



May 7, 2018

MEMORANDUM

To: Charoscar Coleman D, Instructional Director
Cluster 4

Dennis Miller, Principal
Suitland High School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for August 1, 2016 through December 31, 2017

An audit was conducted of the financial records of **Suitland High School** for the period August 1, 2016 through December 31, 2017. The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures for School Activity Funds (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit 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 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.

Enc.

cc:

Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Carolyn Boston, Board Vice Chair, Board of Education
Members, Board of Education
Monique Davis, Ed. D, Deputy Superintendent
John Pfister, Chief Financial Officer
J. Michael Dougherty, CPA, Esq., Director, Financial Services
Kathryn Warren, Assistant Treasurer
Denise Greene, Ed. D., Associate Superintendent, Area I
Erica Berry Wilson, Esq., Executive Director, Board of Education
Derrick Martin, Internal Auditor II

Internal Audit Report

Suitland 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 Suitland High School for the period August 1, 2016 to December 31, 2017. Suitland 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:

- *Excessive Deficits in Restricted Accounts,*
- *Mismanagement of Disbursements,*
- *Inadequately Supported Collection,*
- *Vending Machine Contract,*
- *Administration of Voided Checks,*
- *Records Retention, and*
- *Transfers Not Properly Approved*

Individually or in the aggregate, these findings resulted in 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 December 31, 2017.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Suitland High School for the period August 1, 2017 through December 31, 2017. The audit was performed as part of the FY 2018 audit plan.

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 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, and cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period August 1, 2016 to December 31, 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: Excessive Deficits in Restricted Accounts

Suitland High School was not in compliance with the spending requirements relative to the use of restricted funds. The following restricted accounts contained deficits which aggregated to approximately **(\$55,327.66)** as of December 31, 2017.

<u>Account #</u>	<u>Account Description</u>	<u>Amount</u>
212.65	Boys Basketball Equipment	(\$485.15)
212.75	Boys Basketball Tournament Fee	(\$350.00)
212.85	Boys Basketball Uniforms	(\$2,430.23)
214.25	Boys Football Custodial Overtime	(\$157.60)
214.40	Boys Football Game Worker	(\$174.00)
214.70	Boys Football Sports Equipment	(\$6,208.95)
214.85	Boys Football Transportation	(\$1,500.00)
214.90	Boys Football Uniforms	(\$2,718.25)
214.95	Boys Football Videography	(\$2,599.00)
216.65	Boys Soccer Equipment	(\$272.78)
217.75	Boys Wrestling Tournament Fees	(\$650.00)
222.85	Co-Ed Golf Uniforms	(\$257.37)
224.65	Co-Ed Swimming Equipment	(\$591.00)
231.55	Girls Basketball Officials	(\$75.00)
231.65	Girls Basketball Equipment	(\$400.00)
231.90	Girls Basketball Uniforms	(\$1,226.42)
233.65	Girls Soccer Equipment	(\$503.98)
233.85	Girls Soccer Uniforms	(1,200.00)
235.65	Girls Volleyball Equipment	(1,000.42)
235.85	Girls Volleyball Uniforms	(\$328.50)
303.14	Class of 2014	(\$5,000)
304.61	Class of 2016 – Dues	(\$3,479.21)
304.71	Class of 2017 – Dues	(\$305.57)
308.00	Employee Sunshine fund	(\$3,031.73)
313.00	Marching Band	(\$1,749.36)

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438.00	Facility Use Rental	(762.58)
450.20	PSA – Food	(\$2,648.35)
450.30	PSA – Staff Appreciation	(\$894.98)
510.30	F.A.C.S	(\$83.12)
510.40	FAC Fundraiser	(\$1,277.53)
511.10	Apparel - FD	(\$924.90)
511.20	Fieldtrip – FD	(\$1,133.90)
525.10	College Summit	(\$5,109.67)
535.00	Foreign Lang.	(\$185.00)
582.00	University H.S	(\$3,097.08)
583.00	Vocational Development	(\$4.95)
592.00	Technical Academy-Admin	(\$38.98)
592.45	Skills	(\$770.00)
595.64	VPA – TV Production	(\$667.95)
595.70	VPA – School Art	(\$1,034.12)
	Total	(\$55,327.63)

The APM provides the following guidelines regarding restricted account deficits:

- Expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted expenditures exceed the available cash, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure all accounts are solvent at all times.
- Under the BOE policies and procedures that govern the School Funds Expenditure Form (SFEF), the bookkeeper is required to complete the funds available line located in the “Request and Pre-Approval” section to ensure there is sufficient funding to cover the requested expenditure.

The following explanations were provided via interviews with the staff members, regarding the restricted account deficits they were associated with:

Employee Sunshine Fund – According to Employee B the sunshine fund accumulated funds donated by staff to be used for purchase of floral arrangements for funerals, births, and other related occasions. The suggested contribution amount was between \$20.00 and \$30.00. Reportedly, the principal verbally agreed to flower purchases even though there was no funds available in the Employee Sunshine fund account. Employee B placed orders for flowers without documented pre-approval. These billings from the florist were sent to the school that required payment.

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Marching Band - The marching band director was on extended leave for most of FY 2017. As a result the marching band was only able to participate in summer activities. There were no other marching band activities for FY 2017. Since there were no activities the parents requested a refund for dues paid. The dues were collected at the end of the FY 2016 and used to purchase band equipment, uniforms, and band camp for the summer activities and the FY 2017 school year performances. Although students and parents had been notified that dues were non-refundable, the principal and vice principal approved the parents' refund requests. The Marching Band account incurred a deficit as a result. The uniforms purchased had been special ordered and therefore non-refundable according to vendor policy.

Fashion Accounts (F.A.C, FAC Fundraiser, Apparel – FD, Field Trip – FD) – According to the fashion club sponsor there was a field trip held to NYC in FY 2011 where students did not pay the outstanding balance. The obligations for individual students were misplaced during transition of school administration staff from FY 2011 to FY 2012. The fashion club sponsor also alleged a sweat suit fundraiser was held where a staff member gave some merchandise away.

College Summit – According to the bookkeeper the previous principal signed a contract for a student college program. There were no funds raised or collected for this event and the invoice was in excess of \$5,000.00.

Principal Sponsored Activities Food and Staff Appreciation – According to the bookkeeper, the previous principal spent funds at the end of FY 2017 on staff luncheons despite funds not being available in the respective fund account.

Athletics – The bookkeeper stated the athletic accounts are cleared at the end of the fiscal year with funds from associated fund accounts. Based on IA's analysis there were sufficient funds available to cover negative balances in associated accounts but at the time of the audit the funds were not moved to cover the deficits.

All other accounts were insolvent accounts inherited by the current principal. Since the principal and recordkeeping staff did not monitor accounts to ensure that restricted accounts maintain a positive balance, BOE policies and procedures, as established in the APM, regarding the use of restricted funds were not followed. Consequently students are not receiving the maximum possible benefit of the resources that should have been available to them.

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Recommendation: The principal should implement the following recommendations to assist in restoring the affected accounts for solvency:

- A. Re-evaluate the administrative personnel procedures to ensure skill and attention is provided to the recordkeeping process.
- B. Consult with the Accounting and Financial Reporting Office regarding resolution of deficits.
- C. Work towards elimination of all fund deficits by discontinuing expenditures from insolvent accounts until the deficits are resolved.
- D. Hold recordkeeping staff accountable for performing monthly journal entry transfers for Athletic Account deficits to properly state account balances.
- E. Exercise caution during the preapproval process by ensuring that funds are available in relevant accounts before approving requests for expenditure.
- F. Discontinue Principal Sponsored and Employee Sunshine activities until the deficits in the respective fund accounts are fully resolved.
- G. Hold recordkeeping staff accountable for providing quarterly financial reports of balances to club and organization sponsors to ensure sponsors are aware of the status of accounts.

2018.02: Mismanagement of Disbursements

The audit revealed the following pertaining to management of disbursements:

- A. ***Inadequate Approval*** - There were 22 instances where expenditures were incurred without prior approval from the principal.
- B. ***Inappropriate Accounting for Advance Funds and Duplicate Check*** - Employee A was given Check number 56050 in the amount of \$198.73 to purchase goods from Walmart for the Summer Bridge Program's recreational time. The check was prepared based on an estimate obtained from Wal-Mart's online portal. The actual cost of goods purchased was \$177.65 for which Walmart debited the school's bank account (via the issued check). The check was simultaneously voided via endorsement. According to Employee A, a gift card was received for the difference in the amount of \$21.08. Employee A could not recall what happened to the gift card and does not have any receipts for the purchase. The bank statement for 7/31/15 shows that check number 56050 was cashed twice, once for \$177.65 - the actual amount of the goods purchased and posted on

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7/06/15 and again for \$198.73 – the amount of the check initially issued which was posted on 7/09/15. The bookkeeper recorded the transaction as a deposit in transit on the bank reconciliation that carried over for several months.

The APM provides the following guidelines regarding administration of disbursements:

- A. Section 4.5.3.1 Procedures under 1. *Pre-Approval by the Principal states*, “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.”
- B. Section 4.5.3.1 Procedures under 2. *Inclusion of Supporting Documentation* states that situations that require a check to be issued before an expense should be treated as an advance to staff, who must sign a statement acknowledging receipt of the advance. A stipulation should also require return of itemized receipts for the advance. If less than the full amount of the check is documented on receipts, the staff member must return the unused funds to the school, complete an MTF, and submit the difference to the bookkeeper. Accounting for these funds should be completed within two (2) business days.

According to the recordkeeping staff, employees oftentimes order goods prior to completing the SFEF and obtaining approval from the principal. This was the culture under the previous principal. Employee A confirms receipt of a gift card for \$21.08 but was unaware of the accounting process. Several attempts were made to obtain copies of the cancelled check for \$198.73 from the bank however because of the date the bank is unable to locate a copy.

Recommendation: The principal should implement the following recommendations to improve disbursement management:

- A. The principal must establish guidelines that ensure SFEFs are completed and approved prior to purchases being made.
- B. Employee A should reimburse the school for the gift card amount of \$21.08 for which receipt was acknowledged.
- C. Accounting and Financial Reporting should promptly follow-up when potentially fraudulent transactions are noted during the trimester review of bank reconciliations.
- D. The principal must consult with Treasury Operations relative to the bank’s controls to prevent duplicate check processing. Continued efforts should also be made to recover funds from fraudulently cashed checks.

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2018.03 Inadequately Supported Collection of Funds

The audit revealed the following exceptions pertaining to mismanagement of funds received:

There were **8** instances where MTFs had no supporting documentation to substantiate SAF collected.

The APM provides the following guidelines regarding collection:

Section 4.5.2 "Cash Receipts" under 1. Collecting Funds: Completing the Monetary Transmittal Form (MTF) states The MTF must be completed with the following information: who collected money, from whom it was collected, the amount and form of collection, and the reason for collecting. When additional space is required a student Remittance Report, Excel Spreadsheet, class list, receipts, or ticket/report stubs, can be used as attachments.

The Visual and Performing Arts (VPA) principal failed to provide to the bookkeeper all supporting documentation for MTF's returned. There was 1 instance where \$1,086.78 in funds was remitted without any ticket sales report from a play held. According to administration staff the VPA principal insisted on handling funds. There was another instance where a MTF was turned in by Employee C with funds totaling \$13,386.00 collected from a homecoming dance without any supporting documentation.

Inaccurate supporting documentation relative to SAF collection reduces assurance that all funds collected are recorded and deposited in accordance with the APM policy and procedures.

Recommendation: The principal should implement the following recommendations to improve the process for collection of funds:

- A. The bookkeeper must be held accountable for ensuring staff is turning in MTF's with the appropriate substantiating documentation as outlined in the APM. The bookkeeper must ensure the supporting information is present and accurate before signing off on the MTF.
- B. The VPA principal must ensure that all MTFs turned in include supporting documentation to substantiate funds remitted.
- C. The VPA principal must familiarize herself with the APM to ensure she can provide appropriate information to staff as the fiduciary agent of the School.

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2018.04 Vending Machine Contract Exceeds

There are 9 vending machines located throughout the school. However, there is no contract in place that specifies commission due and the term of the contract.

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. The contract term cannot exceed 1 year.”

The principal and financial recordkeeping staff have not created an internal control environment to ensure compliance with APM policies regarding vending machine contracts. Failure to maintain a current vending machine contract on file violates requirements of the APM and constitutes noncompliance with BOE policies and procedures.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are established and maintained on file in compliance with BOE policies and procedures. The principal must either obtain a current vending contract or consult with Purchasing and Supply Service for identification of an alternate vendor.

2018.05 Administration of Voided Checks

There were 51 instances where Void Check Proof Sheets (VCPS) or SFEFs were not completed and approved by the principal.

The 2008 School Accounting Manual Section 4.5.3.2.4, *Voiding Checks* instructs that when voiding a check, the physical check must be accounted for. 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 also be voided in the computer. A SFEF should also be completed and approved by the principal, noting the check was voided.

The recordkeeping staff was not familiar with the policy regarding cancelled checks. Therefore she did not prepare and provide VCPS or SFEFs to the principal for approval. There were excessive printing mistakes which resulted in an increased amount of voided checks. Inappropriate administration of checks exposes the school to fraud, waste and abuse of its resources.

Recommendation: The recordkeeping staff must be reminded of the importance of administering voided checks as required by the APM. All voided checks must be adequately supported by approved SFEFs and VCPS.

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2018.06 Record Retention

The following financial records could not be located for review:

- **51** End of Year MTF remittance receipt documents from FY 2017,
- **3** Disbursement records including *invoices, SFEF, canceled checks* from FY 2018 and,
- **13** Disbursement records including *invoices, SFEF, cancelled checks* from FY 2017

The APM requires accounting records and supporting documentation to be open and available to the auditors upon request. The BOE's record retention policy is 7 years or until the documents have been audited. In addition, 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 envelopes should be stored in a location inaccessible to the bookkeeper.

Internal controls were not implemented to ensure that all staff members' MTF envelopes were submitted during the year-end check-out process. Also, the recordkeeping staff could not explain the misplacement of the stated disbursement records were misplaced.

Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

Recommendation: The principal must implement internal controls to ensure that financial records are retained for the stipulated period of 7 years and in an organized manner. The principal should oversee the process for ensuring school records are properly maintained and secured. Staff should be held accountable for compliance.

2018.07 Transfers Not Properly Approved

There were **29** instances where evidence was not available to determine whether the principal approved Fund Transfer Journal Entries performed by the recordkeeping staff during the audit period.

The APM Section 4.5.4.2 *Transfers between Restricted and Unrestricted/Net Accounts* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal."

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The recordkeeping staff received requests from staff to transfer funds which were performed without the principal's approval. Reportedly, the recordkeeping staff was unaware of the APM requirement for the principal to approval all transfers.

Recommendation: The principal and recordkeeping staff must ensure that only allowable transfer journal entries are completed with approved Fund Transfer Journal Entry Proof Sheets retained on file to substantiate the transfers. The recordkeeping staff must be held accountable for compliance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Suitland High School was issued for the period ended July 31, 2016. During that period, the principal was not in his current position. The current principal's tenure began on July 1, 2017. The recordkeeping staff was in her position during the previous audit. The previous audit report included **5** reportable conditions, of which **2** are repeated in the current audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Inadequate supporting documentation for disbursements** – Controls appear to be working.
- **Inadequate Documentation Of Funds Received** – Condition still exists. See **Finding 2018.03** regarding *Inadequately Supported Collection*.
- **Record Retention** – Condition still exists. See **Finding 2018.06** regarding *Record Retention*.
- **Fundraiser Forms** – Controls appear to be working.
- **Excessive Voided Checks** - Controls appear to be working.

ACKNOWLEDGEMENT

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