

March 25, 2019

**MEMORANDUM**

To: Ava Tasker-Mitchell, Ph.D.  
Instructional Director

McKenna Lewis  
James H. Harrison Elementary School

From: Michele Winston, CPA  
Director Internal Audit

Re: Financial Audit for Period November 1, 2015 to November 30, 2018

An audit was completed on the financial records of **James H. Harrison Elementary School** for the period November 1, 2015 to November 30, 2018. The audit indicates that the school's control environment requires 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 by April 25, 2019 indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual for School. 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  
Kassandra Lassiter, Ed. D., Associate Superintendent, Elementary Schools  
Helen Coley, Ed. D., Chief, School Support and Leadership  
Joeday Newsom, Esq., Ethics Compliance Officer  
Daniel Reagan, Internal Auditor II

# Internal Audit Report

## James H. Harrison Elementary School Student Activity Funds

For the Period Ended November 30, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of James H. Harrison Elementary School for the period November 1, 2015 to November 30, 2018. James H. Harrison Elementary School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

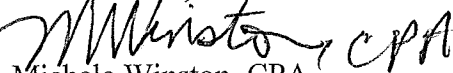
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following findings:

- *Delinquent Deposits;*
- *Mismanagement of Disbursements;*
- *Bank Reconciliations Not Completed Timely;*
- *Insolvency Report Not Properly Completed;*
- *Excessive Principal Sponsored Account Transfer; 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 James H. Harrison Elementary School for the period November 1, 2015 to November 30, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial controls require 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 November 1, 2015 to November 30, 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 Delinquent Deposits**

There were **15** instances where deposits were made between 2 and 37 days after collection.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that school staff is required to make deposit of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.

The financial recordkeeping staff explained that competing priorities have prevented the establishment of an effective routine to ensure funds are deposited to the bank timely.

Delinquent deposits constitute non-compliance with BOE policies and procedures and increase financial risk to the school. Untimely deposits can lead to lost or stolen funds. In addition, funds received are not immediately available for student use.

**Recommendation:** The financial recordkeeping staff should become diligent to ensure that funds are taken to the bank timely. The current principal should provide oversight to ensure that an effective bank deposit schedule is established.

**2019.02 Mismanagement of Disbursements**

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

- A. ***Lack of Pre-Approval:*** There were **3** instances where purchases were made prior to pre-approval from the current or former Principal. In another instance, the current Principal did not date her signature and it could not be determined whether the pre-approval was made prior to purchase.
- B. ***Delinquent Payments:*** There were **3** instances where payments to vendors were made after the due dates listed on the invoices.
- C. ***Lack of Third Check Signer:*** The school has not taken action to add a third check signer to the bank account. The school has had only two active check signers since July 2018.

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D. **Voided Checks:** There were 3 voided checks that could not be located to ensure they were properly defaced by having the signature line removed.

The APM Section 4.5.3, *Cash Disbursements*, includes the following provisions:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed, signed, and dated by the principal. The form includes space for front office staff to record the amount of funds available in the relevant account prior to the principal providing pre-approval.
- B. 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.
- C. Voided checks must be defaced, but filed in check number order with cancelled check images.

The APM, Section 4.2, *Bank Accounts*, states that there must be at least three authorized signers on the checking account. The Principal and Bookkeeper should be primary signers on the account. The third signer should be an administrator who signs checks in the Principal's absence.

The financial recordkeeping staff attributed the lack of principal pre-approval and delinquent payments to intermittent lack of diligence keeping track of planned expenditures. The financial recordkeeping staff has competing priorities and has had some extended absences, and at times has gotten behind on submitting requests to the principal and paying invoices.

The current principal and financial recordkeeping staff have identified a third check signer but they have not yet found a convenient time to visit the bank or contact Treasury Operations to have her officially added.

The financial recordkeeping staff stated that they keep voided checks filed with cancelled checks but could not provide an explanation for how the 3 checks may have gone missing.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to pre-approve expenditures can lead to insolvent accounts without the principal's knowledge. Delinquent payments can lead to unnecessary late charges, or eroding relationships with vendors that could impact student experiences. The lack of third check signer can delay check writing and can compromise the separation of duties in the case of a reimbursement check to the principal or to the financial recordkeeping staff. The lack of retention of voided checks increases the risk of check fraud.

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

- A. The financial recordkeeping staff should improve diligence when it comes to tracking payments due for expenditures.
- B. The current Principal should provide close oversight to establish key controls.
- C. Open invoices should be included in the monthly financial report so that the principal is made aware (See Finding 2019.04).
- D. The current principal should immediately contact Treasury Operations to assign a third check signer to the school's checking account.
- E. The financial recordkeeping staff should be diligent to ensure all voided checks are properly defaced and retained.

**2019.03 Bank Reconciliations Not Completed Timely**

Bank reconciliations for 10 of the 12 months reviewed were not completed timely. For one of the other bank reconciliations, the Principal did not review or sign.

The Accounting Procedures Manual (APM), Section 5.2, *Financial Reporting Requirements*, states that the Principal should receive the package of reports, to include the bank reconciliation, by the 15<sup>th</sup> of each month. The principal is responsible for reviewing and signing the report package to indicate review.

The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries*, states that bookkeepers must make the Principal aware when either a lack of time or distractions are adversely affecting their ability to successfully complete their bookkeeping duties.

The financial recordkeeping staff stated that due to competing priorities and a few extended absences, she has not been properly diligent in completing bank reconciliations timely. She stated that she does not always feel comfortable with School Funds Online and often procrastinates completion. The former Principal did not always provide enforcement of completing the bank reconciliation timely.

Untimely bank reconciliations constitute non-compliance with BOE policies and procedures and increased financial risk to the school. The bank reconciliation process is the most effective internal control to ensure that funds are properly deposited and recorded.



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**Recommendation:** The current Principal should provide effective oversight to ensure that the financial recordkeeping staff is completing reconciliations timely, by the 15<sup>th</sup> of each month. The principal should perform monthly review of the financial reporting package and sign to indicate review. The financial recordkeeping staff should contact School Funds Online customer support or Accounting and Financial Reporting for training or assistance in completing reconciliations efficiently. The principal should hold the financial recordkeeping staff accountable for compliance.

**2019.04 Insolvency Report Not Properly Completed**

The financial recordkeeping staff did not accurately complete the Insolvency Report on the November 2018 Financial Report. Unpaid bills were indicated as \$0, with no corresponding Unpaid Bills Spreadsheet. During the audit, the financial recordkeeping staff identified \$2,456.25 on 2 invoices that should have been included in the solvency calculation on the November 2018 Insolvency Report.

The APM, **Section 5.2, *Financial Reporting Requirements***, states that the Insolvency Report should be completed monthly and requires the bookkeeper to manually record data to calculate the school's solvency. The bookkeeper must manually calculate the value of unpaid bills that existed as of the end of each reporting period for both restricted and unrestricted funds to complete the report, .

The current principal and financial recordkeeping staff were not familiar with the specific requirements for monthly reporting in the APM. Accounting and Financial Reporting had provided an explanation for the Unpaid Bills Spreadsheet for the October 2018 report, but the financial recordkeeping staff remained unclear on exact requirements for the calculation.

Failure to complete an unpaid bills spreadsheet can affect the school's solvency calculation on a monthly basis. Further, the principal and financial recordkeeping staff may be less aware of open invoices which can lead to untimely payments (See Finding 2018.02).

**Recommendation:** The principal and financial recordkeeping staff should familiarize themselves with the specific requirements for monthly reporting in the Accounting Procedures Manual. They should collaboratively review open invoices during the monthly financial reporting process to ensure the unpaid bills spreadsheet is completed properly and that it is incorporated into the Insolvency Report's calculation.

**2019.05 Excessive Principal Sponsored Account Transfer**

A total of \$214.44 was transferred from the bookfair account to the Principal Sponsored Activities account despite the bookfair not being a profitable fundraising activity.

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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:

- 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.

Funds were collected for the bookfair fundraiser in May and June 2018, creating an account balance as of June 30, 2018. The financial recordkeeping staff made the transfer on this date. The financial recordkeeping staff mistakenly interpreted the balance as fundraiser profit that could be partially re-allocated to PSA. However, the bookfair was run through Scholastic as a not-for-profit agreement. The invoice for payment of all revenue was not paid to Scholastic until October 2018.

The excessive transaction has resulted in **\$214.44** being unavailable for unrestricted student usage as intended. Instead, funds have been made available for staff activities.

**Recommendation:** The financial recordkeeping staff should immediately transfer the **\$214.44** from the PSA account back to the bookfair account. Further, the financial recordkeeping staff should ensure that all future PSA transfers amounts are appropriate and performed in accordance with APM, Section 9.6, *PSA for Staff*. The principal and Accounting and Financial Reporting should provide oversight to this process.

**2019.06 Fundraiser Forms Not Completed**

Fundraiser forms were not completed as required during the audit period.

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

Despite this being a finding in the past audit report, the former principal and financial recordkeeping staff did not initiate a process to use the Fundraiser Completion Report and

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complete annual summaries for school-wide audit reports. The financial recordkeeping staff stated that since fundraisers occur so infrequently, she often forgot.

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 current principal, in coordination with the financial recordkeeping staff, should develop internal controls to ensure completion of required fundraiser forms. The current principal should provide effective oversight to the process, to include a review of all forms prior to completion of the Annual Fund Raiser Summary each year.

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

The previous audit report for **James H. Harrison Elementary School** was issued for the period ended **October 31, 2015**. The current principal's tenure began in July 2018. The financial recordkeeping staff has been in place for the entire audit period. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Disbursements** – Condition still exists. See **Finding 2019.02** regarding *Mismanagement of Disbursements*
- **Improperly Completed Monetary Transmittal Forms** – Controls appear to be working.
- **Excessive Spending in Restricted Accounts** – Controls appear to be working.
- **Year-End Monetary Transmittal Form Procedures Not Followed** – Controls appear to be working.
- **Fundraiser Forms Not Completed** – Condition still exists. See **Finding 2019.06** regarding *Fundraiser Forms Not Completed*.
- **Vending Machine Contracts** – Controls appear to be working.
- **Bank Reconciliations Not Properly Completed** - Condition still exists See **Finding 2019.03** regarding *Bank Reconciliations Not Completed Timely*.

### **ACKNOWLEDGEMENT**

We would like to thank the principal and staff of James H. Harrison Elementary School for their cooperation and assistance during the audit.