



**Prince George's County
Public Schools
(A Component Unit of the
Prince George's County, Maryland)**

Government Auditing Standards Report on
Internal Control Over Financial Reporting
and on Compliance and Other Matters
Year Ended June 30, 2022

Prince George's County Public Schools
(A Component Unit of the Prince George's County)

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Education
Prince George's County
Upper Marlboro, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prince George's County Public Schools (the School System), a component unit of Prince George's County, Maryland, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School System's basic financial statements, and have issued our report thereon dated February 16, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School System's internal control. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in greater detail in Appendices A and B, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School System's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Appendix A as Finding 2022-001 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Appendix B as Finding 2022-002, Finding 2022-003, and Finding 2022-004 to be significant deficiencies.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in greater detail in Appendix B as Finding 2022-003.

School System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School System's response to the findings identified in our audit and described in Appendices A and B. The School System's response described in Appendix C was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

February 16, 2023



Material Weakness in Internal Control Over Financial Reporting

Finding 2022-001: Safeguarding of Assets

Criteria: Organizations must maintain financial management systems that provide effective controls over accountability for all funds, assets, and liabilities. These controls should be in compliance with the internal controls integrated framework. The School System's Treasury Department's cash management standard operating procedures (the Manual) requires that any Automatic Clearing House (ACH) payments to any vendor must have an ACH Authorization Form completed by the vendor and (1) signed by an authorized bank official, or (2) accompanied by a voided check image.

Condition: The School System's Treasury Department incorrectly made payments to an unknown third-party posing as the genuine vendor company. This incident was perpetuated between May 16, 2022, through June 10, 2022. Total fraudulent payments amounting to approximately \$694,000 were made and as of the report date of which approximately \$302,000 has been recovered and returned to the School system's bank accounts.

The School System did not follow its policies and procedures as noted below:

- ACH Authorization Form that was provided to the Treasury Department did not have the required signature of an authorized Bank official or a voided check image.
- ACH Authorization Form was not properly reviewed and approved as required by the Manual before updating the payment system.
- The Manual requires that all ACH Authorization Form be physically mailed to the School System. However ACH Authorization Form in question was electronically mailed to the Treasury Department.

Cause: The School System's personnel did not adhere to the School System's documented policies and procedures related to the Manual.

Effect: The School System is not in compliance with certain aspect of the Treasury Department's Manual. Failure to perform procedures in accordance with the School System's documented policies and procedures could result in further loss of School System's funds.

Recommendation: We recommend that the School System consistently comply with the documented treasury policies and procedures and also enhance its Manual to implement fraud detection process. We also recommend any ACH change request should be confirmed by telephone by using the correct vendor telephone number and authorized named contact and confirmed with a different individual at the vendor other than the one requesting the ACH change.

Views of Responsible Officials: The School System agrees with the finding and recommendations set forth within. The School System plans to update and strengthen its Manual to prevent or detect fraud and further improve controls. Refer to School System's corrective action plan for further details.



Significant Deficiencies in Internal Control Over Financial Reporting

Finding 2022-002: Quality of Census Data

Criteria: The measurement of certain financial statement elements of other postemployment benefit (OPEB) plans financial statements are dependent on plan members' demographic data, which is referred to as census data. Similarly, certain financial statement elements of employers that participate in defined benefit OPEB plans (that is, net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense) are also dependent on members' census data. Organizations must have proper control over maintenance of current and accurate records and statistics for plan member's data, not to mention other compliance with employment laws and regulations.

Condition: In testing a sample of twenty-five (25) active and retired employees, we identified the following exceptions:

- We noted two (2) instances where the date of hire of the retired employees per the census data provided to actuary did not match the date of hire of those employee's personnel records.

Cause: It appears that employee records for some employees were not accurately uploaded to the database when a new personnel database was implemented in prior years.

Effect: The employee data in the census information should be accurate or it could have a material effect on the School System's financial statements and the auditor's ability to opine on said financial statements.

Recommendation: Internal controls should ensure the accuracy of all active employees and retirees census data before submission for future valuations, calculations, or analysis. We recommend adequate resources be allocated to properly evaluate all census information provided to the actuarial service provider as they facilitate the School System in calculating the related liabilities.

Views of Responsible Officials: The School System agrees with the finding and recommendations set forth within. The School System's Benefit's Department plans to update procedures to reconcile the census data to underlying personnel files for accurate reporting. Refer to School System's corrective action plan for further details.



Finding 2022-003: Timely Reporting

Criteria: The State laws under the Annotated Code of Maryland, Education Article, Section 5-109 states that each county board shall provide for an annual audit of its financial transactions and accounts and report the results within three months after the close of the fiscal year to the Maryland State Department of Education and other regulatory agencies.

Condition: We noted a significant delay in the preparation of the year-end financial statements as a result of the adoption of a new significant accounting standard, GASB No. 87 - *Leases*. As a result, there was a delay in the audit of the financial statements of the School System.

Cause: It appears that policies and procedures, including review of new GASB standards, were not implemented in a timely manner to ensure that the School System complied with the reporting State laws.

Effect: The School System is not in compliance with State law noted above and as a result the State Superintendent could withhold 10% of the next installment and each subsequent installment due to the School System from the General State School Fund until the School System files the annual audit results.

Recommendation: We recommend that the management take proactive measures to analyze changes in accounting standards and or any other regulatory requirements to ensure strict adherence to the year-end closing schedule. This will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process, without sacrificing the quality of the accounting records or minimizing existing internal controls.

Views of Responsible Officials: The School System agrees with the finding and recommendations set forth within. The School System is in the process of implementing software that will track all leases, and hire a dedicated employee to maintain the software ensuring all leases are accounted for and reviewed. Refer to School System's corrective action plan for further details.

Finding 2022-004: Information Technology Environment

Criteria: Segregation of duties is a key internal control intended to minimize the occurrence of errors or fraud by ensuring that no employee has the ability to both perpetrate and conceal errors or fraud in the normal course of their duties. This process helps the School System ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition: We noted the following with respect to segregation of duty conflicts:

- Administrative access rights to the SchoolFunds Online general ledger software are provided to non-IT personnel within the Accounting Department. As an administrator, the employees have the ability to modify the general ledger information, including recording and posting journal entries, performing reconciliations, adding, deleting, or voiding transactions. Therefore administrator access creates a lack of segregation of duties.
- During our testing of sixteen (16) journal entries samples related to Student Activities, we noted that six (6) were not supported by proper approval. The entries were sufficiently supported but there was lack of approval.

Cause: The School System’s personnel did not adhere to the School System’s documented policies and procedures on reviewing and approving transactions.

Effect: Inappropriate or excess access may result in unauthorized data changes or transactions.

Recommendation: We recommend management restrict administrator access to personnel outside of the Accounting Department. The School System may consider evaluating its user access and administration (user addition, modification, and removed controls) in order to ensure that appropriate access is granted. All journal entries should be supported by supervisory review.

Views of Responsible Officials: The School System agrees with the finding and recommendations set forth within. The School System has removed administrative access for those accounting staff which no longer perform duties within the SchoolFunds Online (SFO) software. Furthermore, additional policies and procedures will be put in place to ensure all journal entries are properly reviewed. Refer to School System’s corrective action plan for further details.



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Appendix C

Management Corrective Action Plan

Finding 2022-001: Safeguarding of Assets

Finding: The School System's Treasury Department incorrectly made payments to an unknown third-party posing as the genuine vendor company. This incident was perpetuated between May 16, 2022, through June 10, 2022. Total fraudulent payments amounting to approximately \$694,000 were made and as of the report date of which approximately \$302,000 has been recovered and returned to the School System's bank accounts.

The School System did not follow its policies and procedures as noted below:

- ACH Authorization Form that was provided to the Treasury Department did not have the required signature of an authorized Bank official or a voided check image.
- ACH Authorization Form was not properly reviewed and approved as required by the Manual before updating the payment system.
- The Manual requires that all ACH Authorization Form be physically mailed to the School System. However, ACH Authorization Form in question was electronically mailed to the Treasury Department.

Corrective Action: Treasury Department is currently updating and strengthening its Manual to prevent or detect fraud. ACH Authorization Forms (Form) must be physically mailed to the School System's Treasury Department since electronically mailed forms will not be accepted. The Form must be signed by an authorized Bank official or have an attached voided check. The Form must state an authorized individual and a current phone number as the ACH Form request will be confirmed by telephone.

Contact: J. Michael Dougherty, Director of Financial Services

Completion Date: May 1, 2023

If you have any questions, please contact J. Michael Dougherty at 301-780-6737 or by email at james.dougherty@pgcps.org.



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Appendix C

Management Corrective Action Plan

Finding 2022-002: Quality of Census Data

Finding: In testing a sample of twenty-five (25) active and retired employees, we identified the following exceptions:

- We noted two (2) instances where the date of hire of the retired employees per the census data provided to actuary did not match the date of hire of those employee's personnel records.

Corrective Action: The conflicting hire dates identified are for employees who have terminated employment and then have been rehired at a future date. For OPEB validation purposes, the original hire date is irrelevant if the employee terminated and then was rehired. In summary, the Census Data reflects the hire/rehire date for the current employment tenure and the Personnel File reflects original hire dates for employees who have been hired, terminated, and then rehired at a future date.

Contact: Nick Venturini, Director of Benefits

If you have any questions, please contact Nick Venturini at 301-952-6043 or by email at nick.venturini@pgcps.org.



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Appendix C

Management Corrective Action Plan

Finding 2022-003: Timely Reporting

Finding: We noted a significant delay in the preparation of the year-end financial statements as a result of the adoption of a new significant accounting standard, GASB No. 87 - *Leases*. As a result, there was a delay in the audit of the financial statements of the School System.

Corrective Action: The implementation of GASB 87 delayed timely reporting for many school systems across the nation, including several in the State of Maryland. We concur that the delay in implementation contributed to our ACFR being submitted late. In FY 2023, the School System is in the process of implementing software that will track all leases, and there will be a dedicated employee to maintain the software ensuring all leases are accounted for and reviewed for GASB 87 implications.

Contact: J. Michael Dougherty, Director of Financial Services

Completion Date: July 2023

If you have any questions, please contact J. Michael Dougherty at 301-780-6737 or by email at james.dougherty@pgcps.org.



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Appendix C

Management Corrective Action Plan

Finding 2022-004: Information Technology Environment

Finding: We noted the following with respect to segregation of duty conflicts:

- Administrative access rights to the SchoolFunds Online general ledger software are provided to non-IT personnel within the accounting department. As an administrator, the employees have the ability to modify the general ledger information, including recording and posting journal entries, performing reconciliations, adding, deleting, or voiding transactions. Therefore, administrator access creates a lack of segregation of duties.
- During our testing of sixteen (16) journal entries samples related to Student Activities, six (6) were not supported by proper approval. The entries were sufficiently supported but there was lack of approval.

Corrective Action: Since the initial finding in July 2022, the Accounting Office has now removed administrative access for those accounting staff which no longer perform duties within the School Funds Online (SFO) software. The applicable staff maintained SFO access for administration and support of schools. Accounting supervision will (1) contact the software vendor to determine what if any, measures can be taken regarding restriction of responsibilities for segregation of duties; and (2) will generate and review SFO audit reports quarterly for the applicable SAF staff transactions.

Currently, all SAF journal entries prepared by Accounting Office staff are submitted to schools with the instructions that the journal obtain the approval of the Bookkeeper and Principal, and a copy be retained for the school's files. Additional instruction will now be communicated to schools, that an approved copy be submitted directly back to Accounting Office, as well as continuing to retain a copy for the school's file. The Accounting Office's SAF team will create a log to verify that all approved journals are received back from the schools, to serve as Accounting's verification. The Assistant Controller with oversight for the SAF fund will review the log quarterly.

Completion Date: March 31, 2023

Contact: J. Michael Dougherty, Director of Financial Services

If you have any questions, please contact J. Michael Dougherty, at 301-780-6737 or by email at james.dougherty@pgcps.org.



Status of Prior Year Finding

Finding Number	Nature of Finding	Type of Finding in Fiscal Year 2021	Current Year Status
2021-001	Procurement Regulations	Significant Deficiency	Corrected