



January 25, 2018

**MEMORANDUM**

To: Susan Holiday, Instructional Director  
Cluster 10

Shannon Butler, Principal  
Arrowhead Elementary School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for Period July 1, 2014 to October 31, 2017

An audit of the financial records of **Arrowhead Elementary School** was completed for the period July 1, 2014 through October 31, 2017. The audit results indicate 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 within **30 days**, indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, Attention: Jerry Chandler, Business Analyst, email address: [jerry.chandler@pgcps.org](mailto:jerry.chandler@pgcps.org). A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: [deborah.smalls@pgcps.org](mailto:deborah.smalls@pgcps.org).

*This report is intended solely for information and use of the Board Chair, Chief Executive Officer, and other parties specifically stated in the transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.*

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair  
Kevin M. Maxwell, Ph.D, Chief Executive Officer  
K. Alexander Wallace, Board Member, District 7  
Carolyn Boston, Vice Chair, Board of Education  
Monique Whittington-Davis, Ed. D., Deputy Superintendent  
J. Michael Dougherty, CPA. Esq., Director, Financial Services  
John Pfister, Chief Financial Officer  
Helen Coley, Ed. D., Associate Superintendent, Area II  
Erica Wilson Berry, Esq., Executive Director, Board of Education  
Patrick Pope, Internal Auditor II

# Internal Audit Report

## Arrowhead Elementary School Student Activity Funds

For the Period Ended October 31, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Arrowhead Elementary School for the period July 1, 2014 through October 31, 2017. Arrowhead 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 Governmental Accountability Office 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,*
- *Administration of Checks,*
- *Mismanagement of Funds Received*

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

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 October 31, 2017.



Michele Winston, CPA,  
Director Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) of Arrowhead Elementary for the period July 1, 2014 through October 31, 2017. The audit was performed 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 Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures.

Detailed findings from the current audit are cited on the following pages with accompanying recommendations for corrective action.

*This report is intended solely for information and use of the Board Chair, Chief Executive Officer and other parties specifically stated in the accompanying transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.*

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 review of selected bank statements, financial reports, cancelled checks and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2014 through October 31, 2017. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

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**FINDINGS AND RECOMMENDATIONS**

The audit resulted in the following findings and recommendations:

**2018.01: Mismanagement of Disbursements**

The audit revealed the following exceptions pertaining to the management of disbursements:

- A. ***Incomplete or Inaccurate Documentation*** - There were **12** instances where the dollar amount in the "Funds Available" field on School Funds Expenditure Forms (SFEF) was not properly completed. This information was excluded in these cases. ***This exception was also noted in the previous audit dated December 31, 2011.***
  
- B. ***Inadequate Principal Approval*** - There were **3** instances where SFEFs were not adequately approved by the principal. Items were purchased without authorization from the principal in these instances. ***This exception was also noted in the previous audit dated***
  
- C. ***Delinquent Payments*** – There were **4** instances where payments were not remitted to vendors in a timely manner. The invoice due date preceded the payment date.

The APM provides the following guidelines relative to the administration of cash disbursements:

- A. The bookkeeper is required to determine if funds are available to pay for requested expenditure, initial, date and record the amount available on the SFEF.
  
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal.
  
- C. All vendor invoices should be paid within 30 days or by the due date.

Some of the contributory factors for mismanagement of disbursements are:

- A. Certain accounts did not have funds available at the time, and funds were subsequently transferred from another unrestricted fund account and a journal entry was required. Therefore it was assumed that it was not necessary to indicate an amount of funds available.
  
- B. Some staff members made purchases on behalf of the school prior to obtaining approval from the principal.

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- C. Chartered bus vendors did not deposit the school's check payments timely. Therefore, a verbal agreement was made between these vendors and the principal for payments to be issued on day of the fieldtrips.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Specifically, schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete the SFEF and obtain pre-approval from the principal. Inadequate documentation reduces assurance that purchases were made in accordance with BOE policy and procedures. Delinquent payments can result in improper use of SAF to cover late fees and impact the school's relationship with vendors.

**Recommendation:** The principal and bookkeeper must perform the following to improve the administration of disbursements:

- A. Financial recordkeeping staff should be held accountable for entering the appropriate amount from SFO in the funds available field on the SFEF. This information should be reviewed by the principal to ensure funds are available prior to approving purchases. In instances where transfers are expected to cover the requested expenditure, the bookkeeper may indicate the amount of unrestricted funds in the funds available field. The principal should sign and date every SFEF after review to evidence that appropriate documentation has been made available.
- B. The principal should improve current controls, to include staff training, to ensure written pre-approval precedes purchases.
- C. Financial recordkeeping staff should ensure that invoices are processed in a timely manner or on the due date stated on the invoice in accordance with the APM. The principal should encourage chartered bus companies to deposit checks promptly. The principal may also consider consulting with Purchasing and Supply Services to identify an approved chartered bus vendor that is willing to comply.

**2018.02 Administration of Checks**

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

- A. There were 9 instances where voided checks were not substantiated by signed SFEFs as evidenced by the principal's approval of the voided transactions.
- B. There were 7 voided checks that could not be located for review.

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C. There were 6 instances where voided checks were not entered into the accounting system as required by the APM.

The APM provides the following guidance regarding the administration of checks:

When voiding a check, the physical check must still be accounted for. The word "VOID" is required to be written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer. A SFEF or a Void Check Proof Sheet (VCPS) should also be completed and approved by the principal, noting the check was voided. Voided checks are also required to be retained in check sequence in the cash disbursement folder.

The bookkeeper failed to ensure that voided checks were administered in compliance with BOE policies and procedures. The bookkeeper did not prepare the VCPS and attach the voided check which may explain why some of the checks could not be located, entered into the accounting system or approved by the principal.

The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. Failure to approve and account for voided checks increases the risk of check fraud.

**Recommendation:** Financial recordkeeping staff must be held accountable for administering checks as required by the APM. All voided checks should be attached to an approved SFEF or VCPS. Also, voided checks and supporting documentation must be properly filed and retained for future review.

### **2018.03 Mismanagement of Funds Received**

The following exceptions pertaining to the mismanagement of funds received were as follows:

- A. ***Incomplete Documentation*** - There were 7 instances where the incomplete MTFs were accepted. Certain fields in section 1 (monetary description and posting fund accounts) were not always completed.
- B. ***Incomplete MTF Log*** - The MTF log maintained during the audit period was incomplete. The MTF log did not detail the date the MTF was returned to the bookkeeper or total amounts of MTFs.

The APM provides the following guidelines for administering collections:



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- A. The MTF must be entirely completed with the following information. 1) who collected the money; 2) when it was collected; 3) from whom it was collected; 4) the amount and form of collection; 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.
- B. A MTF log is required to be maintained by the bookkeeper to include a numerical list of MTFs, the name of the individuals and dates the forms were issued, the date returned to the bookkeeper, and the total amount of the MTF.

Financial recordkeeping staff was not aware of the current format of the MTF log which should include the total amount. There was no explanation provided for acceptance of incomplete MTFs.

The audit trail for reviewing and validating cash receipts is compromised when relative information is not adequately documented. As a result, internal controls that govern the SAF collection process are weakened and the potential for loss of assets increases.

**Recommendation:** The principal should implement internal controls to ensure that MTFs that are not entirely completed are returned to staff for adherence to the requirements for documentation of MTFs as outlined in the APM. Staff should be trained on the process for appropriately completing MTFs. Also, a column for total amounts should be added to the MTF log and a review to ensure that all fields in the MTF log are properly completed should be regularly performed.

### **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Arrowhead Elementary School was issued for the period ended December 31, 2011. During that period, neither the bookkeeper nor principal was in their current positions. The current principal's tenure began in July 2017. There were 9 findings reported in the previous audit and 1 is repeated in this report. The following findings were noted as a result of that audit and the current status is indicated below:

- **Shortage of Funds Deposited for Scholastic Book Fair** – Controls appear to be working.
- **Mismanagement of Funds Received** – Controls appear to be working. The exceptions in the administration of funds received in this audit are different from those reported in the previous audit.
- **Sales Tax not Collected for all Items Sold** – Controls appear to be working.
- **Payment for Services Rendered using Student Activity Funds** – Controls appear to be working.

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- **Mismanagement of Disbursements** – Condition still exists. See **2018.01** regarding *Mismanagement of Disbursements*.
- **Transactions Posted to Incorrect Accounts** – Controls appear to be working.
- **Gift Cards** – Controls appear to be working.
- **Checks Issued with one Signature** - Controls appear to be working.
- **Management Oversight** - Controls appear to be working.

**ACKNOWLEDGEMENT**

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