




May 7, 2018

**MEMORANDUM**

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

Dwayne Jones, Principal  
Laurel High School

From: Michele Winston, CPA   
Director Internal Audit

Re: Financial Audit for Period December 1, 2015 to January 31, 2018

An audit of the financial records of **Laurel High School** was completed for the period December 1, 2015 to January 31, 2018. The audit results indicate that the school's internal controls are strong in many areas, but require improvement to ensure full compliance with board policies. 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 Accounting Procedures Manual for School Activity Funds. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. 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 at [internal.audit@pgcps.org](mailto:internal.audit@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).

Enclosure

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

# Internal Audit Report

## Laurel High School Student Activity Funds

For the Period Ended January 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Laurel High School for the period December 1, 2015 to January 31, 2018. Laurel High 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 Funds Received;*
- *Mismanagement of Disbursements;*
- *Insecure Location for Funds Awaiting Deposit;*
- *Voided Checks Not Properly Approved; and*
- *Lack of Budgeting for Clubs and Organizations.*

Individually or in aggregate, these findings resulted in a 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 January 31, 2018.



Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit of student activity funds (SAF) for Laurel High School for the period December 1, 2015 through January 31, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures are effectively managed but require improvement in certain areas to be in full compliance 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, available cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period December 1, 2015 to January 31, 2018. 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 following exceptions pertaining to the management of receipts were identified:

- A. ***Delinquent Remittance:*** There were **34** instances where staff collections were held between 2 and 167 days before remittance for deposit.
  
- B. ***Incorrect Postings:*** There were **57** instances where the Monetary Transmittal Form (MTF) number was inputted incorrectly into School Funds Online (SFO).

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* requires staff members collecting funds to complete MTFs and submit to the bookkeeper along with funds on the day of collection. The MTF is a three-part, pre-printed, pre-numbered self-carboned PGCPs form. Each school is issued unique, numerically sequenced packages of MTF forms by Internal Audit, as needed. The bookkeeper is responsible for accurately accounting for all forms issued to schools.

The financial recordkeeping staff stated that staff members are routinely reminded to remit funds daily. However, the staff's compliance with these reminders have not been checked or enforced. The financial recordkeeping staff was surprised to hear about the number of late remittances. The school also does not have a drop safe (See Finding 2018.03), which can be used for daily remittances by staff after office hours.

The financial recordkeeping staff explained that the incorrect MTF numbers occurred because of her failure to manually reset the numbers in SFO when each MTF packet was used.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely remittance of funds by staff can lead to lost or stolen funds and inaccurate financial statements. MTF numbers not being inputted correctly compromises the audit trail created by uniquely numbered packets being distributed to schools.

**Recommendation:** The principal and financial recordkeeping staff should continue to train staff on their responsibility for timely remittance of SAF. Further, the financial recordkeeping staff should take care and review transaction details to ensure they are properly posted in SFO. The principal must ensure that financial reports are reviewed for accuracy and staff members are held accountable for complying with the cash collection and processing requirements.

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**2018.02 Mismanagement of Disbursements**

The following exceptions pertaining to the management of disbursements were identified:

- A. ***Delinquent Payments:*** There were **4** instances where payments were made to vendors after the established due date. The delinquency ranged from **5** to **105** days.
- B. ***Missing Items:*** There were **12** cancelled check images that could not be located for review.
- C. ***Line of Credit:*** The school has a line of credit with a local hardware store where payments are made monthly for all school purchases. There were 19 checks, totaling \$4,380.24 paid to the hardware store during the audit period.

The APM, Section 4.5.3, *Cash Disbursements*, includes the following provisions relative to administering disbursements:

- A. Invoices should be paid within 30 days of receipt or by the due date. The principal is required to review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- B. Once received with the bank statement, images of cancelled checks are to be maintained in a separate cancelled check file.

The APM, Section 6.6, *Credit Cards, Lines of Credit and Membership Cards* states that lines of credit are prohibited for School Activity Funds.

The following explanations were provided for the mismanagement of disbursements:

- A. The financial recordkeeping staff explained that staff members associated with invoice did not promptly submit invoices for processing in all instances of late payments. The staff member either forwarded it late, or a second request for payment was sent to the front office by the vendor.
- B. The financial staff receives the cancelled check images on individual slips of paper from the bank, rather than as an attachment to the bank statement itself. Due to the significant number of cancelled checks, some may have been lost or misfiled.
- C. The financial staff and principal were unaware of the specific requirements that prohibited the type of agreement entered into with the hardware store.

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Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Delinquent payments can result in late charges and eroding of relationships with vendors. Establishment of lines of credit is prohibited for schools. Missing cancelled check images compromises the audit trail needed to investigate potential fraud.

**Recommendation:** The principal and financial recordkeeping staff should provide training to staff members on the importance of forwarding all invoices to the financial recordkeeping staff promptly. The principal should provide enforcement of these controls by holding staff accountable for compliance.

Efforts should be made to immediately terminate the line of credit with the hardware store. All purchases made from the store should follow procedures outlined in the APM.

The financial staff should contact the bank and request attachment of cancelled check images to the bank statement to ensure all check images are easily maintained. The Principal should request assistance from the Assistant Treasurer if necessary.

**2018.03 Insecure Location for Funds Awaiting Deposit**

The school does not have a secure drop-safe for maintaining SAF awaiting deposit. These funds are held in a combination safe. The principal and the school's head of security are the only individuals that can assist staff members in getting funds into the safe.

The APM Section 4.5.2.2.2, *Guidelines for Bank Deposits*, states that depository safes are required for every school and that only the principal and bookkeeper can access the contents. The safe should be bolted to the floor and in a location accessible to staff which will facilitate submitting money even if the bookkeeper is unavailable. A log should be maintained where staff members record their names and dates of "drop".

The principal and financial recordkeeping staff were not aware of the requirement for a drop safe. The financial recordkeeping staff has been diligent at making daily bank deposits even though funds were sometimes remitted untimely and therefore did not see the need for maintaining a drop safe.

The inaccessible location for funds awaiting deposit constitutes non-compliance with BOE policies and procedures. The lack of a drop safe discourages timely remittance of funds by staff in the event of the financial recordkeeping staff's absence or collections performed late in the day (See Finding 2018.01).

**Recommendation:** The principal should immediately purchase a drop safe that complies with the requirements in the APM. A log should be developed to maintain a record of the



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date, time, remitting staff member, and amount of funds dropped into the safe. Access to the contents of the drop safe should be restricted to the principal and bookkeeper.

**2018.04 Voided Checks Not Properly Approved**

There were 96 instances where the principal did not provide signatory approval of voided checks. Void Check Proof Sheets or School Funds Expenditure Forms were not signed by the principal evidencing approval of the checks that were voided in these instances.

The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and cannot be used, the physical check must still be accounted for. The word "VOID" is 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 to keep the empty transaction in the system. A SFEF should also be completed for the principal's approval.

The principal and financial recordkeeping staff were not aware of the specific requirements for the approval of voided checks. The financial staff printed Void Check Proof Sheets from SFO, but did not forward them to the principal for signatory approval. The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. The lack of principal approval of voided checks increases the risk of check fraud.

**Recommendation:** The principal must hold the financial recordkeeping staff accountable for forwarding all Void Check Proof Sheets to the principal for approval.

**2018.05 Lack of Budgeting for Clubs and Organizations**

School clubs and organizations have not developed and submitted annual budgets to Accounting and Financial Reporting for review and approval. The school has several clubs that conduct financial activity, to include athletic teams, Student Government Association, and National Honor Society.

The Senior Class Planning and Budget Workbook were used but have not been included in the annual report submissions to Accounting and Financial Reporting.

The APM, Section 7.3, *Class and Club Accounts*, states that principals and teachers need to work closely with students in planning finances (budgeting) for their clubs and organizations. School clubs shall have as much autonomy as possible in spending money as permitted by Board regulations. However, funds shall not be used without majority

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consent of the students involved. A copy of annual budgets must be provided to the School's bookkeeper. Further, Senior Class Planning and Budget Workbook are required to be submitted to Accounting and Financial Reporting along with the annual report due mid-July.

The principal and financial recordkeeping staff was unaware of the requirement for annual budgets to be submitted by clubs and organizations, as well as the requirement to submit the Senior Class Planning and Budget Workbook. The financial recordkeeping staff sends out beginning balances to all club and organization sponsors at the beginning of each year to assist them in budgeting.

Failure to develop and submit annual club budgets constitutes non-compliance with BOE policies and procedures. Further, the lack of budgeting can lead to insolvent accounts or substandard experience for students in extracurricular activities.

**Recommendation:** The principal and financial recordkeeping staff should develop and document procedures for club and organization sponsors to develop and submit annual budgets at the beginning of each school year. The budgeting process should include increased communication between the sponsors, bookkeeper and principal so that club activities can be effectively planned and executed. Further, the Senior Class Planning and Budget Workbook should be included in the annual report submitted to Accounting and Financial Reporting.

Accounting and Financial Reporting must hold school administrators accountable for ensuring that Senior Class Planning and Budget Workbooks are being completed and submitted annually.

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

The previous audit report for **Laurel High School** was issued for the period ended **November 30, 2015**. The principal and financial recordkeeping staff have been in place for the entire audit period. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Disbursements** – Condition still partially exists. See **Finding 2018.02** regarding *Mismanagement of Disbursements*.
- **Mismanagement of Funds Received** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Fundraiser Forms Not Completed**– Controls appear to be working.
- **Administration of Voided Checks** - Condition still exists. See **Finding 2018.04** regarding *Voided Checks Not Properly Approved*.

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- **Football Tickets Sold at a Discount** – Controls appear to be working.

**ACKNOWLEDGEMENT**

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