



July 25, 2018

MEMORANDUM

To: Carletta Marrow, Instructional Director
Cluster 13

Nicole Isley-McClure, Principal
High Point High School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for the Period October 1, 2015 through December 31, 2017

An audit of the financial records of **High Point High School** was completed for the period October 1, 2015 through December 31, 2017. The audit results indicate 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
Monica Goldson, Ed. D, Interim Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Erica Berry Wilson, Esq., Executive Director, Board of Education
Theodore Dzodzomenyo, Internal Auditor II

Internal Audit Report

High Point High School
Student Activity Funds

For the Period Ended December 31, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of High Point High School for the period October 1, 2015 through December 31, 2017. High Point High 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 Disbursements*
- *Mismanagement of Funds Received*
- *Senior Class Budgeting*
- *Non-Compliance with Administrative Procedure 3542.44*
- *Inadequate Financial Reporting*
- *End of Year Monetary Transmittal Forms Envelope Submission Procedures Not Followed*

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 (SAF) for High Point High School for the period October 1, 2015 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 October 2015 through December 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:

2019.01: Mismanagement of Disbursements

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

- A. *Inadequate Approval of Disbursements* - There were 7 instances where purchases were made prior to the principal's approval being obtained.
- B. *Voided checks* – There were 10 instances where Void Check Proof Sheet were not attached to the voided checks. There were 30 additional instances where the principal did not sign the Void Check Proof Sheets, evidencing approval for the voided transactions.
- C. *Third Check Signer* - The school does not have three authorized check signers for its checking account.

The APM Sections: 4.5.3, *Cash Disbursements*, 4.2.2 *Procedures* and 4.5.3.2 *Summary of Check Disbursement Procedures* provides the following guidelines regarding the disbursement of funds:

- A. Prior to ordering or purchasing goods or services; a SFEF must be completed and signed by the principal. Schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete this form. The employee can be held personally liable for the obligation, if this procedure is not followed.
- 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 SFEF or Void Check Proof Sheet should also be completed for the principal's approval.
- C. There must be at least 3 authorized signers on the checking account (principal, bookkeeper and another administrator). The principal and bookkeeper should be the primary signers on the account. The third signer should be an administrator.

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The following factors contributed to the mismanagement of funds disbursed:

- A. Effective controls have not been implemented to ensure that staff members follow the procedures that ensure expenditures are properly pre-approved by the principal prior to the purchases being made. The principal does not sign SFEF every day to facilitate staff members' purchase of items that were needed for classes.
- B. The school's financial administration was not aware of the requirement that, the voided check proof sheets were to be signed by the principal. Also, turnover in the recordkeeping staff's position has impacted the retrieval of voided checks.
- C. Recent turnover has resulted in an outdated signature card. An updated signature card was not completed and presented to the financial institution to include a third check signer to the school's bank account.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Specifically, schools and their SAF cannot be held liable for financial obligations made by staff if pre-approval is not obtained from the principal prior to the school being obligated. Checks may also not be issued timely or without a second signature when one of the two current signers is not available. Also, inadequate segregation of duties may occur when one of the two signers is due a reimbursement.

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

- A. All staff members should be reminded that, all expenditures require approval of the principal prior to obligating the school. Specific procedures regarding pre-approval for spending and approval of disbursements should be documented and shared with staff. The principal and staff must be held accountable for adhering to the requirements for processing disbursements.
- B. The principal should ensure that, the current recordkeeping staff is added to the signature card as soon as possible. The principal should include confirmation of this update with the management action plan.
- C. The principal must implement internal controls to ensure proper administration of voided checks. All voided checks should be substantiated by completed SFEFs or Voided Check Proof Sheet which must be approved by the principal. Financial recordkeeping staff should be held accountable for being knowledgeable of the APM and BOE policies and procedures relative to student activity funds.

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Financial recordkeeping staff should also be held accountable for taking time and care to reduce the instances of voided checks.

2019.02: Mismanagement of Funds Received

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

- A. ***Delinquent Deposits:*** There were **5** instances where deposits were made between 1 and 4 days after collection. Some deposits in excess of the \$250.00 daily limit were held overnight or were not deposited every other day as required.
- B. ***Inaccurate Postings in SFO Accounting System:*** There were **4** instances where MTF numbers entered into SFO did not correspond with the unique identifying numbers on the form.

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

- A. SAF collected are required to be deposited at least every other day. However, no more than \$250.00 should be kept in the building overnight.
- B. Accurate recording and reporting of school financial transactions in SFO is required. Each MTF has a unique number which identifies that form and the corresponding deposits that is made.

The following contributory factors led to the mismanagement of funds collected:

- A. Staff members dropped the funds in the safe after the daily deposit had been made in one instance and financial administration staff was not available to deposit funds collected in **2** instances. A staff member did not remit the funds to the recordkeeping staff on the day of collection in another instance.
- B. Internal Audit was unable to determine the cause for inaccurate postings due to turnover in the recordkeeping staff position.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely deposits and inaccurate financial recording of deposits increase the risk of loss and fraud. Inaccurate data can result in unreliable financial information and compromise to the audit trail.

Recommendations: The following is recommended for the principal and financial administrators to properly manage funds received:

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- A. Staff members must be reminded about their obligation to remit all funds collected to the financial office daily to facilitate timely deposits as required. In the absence of the recordkeeping staff, the principal should access the drop safe contents and ensure that, any funds left in the safe are deposited timely.
- B. The recordkeeping staff should review the financial information entered for accuracy before the transactions are posted in the financial system (SFO). The principal should ensure financial reports are carefully reviewed for accuracy.

2019.03: Senior Class Budgeting

The Senior Class budget has not been prepared and submitted to the principal and the Accounting and Financial Reporting Office as required by the APM.

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 clubs and organizations. A copy of the annual budgets must be provided to the School's bookkeeper. Beginning FY 2016, this workbook is required to be included in the annual report submission due to the Accounting and Financial Reporting Office by mid-July.

There was personnel turnover prior to the end of the fiscal year and the new senior class sponsors were not aware that the budget had not been prepared and distributed as required.

Failure to develop and submit annual club and class budgets constitute 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 should document procedures for class sponsors to follow and ensure that the annual budgets are submitted as required. The budgeting process should include increased communication between the sponsors, recordkeeping staff and principal so that club and class activities can be effectively planned and executed. The plan must be submitted to Accounting and Financial Reporting Office by mid-July. The Accounting and Financial Reporting Office should hold the principal accountable for compliance.

2019.04: Non-Compliance with Administrative Procedure 3542.44

Food of minimal nutritional value was sold from vending machines between the hours of 12.01 A.M. and the end of the last lunch period, creating competition with the Food and Nutrition Services Program.

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Federal regulations included in Code of Federal Regulations (CFR) 210.00 restrict the sale of competitive food. Also, foods of minimal nutritional value are included in Board of Education Administrative Procedure No. 3542.44, "*The Access and Sales of Competitive Foods and Foods of Minimal Nutritional Value in Schools and Outside of the Food & Nutrition Program.*" This procedure prohibits selling goods of minimal nutritional value from 12:01 a.m. until the end of the last lunch period in each school every school day. The principal must maintain compliance with these guidelines when arranging to have vending machines installed at the school.

The principal did not ensure that the vending contractor installed proper equipment to prevent the vending machine contents from being accessible between 12:01 A.M. and the last lunch period.

Consequently, the BOE was not in compliance with the requirements outlined in the Code of Federal Regulations (CFR) 210.11, which governs the Child Nutrition Programs.

Recommendation: The school must discontinue the sale of food with minimal nutritional value from vending machines between the hours of 12.01 A.M. and the end of the last lunch period. Specifically, the principal must contact the vending contractor and request that proper equipment be installed to ensure that the machines are turned off between the hours of 12.01 A.M. and the end of the last lunch period. Alternatively, the principal should contact Purchasing and Supply Services to identify an alternate vendor if the current vendor is unable to comply by the opening of school.

2019.05: Inadequate Financial Reporting

The following exceptions were noted relevant to financial reporting:

Unpaid Bills Worksheet: The Unpaid Bill Spreadsheet was not completed as required as part of the Monthly Financial Reports. It was determined that unpaid bills for the month of December 2017 totaled **\$505.99**, reducing the school's solvency by that amount.

Inaccurate Recording of Financial Transactions: There were **10** instances during the audit period where checks were written from an inappropriate fund account. The checks were written directly from the administrative allotment account.

According to Section 5.1.2 of APM, *Policies and Procedures*, The recordkeeping staff is required to manually calculate the value of the unpaid bills that existed at the end of each reporting period for both restricted and unrestricted fund accounts. This amount is reported monthly on the Unpaid Bills Worksheet.

The APM, Section 4.3, *Fund Accounts*, states that, fund accounts are used to track financial activities related to specific events, activities and/or groups within the school.

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The use of fund accounts makes it possible to determine the amount of revenue and expenditure generated by individual groups and/or events within the school, and ultimately, how much money they have available. As a general rule, a fund should be established for each unique organization, activity or event that occurs in a school. Best financial practices therefore require that, checks are written and posted to the fund account that most adequately identifies the expenditure. For example, checks should not be directly written from Allotment, Donations and PY Carryover accounts since schools do not typically have expenditures related to these accounts.

The current recordkeeping staff was not aware of the worksheets that were required to accurately calculate the school's solvency during the bank reconciliation process. The financial administration staff who assumed interim responsibility due to turnover was not aware of the fund account guidance relative to processing disbursements.

Failure to prepare the required Unpaid Bills Worksheets impacts the accuracy of financial reports and determination of the school's solvency status.

Financial records are not accurately stated when expenditures are not recorded in the related accounts. Potential insolvency of accounts may not be readily detected and the audit trail is compromised.

Recommendation: The principal must ensure that, the Unpaid Bills Worksheet calculation is used in the determination of the school's solvency as required by the APM. Financial recordkeeping staff should review the APM for instructions to prepare this report and request further training from Accounting and Financial Reporting staff if necessary. The recordkeeping staff should ensure that, transactions are recorded only to related accounts. Writing checks to be posted to allotment accounts should be discontinued. Expenditures should be posted to relevant accounts and subsequent journal entry transfers made for the amount of respective expenditures.

2019.06: End of Year Monetary Transmittal Forms Envelope Submission Procedures Not Followed

The year-end MTF submission process was not operating as required by procedures outlined in the APM. During FY2017, there were **5** staff members who did not return MTF remittance copies. A total of **18** MTFs were missing from their MTF envelopes. Also, in FY2016, there were **5** MTFs that were not included in staff members' MTF envelopes.

Prior to departing the school at year-end, staff and program managers are required to submit the pink and yellow MTF remittance copies in sealed envelopes (with their signature over the seal) to the designated administrator. Year-end MTF envelopes should be stored in a location inaccessible to the bookkeeper.

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The staff members did not always follow the BOE policies and procedures relative to the year-end MTF envelope submission process by locating and submitting all the MTFs. There were notes in staff members' MTF envelopes explaining that MTFs were misplaced.

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.

Recommendation: The principal must establish and implement policies and procedures to ensure adherence to the requirements for MTF submission as outlined in the APM. Staff should be held accountable of compliance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for High Point High School was issued for the period ending September 30, 2015. During that period, neither the principal nor the recordkeeping staff was in their current positions. There were 2 reported findings in the previous audit which are repeated in this current report. The following findings were noted as a result of that audit and the current status is indicated.

- **Untimely Deposits** - Condition still exists. See 2019.02 regarding *Mismanagement of Funds Received*.
- **Inadequate Approval of Disbursements** - Condition still exists. See 2019.01 regarding *Mismanagement of Disbursements*.

ACKNOWLEDGEMENT

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