

Internal Audit Report

**Heather Hills Elementary School
School Activity Funds**

For the Period Ended July 31, 2023

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Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Heather Hills Elementary School for the period January 1, 2017 through July 31, 2023. Heather Hills 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:

- *Mismanagement of Disbursements, and*
- *Restricted Fund Account Deficits*

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

In our opinion, except for the deviation from the criteria described in the preceding paragraph, the APM referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended July 31, 2023.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

Internal Audit completed an audit on the school activity funds (SAF) for Heather Hills Elementary School for the period January 1, 2017 through July 31, 2023. 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.

This audit report includes **2** findings which occurred under the leadership of the former and current principals. A listing of the findings and the personnel responsible are included in the appendix at the end of the audit report. 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 to determine whether the school was in compliance with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit report focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

SCOPE

The audit was based on our review of all bank statements, financial reports, cancelled checks and all available Monetary Transmittal Form (MTF) envelopes submitted by staff for the period January 1, 2017 through July 31, 2023. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

This is an audit of funds related to students' activities at the school and does not include SOR funds or any funds not derived from students' activities for the audit period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2024.01: Mismanagement of Disbursements

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

- A. *Inadequate Approval and Delinquent Payments* – There were **2** instances where approval was obtained after the purchases were made. Payments for those expenditures were processed 169 and 12 days late respectively.
- B. *Missing Cancelled Checks* – There were **5** instances where cancelled checks were not located for review.
- C. *Administration of Voided Checks* – There were **7** instances where voided checks were not administered as required. The following exceptions were noted:
 - **Missing Voided Checks** – Voided checks were unavailable for review.
 - **Inappropriate Defacement** - checks were not voided by having the signature portion removed as required.
 - **Unrecorded Voided Checks** – voided checks were not always posted to the accounting system, SFO.

The APM provides the following guidance relative to the administration of Disbursements:

- A. *Pre-Approval by the Principal* - Prior to ordering or purchasing goods or services, a School Funds Expenditure Form must be completed and signed by the Principal. The employee can be held personally liable for the obligation, if this procedure is not followed.
- B. *Payments* - Invoices should be paid within 30 days of receipt or by the due date.
- C. *Cancelled Checks* - The bookkeeper is required to safeguard the images of cancelled checks, including endorsement information on the back of the checks.
- D. *Voided Checks* – All SAF records, including voided checks, must be retained for a period of seven (7) years and or until audited including the current fiscal year. Voided checks are required to be defaced by removal of the signature line and filed in check number order with cancelled check images. All checks should be printed from SFO.

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The recordkeeping staff explained that there were several contributory factors for the deficiencies noted:

- Processing of checks prepared in June were impacted by the system-wide closing of schools' accounting records.
- A new principal was appointed to the school in August 2022 but was not given signature authority immediately.
- The number of students attending a field trip required for payment processing was not determined until the day of the fieldtrip resulting in a 2 week delayed payment.
- Approval of expenditures was delayed during the principal's leave of absence and a 3rd check signer had not been appointed.
- Cancelled checks were misplaced by the former principal during the bank statement review process while the current recordkeeping staff was on leave.
- The instances where the signature portion of the voided check not being removed was an oversight by the recordkeeping staff.
- The recordkeeping staff was not aware that all checks, including voided checks were required to be included in SFO.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures. When internal controls are not followed the risk of errors and fraud is increased. Inadequate approval of expenditures can also result in unapproved purchases and insolvency of the school. Delinquent payments can impact the school/vendor relationships and may result in late charge penalties. Failure to make check documentation available for review and to record voided checks in the accounting system impacts the audit trail necessary for determining the school's compliance with policies and procedures and may result in increased financial risk to the school and staff. Inappropriate defacement of voided checks increases the risk of check fraud.

Recommendations: The following steps should be taken to improve the management of disbursements:

- 1) The principal should establish internal controls to facilitate consistent processing of cash disbursements including timely approval of purchases and vendor payments.
- 2) A reliable records management system must be implemented that ensures the maintenance of all financial records, including checks, in an organized manner.

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- 3) The principal should review the financial transactions at least monthly to ensure completeness and accuracy.

2024.02: Deficit in Restricted Fund Accounts

The following restricted fund accounts included deficits totaling (\$2,459.86) as of July 31, 2023.

| Account number | Account Name | Amount |
|----------------|--|----------------------|
| 307.00 | 6 th Grade | (\$ 275.00) |
| 410.10 | Contributions to Outside Organizations | (\$ 317.55) |
| 416.00 | Student Lunch Loans | (\$ 1,754.34) |
| 440.00 | PBIS | (\$ 112.97) |
| | Total Deficit balances | (\$ 2,459.86) |

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

The 6th Grade account and the Student Lunch Loans balances represent deficits carried forward from the prior audit and preceded the former principal and recordkeeping staff. An explanation was not be provided for those deficits.

The recordkeeping staff transferred funds from the Boosterthon fundraiser account to cover the deficits in the Contribution to Outside Organization and PBIS fund accounts. These unallowable transfers were corrected by the Accounting and Financial Reporting Office and resulted in deficit balances.

The risk of insolvency increases when restricted funds are overspent and not properly managed.

Recommendations: The following steps must be taken to improve the management of restricted accounts:

- 1) The school should seek assistance from the Accounting and Financial Reporting Office to eliminate the fund account deficits.

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- 2) The school administration should continue to seek opportunities to clear the deficits. Further, all expenditures from these accounts must cease until the deficits are eliminated.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Heather Hills Elementary School was issued for the period ended December 31, 2016. The current Principal was not in the current position during that audit. The previous audit included **9** audit findings and **2** are repeated in part in the current audit report. The following findings were noted as a result of that audit and the current status is indicated below:

- ***Mismanagement of Funds Received*** – *This finding was not noted in the current audit.*
- ***Mismanagement of Disbursements*** – *This finding was partially repeated. See Finding 2024.01 regarding Mismanagement of Disbursements.*
 - Delinquent Vendor Payments
 - Inadequate Approval
- ***Administration of Checks*** – *This finding was not noted in the current audit.*
- ***Financial Reporting*** – *This finding was not noted in the current audit.*
- ***Administration of Vending Contracts –missing contract*** – *This finding was not noted in the current audit.*
- ***Fundraiser Forms – Required Forms were not completed*** – *This finding was not noted in the current audit.*
- ***Restricted Account Deficits*** – Still observed. **See Finding 2024.02** regarding *Deficit in Restricted Fund Accounts.*
- ***Drop Safe Not on Premises*** – *This finding was not noted in the current audit.*
- ***Items Purchased with SAF not on Property Inventory Listing*** – *This finding was not noted in the current audit.*

ACKNOWLEDGEMENT

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

Prince George's County Public Schools
Internal Audit Department
School/Office Heather Hills ES
Response Due Date December 7, 2023

| | Findings | Recommendations | Concur Non- Concur Partially Concur | Action Plan | Corrective Action Date | <u>Status</u> Implemented Partially Implemented Not Implemented |
|-----------|---|---|--|---|-----------------------------------|--|
| 1. | <u>2024.01:</u> <u>Mismanagement</u> <u>of Disbursements</u> | <p>The following steps should be taken to improve the management of disbursements:</p> <ol style="list-style-type: none"> 1) The principal should establish internal controls to facilitate consistent processing of cash disbursements including timely approval of purchases and vendor payments. 2) A reliable records management system must be implemented that ensures the maintenance of all financial records, including checks, in an organized manner. 3) The principal should review the financial transactions at least monthly to ensure completeness | Partially Concur- There was only one audit finding from 2023 SY. The practices outlined are in place | Monthly reconciling and monitoring takes place in accordance to the guidance provided by the district. When questions arise we consult Purchasing , Financial Report or the Budget Office for guidance. | As of 2023 School Year | Implemented |

Principal Signature_____

Date_____

| | | | | | | |
|----|--|---|---|--|-------------------------------|--------------------|
| | | and accuracy. | | | | |
| 2. | <u>2024.02: Deficit in Restricted Fund Accounts</u> | <p>The following steps must be taken to improve the management of restricted accounts:</p> <ol style="list-style-type: none"> 1) The school should seek assistance from the Accounting and Financial Reporting Office to eliminate the fund account deficits. 2) The school administration should continue to seek opportunities to clear the deficits. Further, all expenditures from these accounts must cease until the deficits are eliminated. | <p>Partially Concur- There was only one audit finding from 2023 SY. The practices outlined are in place</p> | <p>Monthly reconciling and monitoring takes place in accordance to the guidance provided by the district. When questions arise we consult Purchasing, Financial Reporting or the Budget office for guidance.</p> | <p>As of 2023 School Year</p> | <p>Implemented</p> |

Principal Signature _____

Date _____