



March 25, 2019

**MEMORANDUM**

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

Robin Pope-Brown  
Friendly High School

From: Michele Winston, CPA  
Director Internal Audit

Re: Financial Audit for Period July 1, 2017 to December 31, 2018

An audit was completed on the financial records of **Friendly High School** for the period July 1, 2017 to December 31, 2018. The audit indicates that the school's control environment has improved but requires further improvement to ensure full compliance with BOE 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 April 25, 2019 indicating steps that will be taken to ensure compliance with the School Accounting Manual. 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: Alvin Thornton, Ph. D., Chairman of the Board of Education  
Monica Goldson, Ed. D, Interim Chief Executive Officer  
Members, Board of Education  
Christian Rhodes, Chief of Staff  
J. Michael Dougherty, Director, Financial Services  
Michael Herbstman, Chief Financial Officer  
Carletta Marrow, Ed. D., Associate Superintendent, High Schools  
Helen Coley, Ed. D., Chief, School Support and Leadership  
Joeday Newsom, Esq., Ethics Compliance Officer  
Daniel Reagan, Internal Auditor II

# Internal Audit Report

## Friendly High School Student Activity Funds

For the Period Ended December 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Friendly High School for the period July 1, 2017 to December 31, 2018. Friendly 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 Disbursements;*
- *Mismanagement of Funds Received;*
- *Inappropriate Transfer of Funds;*
- *End of Year MTF Procedures Not Followed;*
- *Mismanagement of Vending Operations;*
- *Club Budgets Not Developed; and*
- *Fundraiser Forms Not Completed*

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 November 30, 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 Friendly High School for the period July 1, 2017 to December 31, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial controls have improved but require further improvement 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.

**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 July 1, 2017 to December 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:

**2019.01 Mismanagement of Disbursements**

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

- A. ***Lack of Proper Support:*** There were **17** instances where no support was attached to School Funds Expenditure Forms to substantiate check amounts. There were also **5** instances where vendor quotes, rather than invoices or receipts, were used as support for check amounts.
- B. ***Lack of Pre-Approval:*** There were **17** instances where purchases were made prior to pre-approval by the principal.
- C. ***Delinquent Payments:*** There were **6** instances where payments were made to vendors after the due dates on the invoices.

The SAF Accounting Procedures Manual (APM), Section 4.5.3, *Cash Disbursements*, includes the following provisions:

- A. All checks must have itemized documentation attached to the School Funds Expenditure Form that supports the amount of the check. Examples of supporting documents are cash register receipts, invoices, bills of sales, etc. Examples of documents that are not itemized invoices or receipts include credit card receipts, statements, order confirmations, price quotes and packing slips.
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for the financial recordkeeping staff to record the amount of funds available in the relevant account prior to the principal providing pre-approval.
- C. Principals should review invoices and statements for past due amounts and ensure payments are made within 30 days, or by the due date on the invoice.

Since the previous audit, the principal and financial recordkeeping staff have worked to overhaul the expenditure process. Staff members have been asked to provide quotes to support estimates in the pre-approval process, and subsequently provide receipts as support for the check amount. However, the financial recordkeeping staff has often only attached the quote to the SFEF and cancelled check in the school's files. The financial recordkeeping staff was also not aware that refunds to students had to be supported by copies of the MTF where the initial collection was made. Further, staff members were

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instructed to obtain pre-approval prior to any purchase, but the staff took some time to comply with this requirement. Most of the pre-approval exceptions were noted during the beginning of the audit period, but only 1 of the 17 instances listed above were for FY19 expenditures. The financial recordkeeping staff also stated that many of the delinquent payments were due to unpaid invoices from the previous audit period being re-issued to the school.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Lack of precise support for check amounts can potentially lead to incorrect payments. Failure to obtain pre-approval can lead to insolvent accounts without the principal's knowledge. Finally, delinquent payments can lead to unnecessary late charges, or eroding relationships with vendors that could impact student experiences.

**Recommendation:** The principal and financial recordkeeping staff should continue to enforce the new controls in the expenditure pre-approval process. Receipts and invoices used to support the final check amount should always be included in the school's files. The principal and financial recordkeeping staff should continue to communicate regarding open invoices in order to make consistent prompt payments.

**2019.02 Mismanagement of Funds Received**

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

- A. ***Lack of Remittance Information:*** There were 6 instances where remittance information was not included to document who funds were collected from.
- B. ***Lack of Deposit Slips:*** There were 8 instances where the deposit slip was not included in the file to verify the date and amount of the bank deposit.
- C. ***Transactions Not Accurately Recorded:*** There were 4 instances where the MTF # was entered incorrectly in School Funds Online. In one of these instances, \$310.72 was incorrectly posted as "Class of 2018 Dues" instead of "Track Fundraising."

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

- A. The MTF must be completed entirely 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.

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- B. The Bookkeeper completes a bank deposit in duplicate, whether manually or in SFO. Both the original and duplicate deposit slip should be taken to the bank to allow the duplicate to be validated. The validated copy is filed at the school with the MTF that supports the deposit.

The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries*, states that the Bookkeeper or financial secretary are responsible for accurately recording and reporting the school's financial transactions.

The financial recordkeeping staff explained that due to their inexperience, they have been careless at times when including deposit slips and remittance support such as vending statements and donation letters with the MTF in the school's files. They also were overwhelmed at times during their introduction to the accounting software which may have led to the inaccurate recording of MTF numbers.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The lack of inclusion of remittance information and deposit slips in the schools files, in addition to inaccurate recording of transactions compromises the audit trail for determining the accuracy of funds recorded as received and makes potential refunds difficult.

**Recommendation:** The following should be performed to improve disbursements management:

- A. The financial recordkeeping staff should ensure that all required items are included in the school's financial records, to include remittance information and deposit slips. Further, care should be taken to ensure that all MTF numbers are properly recorded in SFO. The principal should provide oversight to these processes.
- B. A journal entry transfer of **\$310.72** should be made from the Class of 2018 account to the Track fundraising account to correct the error identified above.

**2019.03 Inappropriate Transfers of Funds**

A transfer of **\$250.00** was inappropriately made from the Administrative Allotment account to the Principal Sponsored Activities account.

The APM, Section 9.6, PSA for Staff, states that discretionary expenditures incurred by the Principal on behalf of school staff are grouped in the PSA accounting category. These activities must be of a professional nature that enhances staff members' job performance. If the PSA account has a deficit, faculty spending must be ceased until the existing PSA deficit is resolved. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the following sources:



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- 100% of Vending commission from machines located in the staff lounge
- 25% of student vending commission
- 15% of school-wide fundraiser profits, including picture commissions
- Up to 25% of senior class residual funds.

The financial recordkeeping staff stated that they were unaware of the requirements for PSA transfers when they made the transfer in December 2017. The trimester reporting process with Accounting and Financial Reporting did not remedy the inappropriate transaction. Failure to properly manage the PSA account constitutes non-compliance with BOE policies and procedures. PSA expenditures and transfers out of student accounts represent funds that are no longer eligible for positive student experiences.

**Recommendation:** The principal and financial recordkeeping staff should ensure that they are aware of the exact parameters for PSA transfers and should ensure that only appropriate transfers are made in the future. Further, a journal entry for **\$250.00** should be made from PSA back to *Administrative* Allotment to be available for student use.

**2019.04 Year-End Monetary Transmittal Form Procedures Not Followed**

One employee's end of year MTF envelope for the 2017-2018 school year could not be found. The employee completed **12** MTFs, totaling **\$12,590.24** during the school year.

The APM, Section 4.5.2.2, *Cash Receipts: General Policies*, requires the pink MTF remittance copies to be retained by the preparer. The white and yellow MTF remittance copies are submitted to the bookkeeper with remitted funds. After approving MTFs, the Bookkeeper returns yellow MTF remittance copies to the originator. Prior to departing the school at year-end, faculty and program managers seal envelopes containing yellow and pink remittance copies of MTFs (with their signature over the seal) and submit them to the designated administrator. The bookkeeper will print the SFO "*Receiptee History*" Report and submit it to the designated administrator. This alerts the administrator which MTF envelope packages to expect.

The financial recordkeeping staff provided a listing of all employees with outstanding MTFs to the principal's designee for collection. However, the designee did not identify the missing MTF envelope during the school close-out process. The ineffective year-end MTF process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The audit trail for ensuring that SAF collected were subsequently remitted and deposited was compromised.

**Recommendation:** The Principal and/or the principal's designee, with the assistance of a list provided by the financial recordkeeping staff, should ensure that all envelopes are collected prior to the end of each school year. Staff should be held accountable for compliance.

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**2019.05 Mismanagement of Vending Operations**

During the period November 2017 to December 2018, there were no commissions posted to the faculty vending account. All vending commissions (\$6,327.31) were posted entirely to the student vending commission account. Records of vendor invoices were incomplete and are not attached to MTFs (See Finding 2019.02), but at least **\$716.65** should have been accounted for in the faculty vending account.

The school does not have an active contract for their vending machines.

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

The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries*, states that the Bookkeeper or financial secretary are responsible for accurately recording and reporting the school's financial transactions.

The financial recordkeeping staff was unaware of the process for splitting deposits into two accounts in SFO and therefore recorded all vending commission into the student account. Further, the principal and financial recordkeeping staff have not initiated a process of obtaining annual vending contracts. The most recent contract was dated October 25, 2017.

Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of an active contract prevents the school from having any recourse if there are issues with service or commissions.

The misclassification of vending commissions has effected the funds available for transfer to the Principal Sponsored Activity (PSA) account. A total of 25% of student vending is available and has been transferred periodically to the PSA account by the financial recordkeeping staff. However, 100% of faculty vending is available for PSA transfer. **\$537.49** (75%) should have been made available for PSA transfer.

**Recommendation:** The following should be performed to improve management and oversight of Vending Operations:

- A. The financial recordkeeping staff should contact the SFO customer support to determine how to split MTFs into multiple accounts.
- B. All future vending commission checks should be properly accounted for and attached to the MTF.

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- C. A total of **\$537.49** should be transferred from the student vending account to PSA, pending approval from the Principal.
- D. The financial recordkeeping staff should contact the vendor and obtain a signed contract for the vending machine operations. The contract should stipulate the frequency and percentage of commissions. The contract should be renewed annually. Alternately, the principal should contact Purchasing and Supply Services to identify an alternate vendor.

**2019.06 Club Budgets Not Developed**

Club budgets were not developed or submitted to financial recordkeeping staff for the 2017-2018 and 2018-2019 school years.

The SAF Accounting Procedures Manual, **Section 7.3, *Class and Club Accounts***, states that a copy of annual budgets for all school clubs should be provided to the School's Bookkeeper.

The Principal has not instituted a process to ensure clubs are providing annual budgets to the Principal and financial recordkeeping staff. The only official budgeting is done by each year's senior class sponsor. The lack of club budgeting constitutes non-compliance with BOE policies and procedures. Further, it decreases the coordination between club sponsors and the school administration when it comes to planning and executing necessary payments. Effective budgeting can improve the purchase pre-approval and timely payment issues identified in Finding 2019.01.

**Recommendation:** The Principal and financial recordkeeping staff should familiarize themselves with the requirements for club budgeting, and should establish a process to ensure compliance.

**2019.07 Fundraiser Forms Not Completed**

Fundraiser Authorization Forms were not completed for **15** of the 17 fundraisers identified during the 2017-2018 school year. Fundraiser Completion Reports were not completed for **16** of the 17 fundraisers during the 2017-2018 school year. An annual fundraising summary was not completed by the principal for the 2017-2018 school year.

The APM, Section 7.2.2, *Fundraising Procedures*, states that club fundraisers must be formally approved by the Principal using a Fundraiser Authorization Form. At the conclusion of the fundraisers, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, the Principal should prepare an annual report summarizing all fundraising activities concluded during the year. The data in this annual report should be

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available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

The Principal and financial recordkeeping staff did not initiate a process to ensure fundraising forms were completed and retained during the 2017-2018 school year. The financial recordkeeping staff stated that they were unaware of the requirements until the end of the school year.

A process was established for the 2018-2019 school year. Forms were properly completed for 8 of the 9 fundraisers identified.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, Fundraiser Completion Reports bolster the budgeting process which can ensure optimal performance by each fundraiser.

**Recommendation:** The Principal and financial recordkeeping staff should continue to enforce established controls to ensure that fundraising forms are completed. An annual fundraising summary should be created using the Completion Reports at the end of the 2018-2019 school year.

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

The previous audit report for **Friendly High School** was issued for the period ended **June 30, 2017**. The principal's tenure began in July 2017 and the financial recordkeeping staff's tenure began in November 2017. A total of **6** findings were reported in the previous audit and **5** are repeated. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Funds Received** – Condition still partially exists. See Finding 2019.02 regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** – Condition still partially exists. See Finding 2019.01 regarding *Mismanagement of Disbursements*.
- **Voided Checks Not Properly Administered** – Controls appear to be working.
- **Year-End Monetary Transmittal Form Procedures Not Followed** – Condition still exists. See Finding 2019.04 regarding *Year-End Monetary Transmittal Form Procedures Not Followed*.
- **Administration of Vending Machine Operations** – Condition still exists. See Finding 2019.05 regarding *Mismanagement of Vending Operations*.

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- **Club and Class Budgets Not Developed** – Condition still exists. See Finding 2019.06 regarding *Club Budgets Not Developed*.

**ACKNOWLEDGEMENT**

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