

Internal Audit Report

Seabrook Elementary School
School Activity Funds

For the Period Ended May 31, 2023

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Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Seabrook Elementary School for the period of December 1, 2017 to May 31, 2023. Seabrook 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 seven findings:

- *Deficits in Restricted Fund Accounts;*
- *Untimely Completion of Monthly Financial Reporting;*
- *Depository Safe Access;*
- *Records Management;*
- *Mismanagement of Funds Received;*
- *Mismanagement of Disbursements;*
- *Administration of Voided Checks; and*
- *Improvement Needed in Management Oversight*

The findings resulted in a 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, considering the deviations from the criteria described in the preceding paragraph, the SAF referred to above has not been administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended May 31, 2023. Improvement is needed to ensure compliance with BOE policies and procedures and the Accounting Procedures Manual for School Activity Funds.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

An audit of the school activity funds (SAF) for Seabrook Elementary was completed for the period December 1, 2017 to May 31, 2023. The audit was conducted based upon a request by the principal.

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 **8** findings which occurred under the leadership of the current principal. 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 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period December 1, 2017 to May 31, 2023. Also, available receipts, disbursements and supporting documentation were reviewed for the said period. Certain financial records were not available for review (*Refer to Finding 2023.04*).

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:

2023.01 Deficits in Restricted Fund Accounts

The following restricted accounts had deficits as of May 31, 2023, which totaled to **\$1,006.66**. *This condition was also noted in the previous audit as of November 30, 2017.*

Account Number	Account Name	Account Deficit
425.20	Library Books	(\$558.39)
450.10	Principal Sponsored Activities (PSA) -Flowers	(\$39.99)
450.20	Principal Sponsored Activities (PSA) -Food	(\$11.13)
450.50	Principal Sponsored Activities (PSA) -Transfers In	(\$52.60)
565.00	Instructional Materials	(\$344.55)
Total		(\$1,006.66)

According to APM Section 4.3 *Fund Accounts*, expenditures for all restricted fund accounts are limited to the amount of funds collected for those activities. Therefore, if restricted expenditures exceed the available funding, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure that restricted accounts are solvent at all times.

The deficits occurred as follows:

- Library Books (425.20) - A disbursement of \$1,992.03 was posted to account 425.20 Library Books on 12/16/2019 while the account contained a beginning balance of \$1,368.69. The \$623.34 difference was funded by unallowable transfers that were later reversed. Subsequently, \$64.95 deposited into the account, resulting in a final account deficit of \$558.39.

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- PSA-Flowers (450.10) - A disbursement of \$39.99 was posted to account 450.10 PSA-Flowers on 3/8/2023 when funds were not available. The account was funded by an unallowable transfer that was later reversed, resulting in an account deficit of \$39.99.
- PSA-Food (450.20) - Two disbursements for beginning of the school year “welcome back” refreshments totaling \$89.46 were posted to account 450.20 PSA-Food on 9/23/2021 when only \$78.33 was available, resulting in an account deficit of \$11.13.
- PSA-Transfers In (450.50) - Two disbursements for a leadership meeting and decoration supplies totaling \$371.87 were posted to account 450.50 PSA-Transfers In on 10/1/2021 when only \$319.27 was available, resulting in an account deficit of \$52.60
- Instructional Materials (565.00) - A disbursement for testing calculators was partially funded by account 565.00 Instructional Materials for the amount of \$344.55 on 3/13/2020. The account had no beginning balance, and the expenditure was funded by an unallowable transfer that was later reversed, resulting in an account deficit of \$344.55.

The recordkeeping staff resigned effective 5/16/2023 and was not available during the audit, therefore a further cause for the expenditures posted to accounts without available funding could not be determined.

Overspending in restricted accounts results in insufficient funds being available to administer students’ activities to the general student population. Students are not receiving the maximum possible benefit from the resources that should have been available to them when restricted fund accounts are insolvent.

Recommendation: The principal and recordkeeping should contact the Accounting and Financial Reporting Office for assistance in identifying available funds to resolve the specified restricted account deficits. Spending in these accounts must cease until the deficits are resolved. The recordkeeping staff must ensure that available funds are verified when disbursements are requested, and disbursements should not be approved without funds available.

2023.02 Untimely Completion of Monthly Financial Reporting

There were **6** instances where monthly financial reporting was not completed by the recordkeeping staff and reviewed by the principal in a timely manner. Delays ranged from **7** to **88 days**.

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According to the APM section *5.1.2 Monthly Reconciliation and Financial Reporting*, recordkeeping staff is required to complete the reconciliation within 7 days of receiving the bank statement. All monthly reports should be completed and submitted to the principal for review and approval by the 15th of the following month.

Recordkeeping staff completed the monthly financial reports for October, 2022 through February 2023 delinquent. Reports for March 2023 could not be located at the school and were reproduced during the audit for review. Recordkeeping staff did not provide the monthly financial reports for April, 2023 to the principal for review before resigning on 5/16/2023. The April 2023 reports were subsequently located in the recordkeeping staff's desk drawer.

The recordkeeping staff resigned effective 5/16/2023 and was not available during the audit, therefore a further cause for these delays could not be determined.

The principal's fiscal responsibility is compromised when monthly financial reports are not available and/or reviewed timely. The principal is unable to make informed financial decisions when monthly financial reporting is not available for review and approval.

Recommendation: The principal and recordkeeping staff should implement procedures to ensure that the monthly financial reporting is accomplished in accordance with the requirements included in the APM (bank reconciliation within 7 days of receiving the statement from the bank and the principal's review and approval completed by the 15th). The recordkeeping staff must ensure that monthly financial reports are available timely for the principal to make fiscally responsible decisions on behalf of the school.

2023.03 Depository Safe Access

The school has a depository safe for lodgment of SAF received; however, the principal did not have access to its contents following recordkeeping staff's resignation effective 5/16/2023. A locksmith was able to access the contents of the safe on 5/26/2023 and provide the principal with a new combination.

According to the APM section *4.5.2.2, Guidelines for Bank Deposits*, depository (drop) safes are required for every school. Only the principal and recordkeeping staff can access its contents.

The principal reportedly stored the combination for access to the school's depository safe on her phone, but had not committed the combination to memory. She later changed phones and did not retain the combination on her new phone, and the recordkeeping staff did not provide the safe combination to the principal prior to resigning. Internal controls regarding the processing of collected funds are compromised when funds and the supporting

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documentation stored in the depository safe are not accessible for deposit or review, increasing the potential for loss of assets.

Recommendation: The principal has since regained access to the depository safe, and the school is currently without recordkeeping staff. The principal should establish internal controls to ensure that access to the safe by the principal and future recordkeeping staff is not compromised.

2023.04 Records Management

There were **38** instances where documentation to substantiate SAF transactions **could not be located:**

- End-of-Year MTFs for FY 2021 and 2022;
- **2** Cash Receipt records, including Monetary Transmittal Forms (MTFs); supporting documentation, and deposit receipt;
- **5** Deposit Analysis Reports to support funds received; and
- **15** cancelled check images **12** voided checks with signature line removed

According to the APM Section 6.12 *Record Retention*, all SAF records are to 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 collection of MTF remittance copies as part of FY 2021 closeout procedures was overlooked at the end of FY 2021 while the school was closed during the COVID-19 pandemic response. The principal was on extended leave at the end of FY 2022 and the Year-end MTF collection responsibility was not designated to a school administrator. Reportedly, the recordkeeping staff collected the year-end MTF remittances from staff for FY 2022 in the principal's absence. However, the remittances could not be located.

BOE policies and procedures were not followed regarding the retention of Deposit Analysis Reports, cancelled check images, and voided checks. The recordkeeping staff resigned effective 5/16/2023 and was not available to provide any explanation during the audit. A further cause for the mismanagement of records retention could not be determined.

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

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Recommendation: The principal and recordkeeping staff should establish an adequate records management system which ensures that all financial documents are maintained in an organized manner. Prior to departing at the end of each school year, the principal or a designee should obtain the pink and yellow MTF remittances for the school year in sealed envelopes. The envelope should be signed over the seal.

The principal should conduct periodic review of financial records to determine proper organization and retrieval. There should also be oversight to ensure that financial records are maintained and stored when there is a departure of recordkeeping staff. The recordkeeping staff must be held accountable for compliance.

2023.05 Mismanagement of Funds Received

There were **87** instances of noncompliance regarding funds received. ***This condition was also noted in the previous audit as of November 30, 2017.***

- ***Funds Not Deposited:*** There were **6** checks totaling **\$800.04** found with the school's receipt records that had not been deposited as of the end of fieldwork and did not have a corresponding MTF. The noted checks were more than 180 days old.
- ***Retention of Monetary Transmittal Form Remittance Copies:*** There were **24** instances where yellow and/or pink MTF remittance copies were retained with receipt records;
- ***Deposit Not Properly Supported:*** There were **23** instances where deposits were not supported by Deposit Analysis Reports;
- ***Untimely Deposits:*** There were **19** instances where deposits were not made in a timely manner, with delays ranging from **5 days** to **260 days**;
- ***Monetary Transmittal Forms Not Properly Signed:*** There were **7** instances where MTFs were not signed by the recordkeeping staff;
- ***Monetary Transmittal Forms Not Properly Completed:*** There were **6** instances where Sections 1 and 2 of MTFs did not agree;
- ***Changes to Monetary Transmittal Forms Not Properly Recorded:*** There were **2** instances where changes made to MTFs were not initialed;

APM section 4.5.2.2 *Cash Receipts Procedures* provides the following guidelines regarding the collection of funds:

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- All SAF are required to be remitted with an accompanying MTF. The exact make-up of the funds and the total amount being remitted to recordkeeping staff must be itemized and the funds deposited promptly to the bank as required.
- Staff members collecting funds are required to complete MTFs and submit to recordkeeping staff along with collections. The MTF must be entirely completed, the recordkeeping staff is required to retain the white copies and the pink and yellow MTF remittances are to be maintained by the staff member until the year-end MTF submission is required.
- MTF documents must have the following information. 1) who collected money; 2) when it was collected; 3) from whom it was collected; 4) the amount and form of the collection; and 5) the reason for collecting. If additional space is needed a Student Remittance Report, Excel spreadsheet, class list, receipts, or ticket/report stubs, can be used as an attachment to support the funds collected.
- Recordkeeping staff must make deposits of all funds received at least every other day. However, no more than \$250 should be kept in the building overnight.
- The person collecting funds is responsible for filling in all required information on the MTF, including signing and dating the form. The recordkeeping staff must validate the MTF evidencing the accuracy of funds remitted.
- The totals on sections II and I of the MTF must agree
- Any changes or alteration to the MTF must be initialed by the individual making the correction after a line is drawn through the error.

The recordkeeping staff did not process collections and perform bank deposits as funds were received. The principal was not able to access the school's depository safe at the time of recordkeeping staff's resignation. When access to the safe was restored, noted deposits were identified inside the safe, that were deposited by the principal on 5/30/2023. These funds were received as early as 9/12/2022. The principal was not knowledgeable as to entering these deposits into the SFO accounting system, therefore SFO Deposit Analysis Reports were not generated for these deposits. The Accounting and Financial Reporting Office assisted the principal with entering the deposits into SFO at a later date. Three other delinquent deposits were made by the recordkeeping staff on 5/16/2023, the date of resignation.

Due to the recordkeeping staff resignation effective 5/16/2023, a further cause for all of the instances of noncompliance regarding the receipt of funds could not be determined.

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Inadequate processing of funds received constitutes non-compliance with Board policies and procedures, breakdown of internal controls and increases the risk of loss. Delinquent deposit of funds increases the risk of loss and impacts the quality of financial reporting. The funds related to the 6 stale date checks totaling **\$800.04** may not be recovered due to the delay to deposit.

Recommendations: The following steps must be taken to ensure proper administration of funds received:

1. The principal and recordkeeping staff should develop and document specific procedures for the collection, remittance, and deposit of funds.
2. The principal must request training to be able to use SFO to process financial transactions in extenuating circumstances.
3. Deposits must be made at least every other day, while deposits with cash in excess of \$250.00 must be made on the same day that funds are collected.
4. Cash receipt procedures must be followed and recordkeeping staff must be held accountable for ensuring that MTFs are properly completed and signed; changes to MTFs are properly initialed and that sections I and II of the MTF are in agreement.
5. The principal should consider identifying the staff members responsible for collecting the 6 delinquent checks and request that the stale dated checks are reissued.
6. The principal must hold staff members accountable for following the policies and procedures relative to the completion of MTFs.

2023.06 Mismanagement of Disbursements

There were **4** instances of noncompliance regarding the disbursement of funds. ***This condition was also noted in the previous audit as of November 30, 2017.***

- ***Disbursements not Adequately Approved:*** There were **2** instances where disbursements were not adequately approved. One disbursement was printed without the principal's pre-approval, and the other disbursement did not include the date of the principal's pre-approval.
- ***Untimely Payments:*** There were **2** instances where staff reimbursements were not issued in a timely manner. These reimbursements were issued approximately 3 and 6 months after disbursement requests were approved.

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According to APM section 4.5.3 *Cash Disbursements*, a School Funds Expenditure Form (SFEF) must be completed and signed by the principal prior to ordering or purchasing goods or services. Reimbursements should be paid within 30 days of the original purchase.

The principal delayed issuing a reimbursement check to one staff member to ensure that funds were available in the appropriate SAF accounts prior to reimbursing staff.

Another reimbursement check to a staff member was delayed by recordkeeping staff. The principal was not aware of this check's delay in issuance.

Recordkeeping staff resigned effective 5/16/2023 and was not available during the audit. Therefore, a further cause for the disbursements that were not adequately approved could not be determined.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The lack of adequate approval and timely payments can result accounts being overspent and insolvency.

Recommendations: The principal and recordkeeping staff should develop and document specific procedures for disbursements of SAF. The procedures should provide specific responsibilities for recordkeeping staff and the principal consistent with APM requirements. The principal should perform periodic reviews of disbursements to ensure that BOE policies and procedures regarding the disbursement of funds are consistently followed.

2023.07 Administration of Voided Checks

There were **11** instances of noncompliance regarding the administration of voided checks. *This condition was also noted in the previous audit as of November 30, 2017.*

- ***Voided Checks Not Properly Defaced:*** There were **4** instances where voided checks were retained without removal of the signature line;
- ***Voided Checks Not Entered into the Accounting System:*** There were **7** instances where voided checks were identified with the school's records that were not recorded in the SFO accounting system.

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

BOE policies and procedures regarding the administration of voided checks were not followed. The recordkeeping staff resigned effective 5/16/2023 and was not available

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during the audit. Therefore, a further cause for the misadministration of voided checks could not be determined.

Failure to properly account for voided checks by recording all voided checks into SFO and ensuring proper defacement could result in unauthorized negotiation of checks, and increases financial risk to the school.

Recommendations: The recordkeeping staff must be reminded of the importance of administering voided checks as required by the BOE. All voided checks must be entered in SFO and have “VOID” written across the face of the check, and the signature line must be removed during the voiding process. Additionally, APM guidelines for ensuring that every check is entered into SFO must be followed to ensure accountability for all voided checks.

2023.08 Improvement Needed in Management Oversight

The principal did not exercise proper oversight in the administration of the SAF during the audit period. The previous audit included 7 findings, 4 of which are repeated in this audit report.

According to the APM Section 3.2.1 *Principals*, the principal acts as the fiduciary agent for the SAF. As such, responsibility for accounting, safeguarding, and managing the SAF in accordance with PGCPs policies and procedures rests solely with the principal.

The principal did not adequately implement the recommendations from the school’s previous audit for the period ended November 30, 2017, and did not provide effective oversight to adequately identify and address weaknesses in the school’s control environment.

Several BOE policies and procedures as established in the APM were not followed, resulting in the school’s internal controls being compromised. Students are not receiving the maximum possible benefit of the resources available to them.

Recommendation: The principal should carefully review the policies and procedures as defined in the APM and develop internal controls to ensure compliance. There should be consistent involvement in daily operations relating to the administration of the school’s resources. Improvement of the internal control environment should be emphasized by focusing on these 5 basic principles:

- Clearly Defined Lines of Authority and Responsibility;
- Segregation of Duties;
- Maintenance of Adequate Documents and Records;

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- Limited Access to Assets; and
- Independent Checks on Performance

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Seabrook Elementary was issued for the period ended November 30, 2017. The current principal was on staff during that audit. The school's former recordkeeping staff resigned effective 5/16/2023 and was not on staff during the previous audit. The school does not currently have a recordkeeping staff. There were 7 findings noted as a result of that audit, summarized below.

- **Errors on Bank Reconciliation** – Condition was not noted during this audit.
- **Delinquent Deposits and Failure to use the Endorsement Stamp** – Condition still exists. See **Finding 2023.05** regarding *Mismanagement of Funds Received*.
- **Mismanaged Disbursements** – Condition still exists. See **Finding 2023.06** regarding *Mismanagement of Disbursements*.
- **Deficit in the Principal Sponsored Activities Account** – Condition still exists. See **Finding 2023.01** regarding *Deficits in Restricted Fund Accounts*.
- **Voided Checks Not Properly Administered** – Condition still exists. See **Finding 2023.07** regarding *Administration of Voided Checks*.
- **Fundraiser Forms Not Completed** – Condition was not noted during this audit.
- **Failure to Maintain a Current Vending Contract** – Condition was not noted during this audit.

ACKNOWLEDGEMENT

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