line.
- There was **1** instance where a voided check was not entered into the SFO accounting system.

According to the APM all voided checks must be entered in School Funds Online (SFO) and have "VOID" written across the face of the check. The signature line must be removed and the voided checks attached to approved SFEF's or Void Check Proof Sheets.

The current and former principals did not hold the recordkeeping staff accountable for following established internal controls relative to administration of checks. The recordkeeping staff did not remove the signature line from all voided checks and did not record all voided checks in the SFO accounting system. Also, the current principal and recordkeeping staff have not read the APM regarding administration of checks.

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

**Recommendation:** The principal must implement the following corrective actions for administration of checks to be in accordance with BOE policies and procedures. 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. The principal and recordkeeping staff must review the APM to become familiar with the requirements for administering checks.

#### **2020:04 Mismanagement of Funds Received**

The following exceptions pertaining to management of receipts were noted:

- A. ***Inadequate Supporting Documentation*** - There were **3** instances where cash receipts were not properly supported. There was either incomplete MTFs or MTF documentation was lacking.
- B. ***Fundraiser Forms Not Completed*** - Staff failed to complete the Fundraiser Authorization Forms, Fundraiser Completion Reports, and the Annual Fundraising Summary Reports for the Mid Atlantic and Bookfair fundraising events.
- C. ***Delinquent Deposit*** – There were **11** instances where deposits were not made in a timely manner. The delinquency was up to **55** 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.
- B. Fundraiser Request and Authorization Forms are required for each fundraiser sponsored by a club or organization. A Fundraiser Completion Report must be prepared by the sponsor, reviewed and acknowledged by the principal. 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. 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. Staff members were not required to provide documentation that shows the source and purpose of funds collected when remitting funds. The recordkeeping staff did not perform verification and maintenance of all MTFs and supporting documentation prior to approving MTF's and making deposits. The requirements for completion of fundraiser forms were not communicated to fundraising sponsors. This was allowed under both the current and former principals. In some instances teachers did not remit funds to the recordkeeping staff timely. Also, competing responsibilities have impacted the recordkeeping staff's ability to make timely deposits.

Failure to adequately perform recordkeeping 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 deposit of funds impacts the accuracy of financial reporting upon which administrators rely to make financial decisions. 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 of the school's financial transactions.



**Recommendation:** The following corrective actions should be implemented for Ridgecrest Elementary School receipts to be processed 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 recordkeeping staff should not accept the MTF if changes are not initialed.
- B. The principal must establish internal controls to ensure that staff completes the required fundraising forms for fundraising events held as required. These documents must be maintained on file for public and auditor review upon request.
- C. 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 recordkeeping staff 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.

#### **2020.05 Record Retention**

Supporting documentation was not on file for the following:

- 2 cancelled checks,
- 6 transfer journal entries;
- 2 MTF's in the year-end envelopes during the audit, and
- field trip approval forms

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 recordkeeping staff did not properly maintain an adequate filing system. The current and former principals did not provide sufficient oversight relative to administration of financial records. These actions caused the school to be non-compliant with BOE policies and procedures as established in the APM.

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 management 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 recordkeeping staff or principal, financial documents would be filed properly for future review.

#### **2020.06 Vending Machine Contract**

The school has a soda vending machine. However, a current signed contract stipulating commissions due the school and frequency of commissions was not on file.

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 current and former principal did not establish internal controls to ensure that the school maintained an up to date contractual agreement for vending.

Due to the nonexistence of a valid contractual agreement for vending, the BOE cannot determine if the school is deriving maximum benefits from the operation of the vending machines. Additionally, these funds could be used to offset the deficit in the PSA account (*See 2020.08 Excessive Spending in Restricted Accounts.*)

**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.

### **2020.07 Monthly Reconciliation and Financial Reporting**

Monthly reconciliations and financial reporting was not performed by the 15<sup>th</sup> of each month. There were **10** instances during the audit period where the bank account was **not** reconciled timely. The range of delinquency was 2 to 60 days. Complete financial reports were not located for the audit period.

According to the APM, the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the bookkeeper for reconciliation. The bookkeeper is required to complete the reconciliation within 7 days of receiving the statement from the bank. This process is required to be completed by the 15<sup>th</sup> of each month. The completed reconciliation should be provided 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, but also facilitates review by auditors.

The former and current principal did not exercise proper oversight to ensure that monthly reconciliations and financial reporting was complete by the 15<sup>th</sup> of each month. BOE policies and procedures as established in the **APM** regarding the use of restricted funds were not followed. Required financial information was not readily available for review by the auditors.

**Recommendation:** The principal must establish procedures to ensure that monthly bank reconciliations and financial reporting is completed by the 15<sup>th</sup> of each month and related documentation is maintained on file. The principal should hold recordkeeping staff accountable for compliance and ensure that financial reports are promptly reviewed.

### **2020.08 Excessive Spending in Restricted Accounts**

The SAF has **5** restricted fund accounts with deficits totaling **(\$4,288.69)** as of December 31, 2019. The following is a listing of accounts with deficits:

- The 4th Grade Account has a deficit of **(\$1,689.35)**
- The Positive Behavioral Interventions and Supports (PBIS) account has a deficit of **(\$1,194.37)**
- The 5th Grade Account has a deficit of **(\$829.49)**
- The Field Trips account has a deficit of **(\$487.74)**
- The PSA Food account has a deficit of **(\$87.74)**

Expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted accounts exceed the available cash, the account is insolvent. As the fiduciary agent for SAF, the principal should ensure all accounts are solvent at all times.

As the fiduciary agent for SAF, the current and former principal did not monitor fund accounts to ensure that all restricted accounts maintained positive balances. The recordkeeping staff also did not complete the funds available line on the SEEF to provide necessary information for the principal to make an informed decision. BOE policies and procedures as established in the **APM** regarding the use of restricted funds were not followed.

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

**Recommendation:** All potential expenditures must be evaluated with regard to available resources and care be exercised to ensure the resources are used for the maximum benefit of the students. Spending in these accounts must cease until the account deficits are resolved.

#### **2020:09 Non-compliance with Authorized Signers Requirement**

Authorized signatories on the school's bank account included the principal, the assistant principal and the former Secretary I. The current recordkeeping staff is **not** on the account as an authorized signatory and does not sign checks as required. The last bank reconciliation prepared by the former recordkeeping staff was completed on 1/22/2016 and subsequently by the Accounting and Financial Reporting Office until the current recordkeeping staff was hired.

According to the APM, 3 individuals are required as check signers on the school's bank account as listed on the bank's "Signature Card." The 2 standard check signers should be the school

principal and recordkeeping staff. The third alternate check signer must be a vice principal or other school administrator.

The current and former principals did not establish internal controls to ensure the two standard check signers were the principal and recordkeeping staff. Reportedly, the current recordkeeping staff was told by the former principal that she could not sign checks. In addition, both the current principal and recordkeeping staff had not read the APM.

Failure to follow instructions for authorized signatories places the school in a position of non-compliance with BOE policies and procedures and increases the school's financial risk.

**Recommendation:** The principal must take action to update authorized signatures on the school's bank account. This includes adding the current recordkeeping staff. Additionally, the principal must take time to familiarize herself with the requirements of the APM and establish internal controls to ensure that the bank signature card is updated.

#### **2020:10 Year-End Monetary Transmittal Form (MTF) Envelope Collection Process**

The year-end MTF submission and collection process is not operating as required by the policies outlined in the APM. There were **2** instances where both the pink and yellow MTF remittances could not be located for review and **10** instances where MTF's were not maintained in a sealed envelope as required.

According to the APM, each staff member who collects SAFs is responsible for maintaining an envelope containing both pink and yellow copies of MTF remittances generated during the year. The staff member is required to submit the signed, sealed envelope to the designated administrator prior to the year-end check out. The envelopes should remain sealed until requested by Internal Audit.

A process to ensure that staff members maintain both the pink and yellow MTF remittances after funds are remitted to the financial recordkeeping staff has not been established. It does not appear that any documented training was provided to the staff relative to the year-end MTF envelope submission process. As such, policies and procedures regarding MTF submission during the year-end check out process were not followed.

The audit trail for ensuring that all SAFs collected are subsequently deposited was weakened and the potential for loss of assets increased.

**Recommendation:** Staff must be reminded of their responsibility relative to MTF envelope submission during the year-end checkout process. The recordkeeping staff should print the "*Receiptee History*" report from the accounting system and provide it to the administrator responsible for collecting MTF envelopes. The principal should instruct the administrator to

obtain MTF envelopes based on the printed report. Each employee must be held accountable for returning MTF envelopes, including all processed MTFs, as part of the year-end checkout process.

## **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Ridgecrest Elementary School was issued for the period ended June 30, 2011. During that period neither the principal nor the recordkeeping staff was in their current positions. The previous audit report had 7 reportable conditions, of which 5 are repeated in the current audit. The following findings were noted as a result of the prior audit, and the status is indicated below:

- **Untimely Deposits** - Condition still exists. See Finding 2020.04, *Mismanagement of Funds Received*.
- **Excessive Spending in Principal Sponsored Activities** - Condition still exists. See Finding 2020.08, *Excessive Spending in Restricted Accounts*.
- **Year-End Monetary Transmittal Forms** – Condition still exists. See Finding 2020.10, *Year-End Monetary Transmittal Form (MTF) Envelopes Collection Process*.
- **Sales Tax not collected for Items Sold** - Controls appear to be working.
- **Fundraiser Forms** - Condition still exists. See Finding 2020.04, *Mismanagement of Funds Received*.
- **Failure to Complete School Funds Expenditure Forms** – Condition still exists. See Finding 2020.02, *Mismanagement of Disbursements*.
- **Pencil and White-out Used on Monetary Transmittal Form** - Controls appear to be working.

## **ACKNOWLEDGEMENT**

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