



January 8, 2019

MEMORANDUM

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

Katrina Lamont, M.S.A.
Principal, Surrattsville High School

From: Michele Winston, CPA
Director Internal Audit

Re: Financial Audit for Period September 1, 2016 to August 31, 2018

An audit was completed on the financial records of **Surrattsville High School** for the period September 1, 2016 to August 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 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.

cc: Alvin Thornton, Ph. D, Board Chair
Monica Goldson, Ed. D, Interim Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
J. Michael Dougherty, Director Financial Services
Helen Coley, Ed. D, Chief, School Support and Leadership
Carletta Marrow, Ed. D, Associate Superintendent, High Schools
Patrick Pope, Internal Auditor II

Internal Audit Report

Surrattsville High School Student Activity Funds

For the Period Ended August 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Surrattsville High School for the period September 1, 2016 through August 31, 2018. Surrattsville High School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

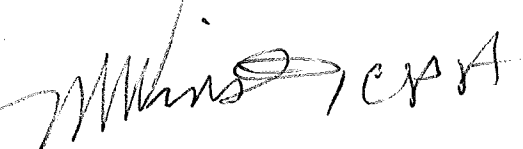
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we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

Our examination disclosed the following findings:

- *Improper Use of Restricted Funds,*
- *Mismanagement of Funds Received,*
- *Mismanagement of Disbursements,*
- *Out of Season Cheerleading Program,*
- *Administration of Vending Machines, and*
- *End of Year Monetary Transmittal Form Procedures Not Followed*

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 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 August 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 Surrattsville High School for the period September 1, 2016 through August 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 September 1, 2016 through August 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:

2019.01 Improper Use of Restricted Funds

The principal followed a practice established by the previous administration of using the School Based Budget (SBB) funds to cover teachers' salaries for the Credit Recovery Program and also collected funds from the students for the same activity. Furthermore, the school did not remit all credit recovery funds collected as recorded in SFO, to the BOE for FY 2018 and planned to use those funds to offset the cost of salaries for the Academic Validation Program boot camp teachers.

The APM Section 4.3, *Fund Accounts*, states that restricted funds are those that are raised by a specific group and/or for a specific purpose and are used exclusively for that group and/or purpose and not for general needs of the school.

The principal followed practices established by the previous administration instead of following the policies and procedures stated in the APM. There was no further explanation provided for not forwarding all credit recovery funds in FY 2018.

The use of restricted funds outside their intended use is a violation of Board policies and may reduce the benefits to the specific group of students who raised or collected the funds.

Recommendation: The principal and recordkeeping staff must ensure that restricted funds are only used for the intended purpose. A check in the amount of \$15,269.00 (Credit recovery account balance as of 6/30/2018) should immediately be remitted to the BOE for past due credit recovery expenses. Also, the principal must adhere to the policy regarding restricted funds and discontinue the collection of funds from students for events that are paid with funds from the SBB.

Treasury Operations should consider instituting electronic transfer of funds from schools collecting funds for Credit Recovery.

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2019.02 Mismanagement of Funds Received

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

- ***Delinquent Deposits*** - There were **5** instances where funds collected were not deposited in a timely manner. Delinquent deposits ranged from 1 to 3 days. Funds collected exceeded the required \$250.00 threshold.
- ***Funds Held*** – There were **20** instances where teachers did not remit funds to the recordkeeping staff on the day of collection. Funds were held up to 31 days prior to remittance.
- ***Changes to Monetary Transmittal Forms*** – There were **6** instances where changes on MTFs were not initialed in accordance to MTF instructions.
- ***Monetary Transmittal Form Log*** – The MTF log maintained during the audit period was incomplete. The log does not include a field that shows the dollar amount of the MTF.

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

- The recordkeeping staff is required to make deposits of all funds received 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.
- Staff members are prohibited from holding funds overnight.
- The recordkeeping staff is not allowed to accept MTFs 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.
- A MTF log is required to be maintained by the recordkeeping staff and must include a numerical list of the MTFs, the name of the individuals and dates the MTFs were issued, the date returned to the bookkeeper, and the total amount of the MTF.

The principal has failed to establish a system of internal control to ensure compliance with Board policies and procedures regarding collection of funds at the school. Furthermore, staff and sponsors were not held accountable for properly processing the collection and submission of funds. Recordkeeping staff was not aware that the dollar amount should be included on the MTF log.

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Mismanagement of funds constitutes non-compliance with BOE policies and procedures and increases financial risk to the school.

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

- Staff must be held accountable for 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 that all funds collected are accurately completed and remitted as stated on the top of the form.
- A column must be added to the MTF log for inclusion of the dollar amounts of the MTFs.

2019.03 Mismanagement of Disbursement

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

- ***Inadequate Principal Approval*** - There were **13** instances where SFEEFs were not adequately approved by the principal. The principal approval date was after the expenditure was initiated or incurred.
- ***Delinquent Payments*** - There were **7** instances where payments to the vendors were not processed in a timely manner. Payments to vendors were remitted up to a week after the balance was due.

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

- Prior to ordering or purchasing goods or services, a SFEEF must be completed and signed by the principal. The recordkeeping staff determines whether funds are available in the relevant fund account, and records the amount of funds available on the SFEEF.
- Invoices are required to be paid within 30 days of receipt or by the due date stated on the invoice. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.

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The principal failed to establish a system of controls to ensure compliance with Board policies pertaining to funds disbursed by the school. This deficiency encouraged staff members to regularly purchase materials on behalf of the school prior to obtaining the principal's approval. An explanation was not provided for the cause of the late payments.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Specifically, schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to obtain pre-approval from the principal. Delinquent payments to vendors may result in unnecessary late fees or charges, which decreases the amount of funds available for the benefit of students.

Recommendation: The principal and recordkeeping staff must perform the following to improve the administration of disbursements:

- The principal and record keeping staff should improve current controls, to include staff training, and a requirement that ensures written pre-approval precedes purchases. The principal must hold staff responsible for adhering to Board policies and procedures, and establish accountability measures for repeat offenders.
- The recordkeeping staff and the principal should review the open invoice folder regularly and be cognizant of the due dates of open invoices to avoid late fees or charges. The principal must monitor the management of disbursements to ensure the process is operating as states in the APM.

2019.04 Out of Season Cheerleading Program

The Cheerleading team was involved in cheerleading activities in the month of July 2017. During this period the athletic director collected and remitted cheerleading funds to the recordkeeping staff.

The Maryland Public Secondary Schools Athletic Association (MPSAA) handbook, Chapter 3, .03 Sports Season, states the "Fall" season starts on the 6th Wednesday following the first Sunday of July, until the final date of the local, conference, district, regional, or State tournament. The "spring" season starts March 1st until the final date of the local, conference, district, regional, or State tournament, which is prior to June 30.

The athletic director disregarded the requirements of the MPSAA handbook while sponsoring team activities during the 2017 off period.

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The practice of collecting funds and operating team sports during the off-season constitutes non-compliance with the policies and procedures stated in the MPSAA handbook.

Recommendation: The principal and athletic director should be mindful of the sports season and abide by the guidelines for sporting activities during the off-season as outlined in the MPSAA handbook. Athletic coaches should be held accountable for compliance.

2019.05 Administration of Vending Machines

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 is required to maintain compliance with these guidelines when arranging to have vending machines installed at the school.

The recordkeeping staff stated that a vending contract has not been updated in a few years. The school is currently in the process of securing a current vending contract. The principal did not ensure that the vending contractor installed proper equipment that prevented access to the vending machine contents 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 vending machines and insufficient commission revenue from vending machines. 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 current vendor contracts are established, adhered to, and maintained on file in compliance with BOE policies and procedures. The principal should obtain a current contract with the vendor or contact Purchasing and Supply Services to identify an alternative vendor.

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The principal must ensure the discontinuance of the sale of food of minimal nutritional value from vending machines between the hours of 12.01 A.M. and the end of the last lunch period. The principal must contact the vending contractor and request that proper equipment is installed to ensure that the machines are inoperable between the hours of 12.01 A.M. and the end of the last lunch period. This requirement should also be included in the contract agreement.

2019.06 End of Year Monetary Transmittal Forms Procedures Not Followed

There were **8** instances involving **3** teachers where the end of year MTF could not be located.

The APM, Section 4.5.2.2, *Cash Receipts Procedures*, requires submission to the designated administrator of pink and yellow MTF remittance copies in sealed envelopes by faculty and program managers with their signature over the seal. The bookkeeper is required to print the SFO "*Receiptee History*" report and submit it to a designated administrator. This alerts the administrator which MTF envelope packages to expect.

The designated administrator of MTF collection did not ensure that the teachers submitted all of their MTFs at the end of the school year.

The absence of sealed end of year MTF envelopes negates the effectiveness of internal controls surrounding the MTF envelope submission process.

Recommendation: The principal should discuss the MTF submission process with staff members during staff meetings or workshops. Board policies and procedures pertaining to end of year MTF envelope submission should also be enforced by holding responsible school staff accountable.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Surrattsville High School was issued for the period ended August 31, 2016. The current principal and recordkeeping staff were in place at the time of the previous audit. There were **4** findings reported in the previous audit and **3** were repeated in this report. There were also **3** 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:

- **Delinquent Deposits** – Condition still exists. See 2019.02 regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** – Condition still exists. See 2019.03 regarding *Mismanagement of Disbursements*.

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- **Voided Checks** – Condition still exists. Controls appear to be working.
- **End of Year Monetary Transmittal Form Envelope Submission Process** – Condition still exists. See 2019.06 regarding *End of Year Monetary Transmittal Forms Procedures Not Followed*.

ACKNOWLEDGEMENT

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