



June 21, 2018

MEMORANDUM

To: Kelvin Moore, Instructional Director
Cluster 14

Gorman Brown, Principal
Charles Herbert Flowers High School

Mar-C Holland, Resident Principal
Charles Herbert Flowers High School

From: Michele Winston, CPA
Director Internal Audit

Re: Financial Audit for Period July 1, 2015 to January 31, 2018

An audit of the financial records of **Charles Herbert Flowers High School** was completed for the period July 1, 2015 to January 31, 2018. 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 Funds (APM) and Board of Education 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 within **30** days, indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual. 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.

cc: Segun Eubanks, Ed. D., Board Chair
Kevin M. Maxwell, Ph. D, Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Monique Whittington-Davis, Ed. D., Deputy Superintendent
J. Michael Dougherty, Director Financial Services
Helen Coley, Ed. D., Associate Superintendent, Area II
Erica Berry Wilson, Esq., Executive Director, Board of Education
Patrick Pope, Internal Auditor II

Internal Audit Report

Charles Herbert Flowers High School Student Activity Funds

For the Period Ended January 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Charles Herbert Flowers High School for the period July 1, 2015 through January 31, 2018. Charles Herbert Flowers 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:

- *Missing Funds,*
- *Mismanagement of Disbursements,*
- *Mismanagement of Funds Received,*
- *Administration of Voided Checks,*
- *Administration of Vending Contract,*
- *Improper Data Entry,*
- *Untimely Financial Reporting,*
- *Budgeting for Clubs and Organizations not Performed and*
- *Improvement Needed in Management Oversight*

These findings individually or in the aggregate, 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 deviations 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 January 31, 2018.



Michele Winston, CPA,
Director Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) of Charles Herbert Flowers High School for the period July 1, 2015 through January 31, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures require improvement to be in accordance 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, cancelled checks and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2015 through January 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:

2018.01: Missing Funds

The audit revealed missing funds in the amount of \$100.00 in September 2017. The validated deposit ticket and *SFO Deposit Analysis* shows \$1,280.00 was deposited in the Girls Volleyball Uniform account, whereas the receipts issued to students show collections in the amount of \$1,380.00.

The APM, Section 4.5.2.2, *Cash Receipts Procedures* states that the bookkeeper is responsible for counting cash, verifying the total on the MTF and applicable attachments. The funds counted must agree with the MTF and the actual funds submitted. When discrepancies are noted, the Bookkeeper must immediately contact the individual who submitted the MTF.

The recordkeeping staff failed to recognize the discrepancy between the total on the MTF and the supporting documentation. This appears to be an oversight by the staff.

Failure to adequately collect, verify and deposit SAF has resulted in a loss for the student body. The missing funds were repaid on June 18, 2018 by the staff that performed the remittance.

Recommendation: The recordkeeping staff should carefully review supporting documentation for funds remitted to ensure accuracy prior to performing verification signature. The principal must hold the recordkeeping staff accountable for compliance.

2018.02: Mismanagement of Disbursements

The audit revealed the following exceptions pertaining to the mismanagement of disbursements:

- ***Inadequate Principal Approval*** - There were **52** instances where SFEFs were not adequately approved by the principal. The approvals occurred after the expenditures were initiated. SFEFs were submitted for approval up to **262** days after the expenditures were incurred.
- ***Delinquent Payments*** - There were **19** instances where payments to the vendor were not remitted in a timely manner. Payments to vendors were remitted up to **232** days after the invoices were created.

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The APM provides the following guideline relative to the administration of cash disbursements:

- Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The bookkeeper determines if funds are available, initials, dates and records the amount available on the SFEF.
- Invoices should be paid within 30 days of receipt. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.

The principal failed to establish a system of internal controls to ensure compliance with Board policies pertaining to funds disbursed by the school. The recordkeeping staff stated that they have informed staff and sponsors of the importance of following Board procedures for proper cash disbursements. The principal has not adequately enforced these internal controls and has created an environment where failure to adhere to Board policies is an acceptable practice. The delay in submitting SFEFs and invoices has led to late vendor payments remitted to the vendor.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete the SFEF and obtain pre-approval from the principal. The extended length of time taken to submit SFEFs and to remit payments to vendors could lead to insolvent restricted accounts.

Recommendation: The principal should educate staff of the proper procedures for cash disbursements in an effort to change the culture pertaining to the cash disbursement process. The principal and recordkeeping staff should improve current controls by providing staff training, to ensure documented approval precedes purchases. The principal must hold staff accountable for adhering to Board policies and procedures, and consider holding repeat offenders personally responsible for unapproved purchases.

2018.03: Mismanagement of Funds Received

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

- ***Cash Receipts Supports*** – There were **8** instances where the funds collected were not properly substantiated. Athletic ticket reports and copy of a commission check and reports for fundraising events were not available for review.
- ***Delinquent Deposits*** - There were **17** instances where funds collected were not deposited in a timely manner. Delinquent deposits ranged from 1 to 22 days.

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- **Changes to MTFs** – There were **6** instances where MTF changes were not completed as indicated on top of the form. Changes were not always initialed by the individual making the change.
- **Funds Held by Teacher or Sponsor** – There were **49** instances where a teacher or sponsor held funds for longer than a day prior to remittance to the recordkeeping staff. Funds were held up to **141** days prior to remittance.
- **Donation Reporting** - There were **3** instances where a donation was not reported to the Grants Financial Management Office (GFMO).

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

- 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 collection; and 5) the reason for collection. If additional space is needed a Student Remittance Report, Excel spreadsheet, class list, receipts, or ticket/report stubs, can be used as an attachment.
- Deposits of all funds received must be made at least every other day. However, no more than \$250.00 should be kept in the building overnight. If funds are kept on-hand at the school awaiting deposit, they must be kept in a secure location.
- The SFEF should not be accepted if: a pencil or white-out is used, changes are not initialed, funds are not exactly as indicated in Section 1; or Section 2 is not completed or an appropriate list is not attached.
- Staff members are prohibited from holding funds overnight.
- All grants and donations made directly to schools, irrespective of amount, should be reported to the GFMO on a *School Grant Reporting Form*.

The principal failed to establish a system of internal controls to ensure compliance with Board policies and procedures relative to funds collected at the school. Staff/sponsors routinely disregard instructions from the bookkeeper to follow Board procedures regarding the collections. Delinquent deposits were sometimes due to the volume of transactions to process. Also, there were some instances where the sponsor remitted funds in a locked bag which delayed the deposit process until the sponsor was available to open the bag.

The recordkeeping staff was unaware that all donations must be reported to the GFMO, not just donations that meet a certain threshold.

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Mismanagement of funds constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely deposits and delinquent remittance of funds by sponsors increase the risk of lost or stolen funds.

Recommendation: The following is recommended for the principal and recordkeeping staff to properly manage funds received:

- Staff must be held accountable for adequately supporting and remitting funds collected on a daily basis to reduce the tardiness of deposits. The principal and recordkeeping staff must ensure that funds totaling \$250.00 and above are not maintained in the school safe and funds under \$250.00 are not held for more than 2 days.
- The principal and recordkeeping staff should provide training to staff members to ensure all funds collected are submitted daily, as well as completing a MTF correctly.
- Staff should be placing funds collected (in unlocked envelopes) in the drop safe when the recordkeeping staff is not available. However, if locked money bags are used, the principal should ensure that a second key is provided to the recordkeeping staff to access contents in the staff members' absence.
- The recordkeeping staff must review the section of the APM that addresses *Accounting for Grants and Donations* to ensure that she is familiar with the reporting requirements relative to donations.

2018.04: Administration of Voided Checks

The Void Check process is not being performed. The audit revealed the following regarding the administration of voided checks:

- ***Void Proof Sheet Signature*** – There were **213** instances, or 100% of the sample where the recordkeeping staff failed to obtain the principal's signature on void check proof sheets.
- ***Multiple Transactions*** – There were **25** instances in SFO where multiple transactions were attached to a single check number.
- ***No Physical Check*** – There were **20** instances where the voided check was not attached to the support the voided transaction.

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According to the APM, when voiding a check, the physical check must still 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 or a void check proof sheet should also be completed and approved by the principal, noting the check was voided.

Reportedly, the recordkeeping staff were unaware that it is necessary for each voided check to be supported by an approved SFEF or void check proof sheet. Also, they were unsure how multiple transactions are assigned to a single check number in SFO. In many instances, voided checks and reconciled checks had the same check number. There was an issue with alignment of the school's printer which caused several misprints and ultimately voided checks.

The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. Lack of approval of voided checks and having duplicate checks for one check number may increase the risk of check fraud and cause confusion when attempting to research a transaction. There is also an added cost for purchase of check stock when there are numerous checks prepared in error.

Recommendation: The recordkeeping staff must be reminded of the importance of administering checks as required by the APM. All void check proof sheets should be signed by the principal and attached to voided check. Also, the recordkeeping should properly file and retain all voided checks. The recordkeeping staff is encouraged to contact TRA for assistance to find the cause of duplication of check numbers.

2018.05: Administration of Vending Contracts

The approved vending contract for the audit period could not be located. Also, vending machine sales were allowed prior to the end of the last lunch period.

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. In addition, 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."

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*" 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.

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According to the recordkeeping staff, a vending contract is in place but could not be located due to the principal being on assignment away from the school at the time of the audit. The principal did not ensure that the vending contractor installed proper mechanisms that would prevent the vending machine contents from being accessible between 12:01 A.M. and the last lunch period.

The lack of an agreement with the vending company may increase the risk of inadequate maintenance of the machines and insufficient commission revenue from vending machine operation. Failure to have a formal contract in place, as well as allowing vending sales prior to the last lunch period constitutes non-compliance with BOE policies and procedures.

Recommendation: The principal must establish procedures to ensure that a current vendor contract is established, adhered to, and maintained on file in compliance with BOE policies and procedures.

The sale of foods of minimal nutritional value from vending machines between the hours of 12.01 A.M. and the end of the last lunch period must be discontinued. Additionally, the principal must contact the vending contractor and request that proper equipment be installed to ensure that the machines are off between the hours of 12.01 A.M. and the end of the last lunch period. The principal should contact Purchasing Services if the current vendor is unable to provide a current contract or is unable to comply with sales restrictions.

2018.06: Improper Data Entry

The recordkeeping staff did not use the MTF number as the key identifier when funds received was entered into SFO. Rather, funds received were sequentially numbered, starting from the number 1 since SFO was implemented.

The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries*, states the bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions. Also, the Schoolfunds Online Administrator's Guide, *Require Beginning and Ending Receipt Numbers on Receipts*, requires all receipts to have a beginning and ending receipt number entered on each detail line in the appropriate fields before saving. These numbers are required to reference the teacher's receipt book numbers (MTF).

The recordkeeping staff stated that she is unable to change the numbering of transactions in SFO, as the system automatically numbers the transactions in sequential numerical order.

Failure to use the MTF numbers as the key identifier of a receipt constitutes non-compliance with BOE policies and procedures. Transactions in SFO are not easily

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identified due to the MTF number not being the key identifier. Transactions have to be researched by using other information on the MTF such as MTF amount, date, and the receiptee which may be similar or the same on multiple transactions. The activity of researching a MTF has resulted in an unnecessary time consuming task.

Recommendation: The recordkeeping staff must consult with Accounting Operations and TRA to obtain assistance with commencing the use of MTF numbers as the identifier when transactions are entered into SFO. The principal must review cash receipts reports to ensure that the recordkeeping staff is efficiently posting cash receipt transactions in SFO.

2018.07: Untimely Financial Reporting

During the review of the internal controls over the reporting process and the school's compliance with the reporting requirements for the audit period, it was revealed that there were 6 instances where monthly financial reports were not completed timely by the recordkeeping staff. Also, the report packages did not include all the necessary reports or the package checklist.

The APM Section 5.2, *Financial Reporting Requirements*, requires that the principal receive monthly financial reporting packages from the bookkeeper by the 15th of the subsequent month.

The recordkeeping staff cited the volume of transactions as an explanation for not completing the monthly financial reports timely, except for the month where staff was on extended leave.

The principal's ability to promptly verify the school's solvency status may also be impacted. Delinquent and inaccurate reporting also impacts the timeliness of information used in the decision-making process.

Recommendation: The principal should hold the recordkeeping staff accountable for complete and timely report submission and ensure that the monthly financial reports are thoroughly reviewed and intact as evidenced by a signature.

2018.08: Budgeting for Clubs and Organizations not Performed

Charles H. Flowers High School has several clubs that conduct financial activity. However, school clubs and organizations have not developed and submitted annual budgets to the principal for review and approval.

The APM, Section 7.3, *Class and Club Accounts*, requires principals and teachers to work closely with students in planning finances (budgeting) for their clubs and

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organizations. School clubs should have as much autonomy as possible in spending money as permitted by BOE regulations. However, funds shall not be used without majority consent of the students involved. Copies of annual budgets must be provided to the school's bookkeeper.

The recordkeeping staff was unaware of the requirement for annual budgets to be submitted by clubs and organizations.

Failure to develop and submit annual budgets constitutes non-compliance with BOE policies and procedures. Further, lack of budgeting could lead to insolvency or overspending for a particular activity.

Recommendation: The principal should develop procedures for clubs sponsors to develop and submit annual budgets to ensure extracurricular activities can be planned and executed efficiently.

2018.09: Improvement Needed in Management Oversight

The principal did not exercise adequate oversight in the administration of SAF during the current audit period. The previous audit included 7 findings of which 3 are repeated in this 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 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

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- Independent Checks on Performance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Charles Herbert Flowers High School was issued for the period ended June 30, 2015. The current staff was in place at the time of the previous audit. There were 7 findings reported in the previous audit and 3 were repeated in this report. There were also 5 new findings that were not present during the previous audit period. The following findings were noted as a result of that audit and the current status is indicated below:

- **Mismanagement of Funds Received** – Condition partially exists. See **2018.03** regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** – Condition partially still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Administration of Checks** – Controls appear to be working.
- **Failure to Complete Monthly Financial Reporting Requirements** – Condition still exists. See **2018.07** regarding *Financial Reporting*.
- **Transactions Improperly Posted to Principal Sponsored Activities (PSA) Fund Account and Other Accounts** – Controls appear to be working.
- **Restriction on Individuals with Disabilities** – Controls appear to be working.
- **Management Oversight** – Controls appear to be working.

ACKNOWLEDGEMENT

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