



December 12, 2017

MEMORANDUM

To: Jeffrey Holmes, Ed. D., Instructional Director
Cluster 6

Adriel Wheeler, Acting Principal
Gwynn Park High School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for July 1, 2014 through September 30, 2017

An audit of the financial records of Gwynn Park High School was conducted for the period July 1, 2014 through September 30, 2017. The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures for School Activity Funds (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit 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. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: 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 this transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

Enc.

cc: Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Carolyn Boston, Board Vice Chair, Board of Education
Sonya Williams, Board Member, District 9
Monique Whittington-Davis, Ed. D, Deputy Superintendent
J. Michael Dougherty, Director, Financial Services
Denise Greene, Associate Superintendent, Area I
Erica Berry Wilson, Esq., Executive Director, Board of Education
Derrick Martin, Internal Auditor II

Internal Audit Report

Gwynn Park High School Student Activity Funds

For the Period Ended September 30, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Gwynn Park High School for the period July 1, 2014 to September 30, 2017. Gwynn Park'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:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Administration of Voided Checks*
- *Administration of Vending Machine Contract*
- *Fundraiser Forms*
- *Records Retention*

Individually or in the aggregate, these findings resulted in 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 SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended September 30, 2017.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Gwynn Park High School for the period July 1, 2014 to September 30, 2017. The audit was performed as part of the annual audit plan.

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 Accounting Procedures Manual for School Activity Funds (APM) 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 selected bank statements, financial reports, available cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2014 to September 30, 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 Funds Received

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

- A. *Delinquent deposits* – There were **10** instances where deposits were not made in accordance with BOE requirements for timely deposit of funds. Deposits were between **6** and **14** days late.
- B. *Untimely Recording of Deposits* - There were **53** instances where the date on the deposit slip did not match the date in the system. Collections were recorded in the accounting system up to **11** days after deposits with the financial institution.
- C. *Inaccurate Recording of Funds* – There were **8** instances where transactions on MTFs were not accurately recorded in the accounting system. The allocated amount of sales tax in SFO differed from what was indicated on MTFs.

The APM provides the following guidelines regarding administration of funds received:

- A. All funds collected are required to be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely deposit of these funds, at least every other day.
- B. The responsibility for ensuring that financial transactions are prepared and reported timely rests with the bookkeeper.
- C. The bookkeeper is responsible for the accuracy of SAF transactions recorded and reported via the accounting system.

The bookkeeper stated that when recording deposits in the accounting system she was unaware that the recording date should match the date on the deposit slip. In terms of inaccurate recording of funds, the bookkeeper felt it was easier to make changes in the system rather than go to the originator.

The bookkeeper and school staff did not follow BOE policies and procedures relative to collection of funds as established in the APM. The process for accounting for cash receipts was compromised. Delinquent deposits impacts the timeliness of financial information provided to school administrators for decision making.

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Recommendation: The bookkeeper must be held accountable for ensuring that MTFs are accurate and complete prior to acceptance and that posting in the accounting system is reflective of details recorded on MTFs. The principal and bookkeeper should implement internal controls to ensure deposits are made timely and transactions are promptly and accurately recorded.

2018.02: Mismanagement of Disbursements

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

- A. ***Improper Approval*** - There were **33** instances where expenditures were not properly pre-approved. The principal documented approval of expenditures after purchases were made.
- B. ***Delinquent Payments*** – There were **4** instances where payments of invoices were delinquent. The delinquency ranged from **90** to **120** days.

The APM provides the following guidelines regarding administration of disbursements:

- A. The school's disbursement guidelines require the principal to provide approval on the School Funds Expenditure Form (SFEF) prior to staff ordering or purchasing goods or services.
- B. The principal is required to review invoices and statements for past due amounts and ensure payments are made within 30 days of the invoice date, or by the due date on the invoice

The bookkeeper stated that she was unaware of the pre-approval requirement. Also, the staff members failed to submit outstanding invoices in a timely manner. Post-dated approval of purchases could result in payments for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. In addition, it puts the school at risk for insolvency as well as potentially threatens relationships with vendors.

Recommendation: The principal and bookkeeper should enforce internal controls to ensure SFEFs are complete and approved prior to purchasing. Staff should be made aware that all expenditures requiring reimbursement should be approved by the principal. Lastly, the bookkeeper and principal should require staff to promptly provide invoices to the bookkeeper for payment to help ensure payment within 30 days or according to the pay terms.

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2018.03 Administration of Voided Checks

There were **38** instances where the principal did not provide signatory approval of voided checks.

The 2008 School Accounting Manual Section 4.5.3.2.4, *Voiding Checks*, the completion and approval of a SFEF or Void Check Proof Sheet (VCPS) when a check is voided.

The bookkeeper's failure to obtain the principal's approval on the SFEF or VCPS was an oversight. Inappropriate administration of checks exposes the school to fraud, waste and abuse of its resources.

Recommendation: The bookkeeper must be reminded of the importance of administering checks as required by the APM. All voided checks must be approved by the principal as evidenced on the SFEF or VCPS.

2018.04 Administration of Vending Machines

There are **2** faculty and **6** student vending machines located throughout the school. However, the vending contract does not have an effective date or an end date as required by the APM.

According to APM, Section 9.8, *Vending Machine Sales*, "All schools with vending machines must have a signed contract stipulating commissions due the school and frequency these commissions are remitted. The contract term cannot exceed one year."

The principal and bookkeeper have not implemented internal controls to ensure compliance with the APM regarding administration of vending machine contracts. The principal thought that the vending contract was adequate despite the absence of an effective date or an end date. Vending machine contracts without the required terms constitute noncompliance with BOE policies and procedures. This compromises the principal's ability to enforce the agreement.

Recommendation: The principal must obtain a contract for vending for all vending machines on the school premises. The contract must include all of the required terms as stated in the APM. The principal should consult with Purchasing and Supply Services regarding obtaining an approved vendor who is compliant with BOE policies and procedures.

2018.05 Fundraiser Forms

Fundraiser Completion Forms and annual reports summarizing fundraising events were not prepared during the audit period.

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Administrative Procedure 5135.1, *Fundraising*, requires clubs and organizations to complete Fundraiser Request and Authorization Forms and Fundraiser Completion Reports for fundraising events held. Annual reports summarizing events for the school year are also required. These documents must be maintained on file for public and auditor review upon request. Additionally, the principal is responsible for approval of all fundraisers.

BOE policies and procedures as established in the APM were not followed. The bookkeeper was aware of the administrative procedure but used incorrect forms.

Recommendation: The principal and bookkeeper establish procedures to ensure adherence to the requirement for completion of fundraising reports. Staff should be trained on these procedures and held accountable for compliance. Also, at the end of the school year, the bookkeeper should generate a SFO report of all fundraising activities for the principal to complete or designate completion of a summary report of all fundraising events for the school year. An adequate filing system must be implemented to facilitate retrieval of those forms and reports upon request of public or Auditor review.

2018.06 Record Retention

There were **309** end-of-year MTF remittances from FY 2016 and **12** transfer journal entries (7- FY 2016, **3** – FY 2017 and **2** – FY 2018) could not be located for review.

The APM Section 6.12 on Record Retention states “All SAF records must 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.”

According to the principal’s secretary, the end-of-year MTF envelopes that housed the MTFs were misplaced. The bookkeeper also misplaced some of the *journal entries*. Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with requirements for MTF submission.

Recommendation: The principal should oversee the process for ensuring school records are properly secured during the year-end checkout process. The bookkeeper should familiarize herself with the record keeping requirements for the transfer of funds. Staff should be held accountable for compliance. The principal must ensure that financial records are retained for the stipulated period of 7 years and maintained in an organized manner.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Gwynn Park High School was issued for the period ended February 29, 2012. During that period, the principal was in her current role; however, the bookkeeper was not in her current position. The previous audit report included **14** reportable conditions, of which **5** were repeated in the current audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Missing Funds** – Controls appear to be working. As of the report date, \$900.00 of the \$16,902.83 in missing funds was repaid to the BOE.
- **Delinquent Deposits** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Failure to Accurately Complete and/or Retain Monetary Transmittal Forms (MTF)** – Condition still exists. See **Finding 2018.06** regarding *Record Retention*.
- **Delinquent Payment of Invoices** – Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Disbursements*.
- **Principal Sponsored Activity Account Deficit** – Controls appear to be working.
- **Incomplete or Inadequate Supporting Documentation for Disbursements and Advance Checks** – Controls appear to be working.
- **Failure to Pay Services Rendered through the BOE Oracle System** – Controls appear to be working.
- **Transactions Incorrectly Posted** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Failure to Ensure Vendors were Added to the Oracle Financial System** – Controls appear to be working.
- **Sales Tax not collected and/or remitted to the State of Maryland** – Controls appear to be working.
- **Failure to Use the Tax exempt Certificate and Reimbursement for Sales Tax** – Controls appear to be working.
- **Not all Voided Checks were entered into the QuickBooks Financial System and/or Properly Voided** – Controls appear to be working.

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- **Property Purchases not Properly Recorded and Failure to Complete Fundraiser Completion Reports and Annual Fundraising Summary Report** – Controls appear to be partially implemented. See **Finding 2018.05** regarding *Fundraiser Forms*.
- **Management oversight** – Controls appear to be working

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Gwynn Park High School for their cooperation and assistance during the audit.