



December 13, 2017

MEMORANDUM

To: Tricia Hairston, Ed. D., Instructional Director
Cluster 3

Sheena Hardy, Principal
Cherokee Lane Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for the Period July 1, 2013 through September 30, 2017

An audit was completed on the financial records of **Cherokee Lane Elementary School** for the period July 1, 2013 through September 30, 2017. 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 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.

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.

Enclosure

cc. Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Carolyn Boston, Vice Chair, Board of Education
David Murray, Board Member, District 1
Monique Whittington Davis, Ed. D., Deputy Superintendent
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Carolyn Boston, Vice Chair, Board of Education
Erica Berry Wilson, Esq., Executive Director, Board of Education
J. Michael Dougherty, Director, Financial Services
John Pfister, Chief Financial Officer
Theodore Dzodzomenyo, Internal Auditor II

Internal Audit Report

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Cherokee Lane Elementary School for the period July 1, 2013 through September 30, 2017. Cherokee Lane Elementary 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:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Operating a Vending Machine without a Contract*
- *Fundraiser Forms Not Completed*
- *Delinquent Financial Reporting*
- *Administration of Voided Checks*
- *Inter-Fund Transfers not Approved*
- *End of Year MTF Procedures not Followed*
- *Improvement Needed in Management Oversight*

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 September 30, 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 Cherokee Lane Elementary School for the period July 1, 2013 through September 30, 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.

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 to determine 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, cancelled checks and all voided checks and available Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 2013 through September 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 following exceptions pertaining to the management of funds received were identified:

- A. ***Delinquent Deposits*** - There were **5** instances during the audit period (FY 2016 - **3** and FY 2017 - **2**) where deposits were not made timely. SAF were held up to **14** days before the deposits were made.

- B. ***Inadequate Documentation of Funds Received*** - There were **13** instances during the audit period (FY 2017-**10** and FY 2018 - **3**) where itemized bank deposit slips were not used to record the composition of funds deposited with the bank.

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

- A. Section 4.5.2.2, requires bookkeepers to make deposits of all funds received at least every other day. However, no more than \$250 should be kept in the building overnight. The APM also states that, staff members are prohibited from keeping funds overnight.

- B. Section 4.2.2(VI) requires the use of duplicate-style deposit slips or SFO deposit slips/forms, printed in duplicate. The original and duplicate must accompany the deposit. Once validated by the bank, the duplicate must be retained at the school to substantiate the transaction. If the school uses a night depository, a triplicate-style deposit slip is preferred. The original and duplicate deposit slips are sent to the bank with the deposit and the third copy is retained at the school until receipt of a validated copy from the bank.

The following explanations were provided for the occurrence of noncompliance with the requirement for administering SAF:

- A. The bookkeeper was not well informed about the policies and procedures regarding bank deposits. Reportedly, she thought she did not have to deposit the funds until she had accumulated more than \$250.00.

- B. Despite the school having duplicate deposit ticket in stock, the bookkeeper was not aware that the itemized deposit slips were insufficient to support collection of SAF.

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Internal controls are compromised when there are untimely deposits and inadequate supporting documentation for funds received. This practice also violates the school's cash management responsibilities outlined in the APM and increases the potential of fraud and loss of assets. Further, noncompliance with collection requirements reduces the assurance that receipts were recorded appropriately and in accordance with the prescribed policy.

Recommendation: The following steps must be taken to ensure SAF is administered in accordance with requirements of the APM:

- A. The principal must ensure that the bookkeeper reviews the APM to become familiar with the requirements of bank deposits and specific policies and procedures pertaining to timely deposit of funds received. The principal should hold the bookkeeper accountable for making deposits of all funds received at least every other day.
- B. The bookkeeper should review the APM to become familiar with the requirements of bank deposits and specific policies and procedures pertaining to the documentation required to accompany deposits in the bank. The bookkeeper must be held accountable for using duplicate-style deposit slips or SFO deposit slips/forms, printed in duplicate when depositing funds.

2017.02: Mismanagement of Disbursements

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

- A. ***Inadequate Approval of Disbursements*** - There were **22** instances during the audit period (**FY 2016 – 10, FY 2017 – 10 and FY 2018 – 2**) where the principal did not indicate the dates when disbursements were approved.
- B. ***Delinquent Payment of Bills*** - There were **2** instances where the school did not remit payments due, to the vendors in a timely manner.

The APM provides the following guidelines regarding administration of disbursements:

- A. The APM Section 4.5.3.1, "*Pre-Approval by the Principal*" states that, prior to ordering or purchasing goods or services; a School Funds Expenditure Forms (SFEF) must be completed and signed by the principal. Prudent business practices also require that, the date of approval of a disbursement be indicated.
- B. The APM Section 4.5.3.1, *Inclusion of Supporting Documentation*, requires invoices to be paid within 30 days of receipt. The principal should review

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invoices and statements for past due amounts and ensure that payments are made in a timely manner.

The following explanations were provided for the occurrence of noncompliance with the requirement for administering SAF:

- A. The principal did not always remember to indicate the date of approval on the SFEF.
- B. One of the invoices was in dispute because the principal did not recall authorizing the item that was purchased while the other was paid late because the principal did not adequately review the open invoice folder.

It is difficult to determine whether authorization was obtained prior to obligating the school financially without documented approval on the SFEF. The untimely payment of invoices resulted in use of SAF without benefit to students since the school was assessed a late fee of \$20.00 on a delinquent invoice.

Recommendation: The following steps must be taken to ensure that, SAF is administered in accordance with requirements of the APM:

- A. The principal should remember to affix the date of approval on SFEFs so it could be determined that expenditures were appropriately approved.
- B. The bookkeeper must be held accountable for ensuring that all vendor payments are remitted within 30 days of receipt or by the due date. The principal should also provide management oversight by reviewing outstanding invoices to ensure timely payments.

2018.03: Operating a Vending Machine without a Contract

The school operates a vending machine for which a current vending contract was not available at the school.

According Administrative procedure 5135.2, *Principal's Contracting Authority*, requires the principal, as an agent of the BOE, to approve and sign all agreements and contracts entered into for all school activities. Additionally, the APM, Section 9.8, *Vending Machine Sales*, states, "all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency that these commissions are remitted."

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The vending machine has been in the school for several years and the school administrators were not aware that, there was no contract and were not knowledgeable about the requirement to have a signed contract with the vendor.

The school is in noncompliance with BOE policies regarding the operation of vending machines and may not be deriving maximum benefits from the operation of the vending machines.

Recommendation: The bookkeeper and principal should review the APM to become familiar with the requirements of school contracts and specific policies and procedures pertaining to the administration of vending machines. The principal must ensure that a current vending machine contract is obtained, renewed annually, and maintained on file in compliance with BOE policies and procedures. Alternatively, the principal should consult with Purchasing and Supply Services to identify a vending company.

2018.04: Fundraiser Forms Not Completed

The school held fundraisers within the audit period for which Fundraiser Completion Forms and Annual Fundraiser Summary Reports were not completed.

Administrative Procedure 5135.1, *Fundraising* requires the completion of Fundraiser Request and Authorization Forms, the Fundraiser Completion Form and the Annual Fund Raising Summary Report for fundraising events held by schools.

The bookkeeper was not aware that a fundraiser completion report and the annual fundraiser summary reports were required to be completed.

Financial records were not complete and profit/loss ratio of fundraisers conducted could not be determined as a result. The school is not in compliance with the Administrative Policy 5135.1 regarding administration of fundraising events.

Recommendation: The bookkeeper and principal should review the APM to become familiar with the requirements of fundraisers and specific policies and procedures pertaining to the completion of fundraiser forms. The principal should hold staff accountable for completion of required fundraiser forms. The documents should be retained on file for public and audit review.

2018.05: Delinquent Financial Reporting

There were **20** instances during the audit period, where monthly bank reconciliations were not completed timely by the bookkeeper.

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According to the APM, the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the bookkeeper for reconciliation. The bank reconciliation should be completed by the bookkeeper within 7 days of receiving the statement from the bank. The monthly financial reporting process is required to be completed by the 15th day of each month and presented to the principal for review.

The bookkeeper was not aware that bank reconciliations were required to be completed monthly and therefore completed them at the end of the every trimester. Delinquent reporting impacts the timeliness and reliability of financial information used in the fiscal decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Recommendation: The bookkeeper should ensure that bank reconciliations are completed within 7 days of receiving the statement from the bank and that all financial reports are presented to the principal for review by the 15th day of each month. The principal should hold the bookkeeper accountable for timely report submission and perform thorough review of the monthly financial reports as evidenced by signature.

2018.06 Administration of Voided Checks

The following exceptions pertaining to administration of voided checks were identified:

- A. ***Void Check Proof Sheets not Completed*** - There were **15** instances where the SFO *Void Check Proof Sheets* were either not signed by the bookkeeper and/or the principal.
- B. ***Voided Checks not Properly Mutilated***- There were **5** instances where checks were not properly voided by the removal of the signature line.

The APM provides the following guidelines regarding the administration of voided checks:

- A. Section 4.5.3.2, *Policies and Procedures, Voiding Checks* requires accounting for the physical check 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 principal must document approval of the voided transaction on the required form (Void Check Proof Sheet).
- B. The signature portion of the check must be cut off and destroyed. The check must be voided in the computer.

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The following explanations were provided for the occurrence of noncompliance with the requirement for administering SAF:

- A. The principal and bookkeeper were not aware that the Void Check Proof Sheets were required to be signed by the principal.
- B. The bookkeeper forgot to remove the signature lines from some of the voided checks.

Inappropriate administration of checks exposes the school to fraud, waste, and abuse of its resources while failure to properly void checks and remove the signature section of voided checks could result in unauthorized check use and negotiation.

Recommendation: The following steps must be taken to ensure SAF is administered in accordance with requirements of the APM:

- A. The principal must implement procedures to ensure proper administration of voided checks. Voided checks should be substantiated by completed SFEFs or Void Check Proof Sheets signed by the principal. The principal should complete periodic review of voided checks to ensure compliance with BOE policies and procedures.
- B. The bookkeeper should review the APM to become familiar with the BOE policies and procedures and requirements pertaining to voided checks. Careful attention must be taken to ensure removal of signature lines.

2018.07: Inter-Fund Transfers not Approved

There were 11 instances where funds were transferred from PY Carryover to restricted and unrestricted accounts without authorization from the Accounting and Financial Reporting Office.

The APM section 4.5.4.2 *Transfer of Funds Transfers Between Restricted and Unrestricted/Net Accounts* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal." The principal may request the use of PY Carryover funds. When this is necessary request must be sent to the Business Operations Office, currently Financial Services, detailing the items to be purchased, purpose and the amount of the request. The request will be reviewed and calculated, based on the total cash balance, and solvency of the school. Only upon written approval, should funds be transferred from the PY Carryover account.

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The bookkeeper was not aware of the policy to request approval to transfer from PY Carryover account and thought she had authority to transfer PY Carryover funds to any accounts with deficits.

Posting unapproved and inappropriate transfers could potentially result in misuse of funds or misstatement of financial information for fiscal decision-making.

Recommendation: The principal should contact Financial Services for advice on whether to reverse the unauthorized transfers from PY Carryover to Restricted Accounts. The principal and bookkeeper must ensure that, only allowable transfers are completed with appropriate documentation and approval. Approval must be obtained from Financial Services prior to transferring of funds from the PY Carryover account.

2018.08: Improper Administration of Monetary Transmittal Form Envelopes

The year-end MTF submission process was not operating as required by procedures outlined in the APM. Beginning FY2016, the bookkeeper kept the yellow remittance copy of the MTF along with the original for her files. Only the pink MTF remittance was included in staff members' MTF envelopes. The pink MTF remittance copy is retained by the preparer while the original MTF and the yellow MTF remittance copy are submitted to the bookkeeper with remittance of collection. After approving the MTF, the bookkeeper returns the yellow MTF remittance copy to the originator.

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.

The bookkeeper did not understand the year-end MTF transmittal process including the distribution of MTF remittance copies and therefore kept the yellow MTF remittance copies for her records instead of returning them to the staff members

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 bookkeeper should review the APM to become familiar with the BOE policies requirements pertaining to processing MTFs and the year-end MTF submission process. The bookkeeper should immediately begin proper distribution of MTF remittances by providing staff with the yellow copies after verification and approval of funds collected. Staff should be held accountable for returning both yellow and pink MTF remittance copies at year end.

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2018. 09: Improvement Needed in Management Oversight

The principal did not exercise proper oversight in the administration of SAF during the current audit period. The previous audit included **1** finding that is repeated in this audit report. There were **8** additional findings in the current audit report.

The APM, Section 3.2.1, *Principals*, states that the principal is the fiduciary agent for SAF. As such, responsibility for accounting, safeguarding and managing the SAF, in accordance with PGCPs policies and procedures, rest solely with the principal.

The principal has not provided adequate attention to the school's checking account to establish and implement effective financial controls. Specifically, the principal and bookkeeper have not consistently adhered to the requirements for cash management as outlined in the APM. Substantial financial risks currently exist at Cherokee Lane Elementary School in the absence of effective management oversight.

Recommendation: The principal should carefully review the policies and procedures as defined in the APM and develop internal controls to ensure compliance. She should be consistently involved in the daily operations as it relates to the administration of the school's resources. Improvement of the internal control environment should be emphasized by focusing on these **5** basic principles:

- Clearly Defined Lines of Authority and Responsibility;
- Segregation of Duties;
- Maintenance of Adequate Documents and Records;
- Limited Access to Assets; and
- Independent Checks on Performance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Cherokee Lane Elementary School was issued for the period ended June 30, 2013. During that period, the principal was in her current position. The bookkeeper's tenure began in FY 2015. An audit finding for **Monetary Transmittal Form Documentation** was the only finding reported in the previous audit. This finding is repeated at *2018.08 Improper Administration of Monetary Transmittal Form Envelopes*.

ACKNOWLEDGEMENT

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