



May 9, 2018

MEMORANDUM

To: Edward Ryans, Ed. D., Instructional Director
Cluster 15

April Lee, Principal
Hollywood Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of February 28, 2018

An audit of the financial records **Hollywood Elementary School** was completed for the period July 1, 2014 through February 28, 2018. 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 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 signed and dated 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 and Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended to be and should not be used by anyone other than the specified parties.

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

Internal Audit Report

Hollywood Elementary School Student Activity Funds

For the Period Ended February 28, 2018

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Student Activity Funds
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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Hollywood Elementary School for the period July 1, 2014 to February 28, 2018. Hollywood 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 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 Funds Received,*
- *Mismanagement of Disbursements,*
- *Depository Safe Not on School Premises,*
- *Transactions Not Properly Recorded,*
- *Principal Sponsored Activity (PSA) Fund Account Deficit,*
- *Unauthorized Transfer of Funds,*
- *Administration of Voided Checks,*
- *Year-End Monetary Transmittal Form Envelope Process, and*
- *Fundraiser Reports Not Completed.*

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 for the School Activity Funds (APM).

In our opinion, considering the significant 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 February 28, 2018.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Hollywood Elementary School for the period July 1, 2014 to February 28, 2018. The audit was conducted 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period July 1, 2014 to February 28, 2018. Also, available 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

There were at least 6 instances of non-compliance regarding the management of funds received. The following indicates the issues of non-compliance:

- A. Delinquent Deposits:* There were at least 5 instances where funds were not remitted timely. Funds were held between 5 and 31 days prior to remittance to the bookkeeper. *This finding was noted during the previous audit period ended June 2014.*

- B. Funds Collected for Agenda Books and Purchased Using Student Based Budgeted (SBB):* The school purchased agenda books in FY 2017 and FY 2018 for the students using SBB funds but assessed a fee per student for each book. The funds collected were posted to the Unrestricted Agenda Book account.

The following criteria are established by the BOE:

- A.** The APM section 4.5.2.2 (1), (2) *Collecting Funds* require **all** funds collected to be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely deposits with the financial institution. Deposits are recommended at least every other day when funds under \$250.00 are collected. Funds collected in excess of \$250.00 are required to be deposited on the day of collection.

- B.** The APM section 4.3 *Fund Accounts* states that funds collected for a specific purpose should be used for that purpose. SBB funding is allocated to schools based on enrollment and the specific needs of students.

The following explanations were provided for non-compliance regarding management of receipts:

- A.** The staff retained funds until most, if not all, were collected and then remitted them to the bookkeeper.

- B.** The school collected the funds, but did not use them as intended. The recordkeeping staff was not aware that students should not have been charged when SBB funds were used purchase those agenda books. Reportedly, the recordkeeping staff was also not aware that the agenda books had been purchased

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using SOR since previous years' agenda books were purchased from the school's checking account.

Mismanagement of funds received constitutes noncompliance with BOE policies and procedures and increases financial risk to the school and to staff members. Specifically, internal controls are compromised when funds are retained in the school for several days. Delinquent deposits violate the school's compliance with APM requirements. As a result, internal controls for ensuring all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased. Also, charging students for items that are covered with SOR funds results in duplicate revenue.

Recommendation: The principal must ensure that internal controls are implemented, including periodic review of financial records, to ensure that all funds received are remitted and deposited timely.

The principal and bookkeeper should plan the purchase and funding of future agenda books to ensure the source and use of funds are matched. When it is determined that the students will purchase the agenda books, then the funds collected should be posted to the *Restricted Agenda Books* account and a disbursement from that same account for the purchase should be evident.

2018.02 Mismanagement of Disbursements

There were at least **9** instances of non-compliance regarding the administration of disbursements. The following indicates the instances of non-compliance:

- A. ***Segregation of Duties:*** There were at least **3** instances in FY 2018 where the principal signed reimbursement checks totaling \$146.85 that were payable to her.
- B. ***Delinquent Payment of Invoices and Reimbursements:*** There were at least **5** instances where either invoices or reimbursements were not paid timely. The delinquency ranged from approximately **55 to 80** days. ***This finding was noted during the previous audit period ended June 2014.***

The following guidance is established in the APM relative to administration of disbursements:

- A. Section 4.5.3.1 (1) *Cash Disbursements Pre-Approval by the Principal* dictates that Checks signers, in instances where reimbursement(s) is necessary, should not sign their own reimbursement check. This responsibility lies with the two (2) alternate signers.

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- B. Section 4.5.3.1 (2) *Cash Disbursement Inclusion of Supporting Documentation* requires that invoices and/or reimbursements are paid within 30 days of receipt and have appropriate documentation.

Non-compliance regarding management of disbursements occurred as a result of the following:

- A. There were only 2 check signers on the school's checking account at the time reimbursements were processed, the principal and the recordkeeping staff.
- B. The recordkeeping staff did not process vendor payments prior to the end of the contract term. The principal performed recordkeeping duties while the recordkeeping staff was on bereavement leave, which resulted in unpaid vendor invoices.

Internal controls are compromised and financial records are distorted when inadequate segregation of duties occurs. Untimely vendor payments also results in unreliable financial records, late charges and eroding of relationships with vendors.

Recommendation: The following recommendations are suggested for disbursements to be adequately managed:

- A. The principal should establish procedures to ensure that all disbursements are made in accordance with the APM.
- B. The recordkeeping staff should ensure that all invoices, including reimbursement requests, are processed timely. Staff should be reminded that invoices and reimbursement requests are required to be submitted timely for payment.

2018.03 Depository Safe Not on School Premises

The school did not have a depository (drop) safe to securely store funds remitted by staff members after normal business hours or in the recordkeeping staff's absence.

The APM section 4.5.2.2 (3) *Cash Receipts Guidelines for Bank Deposits* requires schools to ensure that funds are stored in a locked fireproof drop safe, which is only accessible to the principal and bookkeeper. Drop safes are required for every school. The safe should be bolted to the floor and placed in a location accessible to the staff.

Neither the principal nor recordkeeping staff was aware that the school is required to have a drop safe to securely store funds and allow staff members the opportunity to remit funds when the bookkeeper is not available.

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Staff members are denied access to securely remit funds when the recordkeeping staff is not available and there is non-compliance with the APM. Also, not having a drop safe can result in unauthorized access to SAF, lost or stolen funds.

Recommendation: The principal should ensure that a drop safe is purchased and installed in a location that is accessible to staff. A safe log should be established to document when individuals place funds in the drop safe. The principal should complete periodic reviews of the safe and safe log to ensure compliance.

2018.04 Transactions Not Properly Recorded

There were at least 9 instances where receipts and disbursements were incorrectly posted to various fund accounts.

- The school received a \$500.00 Exxon Grant for Math and Science. The funds were posted to the *Unrestricted Science* fund account.
- Faculty vending receipts were posted to the *Administrative Allotment* account.
- Expenditures for Principal Sponsored Activity (PSA) fund account - food and staff appreciation were posted to *Unrestricted Special Events, Fundraisers, and Administrative Allotment* fund accounts.

The APM section 3.2.2 *Ownership, Bookkeepers/Financial Secretaries* states that the bookkeeper or financial secretary requires accurate recording and reporting of the school's financial transactions by the bookkeeper. Also, the APM section 4.3.2 *Fund Account Procedures* states that transactions should be recorded in the most specific account relating to the activity.

The recordkeeping staff was unaware that the receipts of the Exxon Grant should have been restricted. Also, the recordkeeping staff was not familiar with the purpose of the PSA account.

Financial records are distorted when receipts and disbursements are not posted accurately. Misclassified transactions impact the accuracy of the financial records and the principal's ability to make informed decisions. *This finding was noted during the previous audit period ended June 2014.*

Recommendation: Due care should be exercised when recording transactions to ensure correct posting and accurate financial reporting. The principal should complete periodic reviews of receipts and disbursements to ensure transactions are posted accurately. The recordkeeping staff must be held accountable for accurately recording financial transactions.

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2018.05 Principal Sponsored Activity (PSA) Fund Account Deficit

The PSA fund account has a **deficit** of **(\$1,868.09)** as of February 28, 2018. The deficit occurred once PSA related expenditures were appropriately classified to the PSA fund account. There was no prior deficit in this fund account.

According to APM, "Discretionary expenditures incurred by the principal on behalf of the school staff are grouped in the accounting category "Principal Sponsored Activities." These activities must be of a professional nature that enhances the staff members' job performance. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the authorized sources" as follows: 100% of vending commissions from machines located in the Staff Lounge, 25% of vending commissions from student-accessed machines up to the first \$50,000, not including sponsorships or signing bonuses offered by vending companies, and 15% of school-wide fundraiser profits.

There were at least **19** instances where checks for PSA were posted incorrectly to various fundraisers, Administrative Allotment, College Park Community Grant and Special Events for staff related activities.

The PSA fund account was distorted and did not accurately reflect the fund account balance. The account appeared solvent causing the principal to believe that funds were available for principal sponsored activities.

Overspending on PSA constitutes noncompliance with the procedures documented in the APM. Funds that should have provided benefits to students were reduced. Students did not receive the maximum possible benefit from the resources that should have been available to them.

Recommendation: The principal should work towards the elimination of this deficit. This can be accomplished by discontinuing expenditures from this account and only transferring authorized vending and fundraising profit proceeds until the deficit is completely resolved. The principal and recordkeeping staff should review the APM to ensure that expenses are posted accurately to reflect the balance on each account.

2018.06 Unauthorized Transfer of Funds

There were at least **7** instances where inappropriate transfers were processed during the audit period. The recordkeeping staff performed the transfers totaling **\$2,345.16** from *PY Carryover* to the *Unrestricted Office Copier/Supplies, Registration, Maintenance of School, Special Events* and *Science* fund accounts.

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The APM section 4.5.5 *Prior-Year (PY) Carryover Funds* states that principals may request the use of PY Carryover funds to purchase instructional materials, computers, maintenance needs, or other items for the school. The request must be sent to the Accounting and Financial Reporting Office detailing the reason for the transfer. Only upon written approval should funds be transferred from the PY Carryover account.

The principal and recordkeeping staff were not aware that approval was needed to transfer funds from PY Carryover. The principal and recordkeeping staff have since learned of the procedure for requesting use of PY Carryover

Inappropriate transfers have resulted in misstatement of financial information presented to administrators for decision-making.

Recommendation: The principal must implement procedures to ensure that only allowable transfers from the PY Carryover account are completed with appropriate documentation and approval the Accounting and Financial Reporting Office. Review of financial reports and fundraiser documentation must be performed by the principal to ensure that transfers are performed as required.

2018.07 Administration of Voided Checks

There were at least **18** instances of non-compliance regarding voided checks. The following issues of non-compliance were noted:

- A. Voided Checks Not Properly Mutilated:*** There were at least **10** instances where checks were not properly voided by removal of signature lines.
- B. Voided Checks Not Entered in the School's Accounting System:*** There were at least **3** instances where voided checks were not entered or not properly voided in the accounting system.
- C. Void Check Proof Sheets (VCPS) Not Completed and/or Signed by the Principal:*** There were at least **5** instances where the VCPS were either not completed by the recordkeeping staff or not signed by the principal.

The APM, section 4.5.3.2, *Policies and Procedures, Voiding Checks* requires checks to be voided in the computer. A SFEF or a VCPS from SFO should also be completed, noting that the check was voided and the signature lines of each check removed. The principal is required to sign the SFEF or the VCPS to acknowledge that the check was voided. The physical check is then filed in check number sequence with images of cancelled checks.

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The former recordkeeping staff failed to complete and/or obtain the principal's signatory approval on the VCPS. The recordkeeping staff was not aware that a VCPS had to be completed and signed by the principal for all voided checks, even those mistakenly printed over. Inappropriate administration of checks exposes the school to check fraud, waste and abuse of its resources.

Recommendation: The following is recommended for compliance with policies and procedures for appropriate administration of voided checks:

- A. The principal should establish and document procedures to ensure that there is proper administration of voided checks.
- B. Voided checks should be properly mutilated, have a completed VCPS on file, signed by the principal and entered into SFO.
- C. The principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures. All check signers must take the time to become familiar with the policy and procedures set forth in the APM regarding voiding checks.

2018.08 Year-End Monetary Transmittal Form Envelope Process

The year-end MTF submission process was not operating as outlined in the APM. There were at least 4 MTFs that were not located for review. Also there was 1 instance where a yellow MTF remittance not provided during the year-end checkout process.

The APM section 4.5.2.2 (1) *Collecting Funds: Completing the Monetary Transmittal Form* states that each staff collecting SAF is responsible for maintaining an envelope containing all the MTF (pink and yellow) remittance copies for MTFs prepared during the school year. Staff is required to submit copies in signed, sealed envelopes to the designated administrator during the year-end check out process. The envelopes should remain sealed until requested by Internal Audit. The year-end MTF envelopes should be retained in a place that is inaccessible to the bookkeeper.

The principal did not ensure that all staff members submit their MTFs during the year-end check out process.

The audit trail for reviewing cash receipts was compromised. As a result, internal controls for ensuring that all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased. *This finding was noted during the previous audit period ended June 2014.*

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Recommendation: Staff must be reminded of their responsibility for MTF envelope submission. Staff members must be held accountable for including all MTFs in their MTF envelopes as part of the year-end check out process.

The principal should require a copy of the Receiptee History report to be provided to the administrator responsible for collecting MTF envelopes at year-end. The principal or designee should ensure that all end of year MTF envelopes are collected, sealed and retained in a secure place, not accessible to the bookkeeper, until reviewed by Internal Audit.

2018.09 Fundraiser Reports Not Completed

Requirements for administering fundraisers during the audit period were not followed. The school held bookfair fundraising activities during the audit period. However, the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and annual reports summarizing all fundraising activities were not prepared.

Administrative Procedure 5135.1, *Fundraising* requires schools to complete Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the annual reports summarizing fundraising activities for all fundraisers sponsored. These documents must be maintained on file for public and auditor review upon request. Approval must be obtained prior to the onset of a fundraiser.

The principal and recordkeeping staff were unaware of the requirements for completing the required fundraiser forms.

It could not be readily determined whether the school's fundraisers yielded an overall profit for the school. Pertinent financial information for the principal to make fiscal decisions was not available. *This finding was noted during the previous audit period ended June 2014.*

Recommendation: The principal must establish procedures to ensure completion and approval of fundraising reports. The principal or designee should complete required fundraiser reports at the end of the each school year to summarize fundraising activities held. Required reports must be maintained on file for public and internal audit review.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Hollywood Elementary School was issued for the period ended June 2014. There are 5 of 7 prior findings. Neither the principal nor the recordkeeping staff was in their current positions. The current principal's tenure began in July 2015. The current recordkeeping staff's tenure began in April 2016. The following findings were noted as a result of that audit and the current status is indicated below:

- **Delinquent Deposits** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Delinquent Payments and/or Reimbursements** – Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Disbursements*.
- **Transactions Not Properly Posted** – Condition still exists. See **Finding 2018.04** regarding *Transactions Not Properly Recorded*.
- **Grant Funds Not Remitted to the BOE** – Controls appear to be working.
- **Year-End Monetary Transmittal Forms/Envelopes** – Condition still exists. See **Finding 2018.08** regarding *Year-End Monetary Transmittal Form Envelope Process*.
- **Mileage Reimbursement** – Controls appear to be working.
- **Fundraiser Forms** – Condition still exists. See **Finding 2018.09** regarding *Fundraiser Reports Not Completed*.

ACKNOWLEDGEMENT

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