



January 8, 2018

MEMORANDUM

To: Ed Ryans, Ed. D, Instructional Director
Cluster 11

Afie Mirshah-Nayar, Principal
Largo High School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for May 1, 2015 through July 31, 2018

An audit was conducted of the financial records of Largo High School for the period May 1, 2015 through July 31, 2018. 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 by **February 8, 2019** 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: Alvin Thornton, Ph. D., Board Chair
Monica Goldson, Ed. D., Interim Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Carletta Marrow, Ed. D, Associate Superintendent for High Schools
Helen Coley, Ed. D, Chief of School Support and School Leadership
Michael Herbstman, Chief Financial Officer
J. Michael Dougherty, CPA, Esq., Director, Financial Services
Derrick Martin, Internal Auditor II

Internal Audit Report

Largo High School Student Activity Funds

For the Period Ended July 31, 2018

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

Table of Contents

INTERNAL AUDITOR'S REPORT.....	2
SUMMARY.....	3
OBJECTIVES.....	3
SCOPE.....	3
FINDINGS AND RECOMMENDATIONS.....	4
STATUS OF PRIOR AUDIT FINDINGS	9
ACKNOWLEDGEMENT	9

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Largo High School for the period May 1, 2015 to July 31, 2018. Largo 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:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Fundraiser Forms*
- *Year-end Monetary Transmittal Form Envelopes*
- *Administration of Stale Dated Checks*

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 July 31, 2018.



Michele Winston, CPA
Director, Internal Audit

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Largo High School for the period May 1, 2015 to July 31, 2018. The audit was performed as part of the FY 2019 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, available cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period May 1, 2015 to July 31, 2018. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2019.01: Mismanagement of Funds Received

The audit revealed the following exceptions pertaining to the management of receipts:

- A. *Accounting for School Store Activities* – School staff with responsibility for operating the school store was unable to provide an inventory list for the school store activities that occurred during the audit period.
- B. *Senior Class Budget* – During FY 2018 an annual senior class budget was not prepared to administer the collection of related funds.

The APM provides the following guidelines regarding administration of collection:

- A. Section 9.4 *Accounting for School Store Activities* - The purpose of a school store is to provide school-spirited items and school supplies for classroom work, such as pencils, pens, stationery, school shirts, decals, etc. Price mark-ups should be reasonable to ensure maximum access of the entire school population and community at large. To ensure adequate internal controls including separation of duties, the bookkeeper must not operate the school store. The staff member responsible for operating the school store must keep an inventory of all merchandise and account for funds collected on a MTF. The inventory form used should indicate the date items are added to, sold and deleted from inventory, as well as a running balance for each item.
- B. *Section 7.3 Class and Club Accounts* – Principals and teachers need to work closely with students in planning finances (budgeting) for their club and organizations. School clubs shall have as much autonomy as possible in spending money as permitted by Board regulations. However, funds shall not be used without majority consent of the students involved. A copy of annual budgets must be provided to the school's bookkeeper via Senior Class Planning and Budget Workbook form. The workbook must be included in the annual report submission to the Accounting and Financial Reporting Office (AFRO) by mid-July.
- C. *Section 7.1 Importance of Planning* – Planning helps to chart a course for the achievement goals. The planning process typically begins by identifying what needs to be done and then determining the necessary steps to arrive at an intended destination. A useful tool in this respect is the budget. A budget serves as an

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

invaluable management tool for the principal, activity sponsors and student officers to help in securing the success of a student activity. It also provides students with an important opportunity to gain real-life experience in developing and successfully managing the financial aspect of an activity.

The recordkeeping staff was unaware of the policy that required the school's store to keep an inventory list. The principal stated that the Class of 2018 sponsorship changed 3 times throughout the school year. As a result of the changes sponsors were unable to create a senior class budget in accordance with the APM policies and procedures.

Inadequate accounting for school store activities could result in the school administrators not knowing how many items are available for sale; the efficiency of the school store; the value of inventories; the age of the inventory (determining first in first out), and whether there is fraud. Also, inadequate planning and accounting for class activities reduces the school's ability to safeguard its financial resources and impacts the determination of whether class accounts include deficits. More importantly, the students miss the opportunity of gaining real-life experience of developing and successfully managing the financial aspect of their class activity.

Recommendation: The following recommendations are made for improving controls over management of receipts:

- A. The recordkeeping staff and store staff should review the APM to become familiar with the school store inventory requirements. The principal and recordkeeping staff should establish internal controls to ensure that periodic inventory is performed of school store items to prevent fraud waste and abuse of proceeds.
- B. The principal and recordkeeping staff must hold class sponsors and class officers accountable for completing the senior class budget workbook. The principal should review and approve the senior class budget workbook and the recordkeeping staff must include the budget in the end of year report.

2019.02: Mismanagement of Disbursements

The audit revealed the following pertaining to management of disbursements:

- A. ***Expenditures Not Adequately Approved*** - There were 45 instances where the School Funds Expenditure Form (SFEF) were either incomplete or not properly approved.
- B. ***Core Textbook Fines Not Remitted to Board in a Timely Manner*** - The recordkeeping staff did not remit FY 2018 core textbook fines to the BOE timely

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

as required by the APM. Funds were remitted to the Board after the school was notified by the auditor.

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

- A. *Section 4.5.3 Cash Disbursements, Pre-approval by Principal* - The school's disbursement guidelines require, that SFEFs must be completed and signed by the principal prior to ordering or purchasing goods or services. Schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete this form. The employee can be held personally liable for the obligation, if this procedure is not followed.
- B. *Section 9.7 Textbook Replacement Fees (Core and Non-Core)* - Funds collected from students for core textbooks will be deposited in the school's checking account and recorded in School Funds Online as restricted funds in the SAF. These monies must be remitted to the BOE on a quarterly basis with a completed Textbook Reimbursement Form.

The recordkeeping staff and principal did not implement internal controls to ensure that the required SFEFs were adequately completed prior to performing approval. Staff made purchases prior to obtaining approval due to lack of planning and short turnaround times. The recordkeeping staff did not remit core textbook funds to the Board timely due to delinquency in the processing of cash disbursements.

Inadequate approval of expenditures reduces assurance that purchases were made appropriately and in accordance with the APM policy and procedures. In addition, failure to forward core textbook fees to the BOE on a quarterly basis impacts the amount of funds available to the Board to replace instructional material which includes computer software, books, and equipment.

Recommendation: The following recommendations are made for improving controls over management of disbursements:

- A. The principal and recordkeeping staff should ensure that SFEFs are completed and approved prior to purchases.
- B. The principal must hold the recordkeeping staff accountable for ensuring that core textbook fees are remitted to the Board on a quarterly basis as required by the APM.

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

2019.03: Fundraiser Forms

Fundraiser Completion Reports and the annual reports summarizing the school's fundraising activities were not prepared for fundraisers held during the audit period.

The BOE policy 5135.1, "Fundraising", requires completion of Fundraiser Request and Authorization Forms, Fundraiser Completion Report and an annual report summarizing fundraising activities for each school year. These documents must be maintained on file for public and auditor review upon request.

BOE policies and procedures as established in the APM were not consistently followed. The recordkeeping staff was aware of the administrative requirements but used incorrect forms.

Failure to complete the required 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 fundraising sponsors must complete the Fundraiser Completion Report at the end of each fundraiser. Sponsors should be held accountable for non-compliance. Also, at the end of the school year, the recordkeeping staff should generate a SFO report of all fundraising activities for the principal or designee to complete the annual report of all fundraising activities for that school year. An adequate filing system must be implemented to facilitate the retrieval of those forms and reports upon request of public or Internal Audit.

2019.04: Year-end Monetary Transmittal Form Envelopes

The year-end MTF submission process was not operating as required by the policies outlined in the APM.

- A. During FY 2018, there were **3** staff members that did not submit their year-end MTF envelopes.
- B. There were **135** instances where staff members did not seal and sign the envelopes during FY 2018 as required by the APM.
- C. There were **95** instances where staff members did not retain the pink MTF remittance copy during FY 2017.

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

According to the APM, staff members collecting funds are required to complete MTF's and must retain remittance copies. The pink copy of the MTF is required to be retained by the preparer of the form. The white and yellow copy is submitted to the recordkeeping staff with funds collected. After approving the MTF, the recordkeeping staff returns the yellow copy to the originator. Prior to departing the school at year-end, staff and program managers are required to submit the pink and yellow remittance copies of the MTFs in a sealed envelope (with their signature over the seal) to the designated administrator.

The staff member designated to collect year-end MTF envelopes was new to the process. The internal controls established for receiving all year-end MTF envelopes did not include the 3 staff members who were 12 month employees. These employees were thought to be exempt from the year end close out process. The staff members who only turned in the yellow remittance copies were not compliant with BOE policy.

Recommendation: The designated administrator must be held accountable for ensuring ALL year-end MTF envelopes are collected from staff. The staff must be held accountable for returning MTF remittance copies in a signed and sealed envelope to the designated administrator. MTF envelopes must be secured in an area that is not accessible to the bookkeeper.

2019.05: Stale Dated Checks

There were 66 checks (check #'s 17753 – 17939) of \$3.38, written between October 2017 and February 2018 for overpayment of a fieldtrip that were still listed as outstanding on the bank reconciliation as of July 31, 2018. These checks did not clear the bank as of September 2018, (month of fieldwork). Approximately 60% of the outstanding checks would be reissued by January 31, 2018. The remaining 40% would be remitted to the State of Maryland as the students have since graduated.

According to the APM, if a check from the SAF has not been cashed within a reasonable time of at least 6 months, it is considered a stale check. The recordkeeping staff is expected to investigate the circumstances around the issuance of these checks and attempt to determine from the payee why the checks were not cashed. After this determination, the stale checks are either reissued or 'written-off.'

The recordkeeping staff was not familiar with requirements for addressing stale checks. BOE policies and procedures relative to stale checks as established in the APM were not followed.

Banks are not required to accept checks over six months old. Stale checks can be returned and will have to be reissued. Stale checks leads to overstated account balances and puts the school at risk for violating unclaimed property laws.

Largo High School
Student Activity Funds
Internal Audit Report
For the Period Ended July 31, 2018

Recommendation: The bookkeeper should familiarize himself with the APM requirements regarding lost, stolen and uncashed checks. In addition, the recordkeeping staff should ensure all stale checks are cleared and reissued or written-off according to BOE policy.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Largo High School was issued for the period ended April 30, 2015. During that period, the recordkeeping staff was not in his current position. The principal was on staff during the previous audit. The previous audit report included **11** reportable conditions, of which **3** are repeated. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Excessive Funds Held in the School's Safe** – Controls appear to be working.
- **Unpaid Restitution** – Controls appear to be working.
- **Financial Insolvency** – Controls appear to be working.
- **Mismanagement of Funds Received** – See Finding 2019.01 regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** – See Finding 2019.02 regarding *Mismanagement of Disbursements*.
- **Inadequate Controls over Check Signing** – Controls appear to be working.
- **Record Retention** – Controls appear to be working.
- **No Contract in Place For Vending** – Controls appear to be working.
- **Fundraiser Forms** – See Finding 2019.03 regarding *Fundraiser Forms*.
- **Deficit in Principal Sponsored Activities** – Controls appear to be working.
- **Gym Facility Rental** – Controls appear to be working.

ACKNOWLEDGEMENT

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