



June 21, 2018

MEMORANDUM

To: Carletta Marrow, Instructional Director
Cluster 13

Jacqueline Marshall-Hall, Principal
G. James Gholson Middle School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for the Period August 1, 2014 through December 31, 2017

An audit of the financial records of **G. James Gholson Middle School** was completed for the period August 1, 2014 through December 31, 2017. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Fund (APM) and Board of Education policies and procedures. The exceptions noted are included in the attached report.

As 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. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org.

Enclosure

cc. Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Carolyn Boston, Vice Chair, Board of Education
Monique Whittington Davis, Ed. D., Deputy Superintendent
Erica Berry Wilson, Esq., Executive Director, Board of Education
Members, Board of Education
Melissa McGuire, Ed. D., Associate Superintendent, Area III
J. Michael Dougherty, Director, Financial Services
Theodore Dzodzomenyo, Internal Auditor II

Internal Audit Report

G. James Gholson Middle School
Student Activity Funds

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of G. James Gholson Middle School for the period August 1, 2014 through December 31, 2017. G. James Gholson Middle School 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.

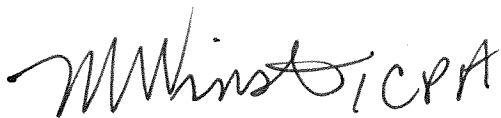
We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following:

- *Mismanagement of Funds Received*
- *Financial Reporting*
- *Mismanagement of Disbursements*
- *Excessive Spending in Principal Sponsored Activities Fund Account and School Insolvency*
- *Financial Documents not Retained*
- *Unapproved Fund Transfers*
- *Athletics Allotment Not Distributed*
- *Improvement Needed in Management Oversight*

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 (APM) for School Activity Funds.

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 December 31, 2017.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit on the student activity funds for G. James Gholson Middle School for the period August 1, 2014 through December 31, 2017. The audit was conducted as part of the audit plan for the year.

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 Accounting Procedures Manual for School Activity Funds and the Board of Education (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, all available cancelled checks, voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period August 1, 2014 through December 31, 2017. Also, available receipts, disbursements and supporting documentation were reviewed for the said period. (See 2018.05, *Financial Documents not Retained*)

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01: Mismanagement of Funds Received

The following exceptions pertaining to the management of funds received were identified:

- A. ***Monetary Transmittal Form Log not Maintained:*** The recordkeeping staff did not maintain a Monetary Transmittal Form (MTF) Log to document staff members' sign-out and return of MTFs. *(This exception was noted in previous audit)*
- B. ***Inadequate Documentation:*** There were **8** instances during the audit period where the documentation to substantiate deposits were inadequate. The deposits lacked validated deposit tickets, class list, completed MTFs, account classification and ticket report in those instances. *(This exception was noted in previous audit)*
- C. ***Bookkeeping Errors:*** There were **4** instances where bookkeeping errors were made. The errors included the bookkeeper being the originator of the funds collection process, an incorrect MTF number was used to record a deposit transaction, a duplicated MTF was used and funds were posted to an incorrect fund account.
- D. ***Delinquent Deposits:*** There were **11** instances during the audit period where deposits were not made timely to conform to BOE policies. The deposits were made **4** days after receipt in the noted instances. *(This exception was noted in previous audit)*

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* includes the following provisions:

- A. A MTF log is required to be maintained by the bookkeeper to include a numerical list of the MTF's, the name of individuals and dates the forms were issued, the date returned to the Bookkeeper, and the total amount of the MTF.
- B. Staff members collecting funds are required to complete a MTF and submit it to the bookkeeper along with money collected. The MTF must be completely filled out with 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. Also, SAM Procedure 4.2.2 requires that, schools

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must use duplicate-style or SFO deposit slips/forms, printed in duplicate. The original and duplicate must accompany the money to the bank and must be validated. The duplicate copy must be retained at the school and attached to the deposit support.

- C. The APM requires accurate recording and reporting of school financial transactions. Each MTF has a unique numerical number which identifies that form and the deposits that is made.
- D. Student activity funds received are required to be deposited at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight

During the audit, the former recordkeeping staff was no longer employed by the BOE and Internal Audit was unable to determine the reason(s) for not following BOE policies and procedures.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The risk of loss and fraud is increased with the absence of a MTF Log, incomplete documentation of funds received and untimely deposits. Inaccurate data can result in unreliable financial information, and compromises the audit trail.

Recommendations: The principal should provide adequate oversight to ensure that, procedures in the APM and instructions listed on the MTF are followed when administering funds received. Adequate training should be provided when a new recordkeeping staff is hired to appropriately process the collection of funds and to adequately documents of record.

2018.02: Financial Reporting

The following exceptions pertaining to financial reporting of funds received were identified:

- A. ***Delinquent Financial Report Preparation:*** During the review of the internal controls over the financial reporting process and the school's compliance with the reporting requirements for the audit period, there were **15** instances where monthly financial reports were not completed timely.
- B. ***Bank Statement Review:*** The principal did not review original bank statements as required by the APM.

The following are criteria pertaining to financial reporting:

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- A. The APM Section 5.2, *Financial Reporting Requirements*, requires the principal to receive monthly financial reporting packages by the 15th of the subsequent month. The principal should sign and date the checklist of the reports package which includes:
- Original Bank Statement(s),
 - SFO Bank Reconciliation Report,
 - Available Funds Report,
 - Year to Date Report,
 - Journal Entry Register, and
 - Insolvent Report.
- B. The principal is responsible for receiving the bank statements unopened. After reviewing the statement and cancelled checks, the principal is required to forward the documents to the recordkeeping staff for preparation of the bank reconciliation.

The following were the causes for non-compliance with untimely financial reporting:

- A. At the time of the audit, the former recordkeeping staff was no longer employed by the BOE, so Internal Audit was unable to determine the reason(s) for not preparing financial reports.
- B. The principal explained that, the bank statements were always reviewed but her initials were not appended. Competing responsibilities impacted the principal's demand for timely financial reports submission.

The following were the effects of non-compliance with financial reporting requirements:

- A. Delinquent reporting impacts the timeliness of information used in the decision-making process. The principal's ability to promptly verify the school's solvency status may also be impacted.
- B. Failure to indicate review of the bank statement by initialing does not conform to BOE policies.

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Recommendations: The following recommendations are made pertaining to non-compliance with financial reporting guidelines.

- A. The principal should establish financial reporting controls to support timely report submission and ensure that, the monthly financial reports are prepared by the 15th of the month following and review as evidenced by a signature.
- B. The principal should receive the bank statement unopened and review the deposits and checks that cleared the bank that month. The bank statement should be initialed to indicate this review.

2018.03: Mismanagement of Disbursements

The following exceptions pertaining to the management of funds disbursed were identified:

- A. ***Inadequate Documentation of Disbursements*** - There were **3** instances where the documentation to support disbursements were not adequate. The documentation did not include itemized receipt, invoice and a receipt for a purchase.
- B. ***Voided checks*** – There were **4** instances where voided check proof sheets were not available for review. There were additional **2** instances where the signature section on checks was not removed.

The APM Section 4.5.3, “*Cash Disbursements*” provides the following guidelines regarding the disbursement of funds:

- A. All checks are required to have itemized documentation attached to the SFEEF that supports the amount of the check. Examples of supporting documentation are cash register receipts, invoices, bills of sale, etc.
- B. The physical check must be accounted for when an error is made at the time of preparation or when a check is damaged. 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 be voided in the computer. A SFEEF or Void Check Proof Sheet should also be completed for the principal’s approval.

During the time of the audit, the former recordkeeping staff was no longer employed by the BOE, and Internal Audit was unable to determine the reason(s) for not following BOE policies and procedures relative to cash disbursements.

Internal controls were not operating effectively to ensure that all required documentation was provided prior to processing disbursements. The ineffective process for voiding

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checks constitutes non-compliance with BOE policies and procedures and increases the risk of check fraud.

Recommendation: The following is recommended to ensure disbursements are administered in accordance with requirements of the APM:

- A. All staff members must be reminded that, all expenditures require supporting documentation such as cash register receipts, invoices, bills of sale, etc. Also, the principal should implement internal controls to ensure that, all disbursements are accompanied by the required documentation prior to signing the check.
- B. The principal should implement internal controls to ensure proper administration of voided checks process by ensuring that the proof sheets are provided for approval.

2018.04: Excessive Spending in Principal Sponsored Activities Fund Account and School Insolvency

The Principal Sponsored Activities (PSA) Fund Account had a deficit of **(\$1,338.70)** as of December 31, 2017. The PSA fund deficit was incurred during the audit period. The school's SAF was insolvent by (\$49.65) as of December 31, 2017

According to the APM, expenditures for authorized principal-sponsored activities are restricted to:

- 1. One hundred percent (100%) of vending commission from machines located in the staff lounge;
- 2. Twenty-five percent (25%) of vending commissions from student-accessed machines up to the first \$50,000 and then 10% of any amount exceeding \$50,000. These percentages do not apply to sponsorships or signing bonuses that vending companies may offer;
- 3. Fifteen percent (15%) of school-wide fundraiser profits, including picture commissions;
- 4. Up to twenty-five (25%) percent of senior class residual funds.

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 the Student Activity Funds (SAF), the principal should ensure all accounts are solvent at all times.

The school administration incurred staff related expenses without regard to the availability of funds in the account. The principal did not provide adequate oversight by

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ensuring that, funds were available in the PSA fund accounts prior to the expenditures being made.

The students do not receive maximum benefit from funds that should be available to them. The principal is unable to purchase incentives for current staff members due to unavailable funds for this purpose. .

Recommendations: The school should discontinue spending on principal-sponsored activities until the deficit is resolved. The principal should exercise care when approvals are requested and ensure that, resources are available in restricted accounts prior to approval of disbursements. Spending in these accounts must cease until the account's deficit is reduced to zero. The principal should consult with the Director, Financial Services regarding regaining financial solvency.

2018.05: Financial Documents Not Retained

The End of Year MTF envelopes for the audit period were not provided for audit review. Also, **23** voided checks, **12** cancelled checks and supporting documentation to substantiate **4** cash disbursements could not be located for review.

According to Section 6.12 of APM, *Document Retention*, all SAF records must be retained for a period of seven (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 former recordkeeping staff did not maintain complete financial records. Binders were not maintained for receipts and disbursements. Required forms such as MTFs were often not completed. The principal did not provide adequate oversight by periodically reviewing the financial documents to ensure that the records were available.

The school's records were not complete and several documents needed to conduct the audit were not available. Failure to retain financial records increases the risk of fraud and negates the audit trail required for verification of compliance with required policies and procedures.

Recommendation: The principal should exercise oversight responsibility by reviewing the financial documents periodically to ensure that the recordkeeping staff maintains the financial records in an organized manner. These documents must be retained and made available for audit review when requested.

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2018.06: Unapproved Fund Transfers

There were 9 instances of transfer journal entries that were made without authorization:

- There were 3 instances totaling \$200.40 where the former recordkeeping staff recorded transfer between fund accounts without the principal's approval.
- There were 6 separate instances where transfers totaling \$1,036.27 were made from the Prior Year (PY) Carryover account to offset expenses without seeking approval from the Accounting and Financial Reporting office.

The APM, Section 4.5.4, *Transfer of Funds* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal. For example, if senior class officers wish to designate a portion of their class funds to another club or class in the school, a statement to that effect must be signed by the officers, reviewed by the faculty sponsor and forwarded to the principal for approval. Also, Section 4.5.5, *Prior-Year Carryover* states that the principal may request the use of Prior-Year (PY) Carryover to purchase instructional materials, computers, maintenance needs, or other items for the school from Business Operations.

At the time of the audit, the former recordkeeping staff was no longer employed by the BOE, so Internal Audit was unable to determine the reason(s) for not following BOE policies and procedures.

Failure to obtain approval for transfers constitutes non-compliance with BOE policies and procedures. Inter-Fund transfers can lead to overall insolvency for the school and obscure insolvency of specific accounts. The lack of documented approval compromises the audit trail.

Recommendations: The principal should ensure that, the fund transfer process follows the BOE policies and procedures. Allowable transfers should be completed with appropriate documentation. Additionally, procedures should be established that require the recordkeeping staff to print the transfer proof sheets and obtain signatory approval from the principal prior to making transfer between restricted accounts. The principal should also obtain approval from the Accounting and Financial Reporting office prior to expending PY Carryover funds.

2018.07: Athletics Allotment Not Distributed

The athletic allotment for FY 2018 was not distributed among the various sports as required by APM.

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According to Section 7.4.1 of APM, *Athletic Allotment*, "Athletic allotments are made by the Interscholastic Athletics Office and electronically transferred to the School checking account by the Accounts Payable Office. This allotment is intended to support sports approved by the BOE and should be allocated in an equitable manner. Upon receiving the allotment, it should be posted to the main Athletic Allotment Account and transferred into each specific sports allotment account. The school athletic director recommends to the Principal an allocation of the allotment for each sport."

The athletic director submitted the intended distribution to the former recordkeeping staff but the journal entry was never completed.

When the school's financial records do not accurately reflect expenditures, it is difficult to calculate the school's solvency. There is the potential for perceived inequity when resources are not distributed to all athletic sports.

Recommendation: The athletic director should follow up when new recordkeeping staff is hired to ensure that, the athletic allotment is distributed early in the school year.

2018.08: Improvement Needed in Management Oversight

The principal did not exercise adequate oversight in the administration of SAF during the current audit period. The previous audit included 7 findings of which 5 are repeated in this audit report.

The APM, Section 3.2.1, *Principals*, states that the principal is the fiduciary agent for SAF. As such, responsibility for accounting, safeguarding and managing the SAF, in accordance with PGCPs policies and procedures, rest solely with the principal.

The principal has not provided adequate attention to the school's checking account to establish and implement effective financial controls. Specifically, the principal and bookkeeper have not consistently adhered to the requirements for cash management as outlined in the APM. Substantial financial risks currently exist in the absence of effective management oversight.

Recommendation: The principal should carefully review the policies and procedures as defined in the APM and develop internal controls to ensure compliance. She should be consistently involved in the daily operations as it relates 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;

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- Maintenance of Adequate Documents and Records;
- Limited Access to Assets; and
- Independent Checks on Performance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for G. James Gholson Middle School was issued for the period ended July 31, 2014. During that period, the principal was in her current position. The current audit report includes **5** repeat findings. The following findings were noted as a result of the previous audit and the current status is indicated below.

- **Untimely deposits** - Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Inadequate approval of disbursements** - Condition was not noted during this audit
- **Incomplete and Improper Documentation of Funds Received and Disbursements** - Condition still exists. See **Findings 2018.01 and 2018.03** regarding *Mismanagement of Funds Received and Mismanagement of Disbursements*.
- **Out-of-County Field Trips Not Approved** - Condition was not noted during this audit.
- **Fundraiser forms not completed-** Condition was not noted during this audit.
- **Failure to maintain MTF Logs-** Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Year-End- Monetary Transmittal Forms** - Condition still exists. See **Finding 2018.05** regarding *Financial Documents not Retained*.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of G. James Gholson Middle School for their cooperation and assistance extended during the audit.