



June 30, 2020

MEMORANDUM

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

Michael Gilchrist, Ed. D., Principal
Crossland High School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of February 29, 2020

An audit of the financial records **Crossland High School** was completed for the period July 1, 2017 through February 29, 2020. The audit indicates 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 **July 30, 2020**, indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your signed and dated action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, email address: internal.audit@pgcps.org. A copy of the action plan should be forwarded to Danyelle Washington, Business Analyst, email address:

dany.washington@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org.

cc: Alvin Thornton, Ph. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer of Schools
Members, Board of Education
Christian Rhodes, Chief of Staff
Helen Coley, Ed. D., Chief, School Support and Leadership
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Internal Audit Report

Crossland High School
Student Activity Funds

For the Period Ended February 29, 2020

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Crossland High School for the period July 1, 2017 to February 29, 2020. Crossland High School's principal is responsible for the administration of the 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 Generally Accepted Government Auditing Standards 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:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Delinquent Financial Reporting*
- *Deficits in Restricted Fund Accounts*
- *Administration of Voided Checks*
- *Year-End Monetary Transmittal Forms Submission Process*
- *Fundraiser Reports Not Completed*

The findings resulted in a material deviation from Board of Education (BOE) policies and procedures and the requirements of the Accounting Procedures Manual for the School Activity Funds (APM).

In our opinion, the SAF referred to above, has been administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended February 29, 2020.



Michele Winston, CPA
Director, Internal Audit

SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Crossland High School for the period July 1, 2017 to February 29, 2020. The audit was conducted as part of the annual 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period July 1, 2017 to February 29, 2020. Also, available receipts, disbursements and supporting documentation were reviewed for the said period.

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2020.01 Mismanagement of Funds Received

There were at least **28** instances of non-compliance regarding the administration of receipts. The following indicates the issues of non-compliance:

- A. ***Delinquent Deposits:*** There were at least **27** instances where funds collected for various school activities were not deposited promptly. Funds were held for **3** or more days by the staff and recordkeeping staff prior to deposit with the school's financial institution. ***This finding was noted during the previous audit period ended June 2017.***

- B. ***Donation Received by School Exceeded Administrative Procedure (AP) Guidelines:*** There was **1** instance where the school accepted a donation totaling \$30,000.00 from a former student of the Class of 1980 without seeking approval from the Chief Executive Officer (CEO).

The following criteria is established regarding collections:

- A. The APM section 4.5.2.2 (1), (2) *Collecting Funds and Guidelines for Bank Deposits Completing the MTF*, and (3) *Preparing Bank Deposits*, require **all** funds collected to be remitted to the recordkeeping staff on the day of collection. The recordkeeping staff is also required to make timely deposits with the financial institution.

- B. The AP 3230, dated June 1, 2016, *Grant Assistance, Funding Solicitations, and Acceptance of Other Funds and Resources, (D). Monetary Gifts/Donations*, requires, monetary gifts in excess of \$5,000.00 and up to \$50,000.00 from a single donor during the course of a fiscal year will be accepted only with the advance approval of the Chief Executive Officer

The following explanations were provided for noncompliance regarding management of funds received:

- A. Staff held funds until it was convenient to remit them to the recordkeeping staff. The recordkeeping staff failed to remit funds timely to the financial institution due to improper time management and additional responsibilities at the school. Also, there was a time during FY 2020 where the current recordkeeping staff was on leave and a substitute recordkeeping staff performed the recordkeeping duties.

- B. The principal and recordkeeping staff were not aware of AP 3230, which requires preapproval from the CEO for donations received by the school in excess of \$5,000.00 prior to acceptance.

The following resulted from the noncompliance with administering funds received:

- A. Internal controls are compromised when funds are retained in the school for several days. Failure to remit funds timely constitutes a compromise of internal controls and increases the risk for embezzlement or loss of funds.
- B. Grants Financial Management Office was not afforded the opportunity to ensure that all appropriate documentation was on file for necessary reporting purposes.

Recommendations: The following recommendations are suggested to help ensure proper management of funds received:

- A. Staff members must be held accountable for remitting funds collected to the recordkeeping staff on the day of collection.
- B. The recordkeeping staff should be held accountable for depositing funds to the financial institution in a timely manner.
- C. The principal should complete a periodic review of receipts to ensure that all funds are remitted and deposited as required.
- D. The principal and recordkeeping staff should familiarize themselves with the requirements of AP 3230 and ensure adherence. Any future donations received by the school should be accepted and processed as required by Board policies and procedures.

2020.02 Mismanagement of Disbursements

There were at least **53** instances of non-compliance regarding disbursements of SAF. The following indicates the instances of non-compliance:

- A. ***Missing and/or Insufficient Documentation:*** There were at least **3** instances where documentation to substantiate funds disbursed was either missing or insufficient.
 - a. ***Delinquent Payments and/or Reimbursements:*** There were at least **5** instances where payments and/or reimbursements were delinquent. The delinquency ranged from **8 to 75** days. The two most significant instances occurred when: The Class of 2020 sponsor purchased candy in October 2019 for a fundraiser. The invoice was not submitted for payment until January 18, 2020 and was paid on January 21, 2020, resulting in 75 days of delinquency in one instance.
 - b. A staff member purchased school items on April 10 and 20, 2019. Request for reimbursement was not submitted until June 19, 2019. The reimbursement was processed on June 20, 2019, resulting in 41 days delinquency. ***This finding was noted during the previous audit period ended June 2017.***
- B. ***Inappropriate Use of the Reimbursement Vendor Option in School Funds Online (SFO):*** There were at least **45** instances where the recordkeeping staff used the "Reimbursement" vendor option incorrectly when advancing funds to staff for future purchases, refunds to students and payments to companies for school purchases. ***This finding was noted during the previous audit period ended June 2017.***

The following criteria is established in the APM and Administrative Procedures:

A. Section 4.5.3.1 (2) *Cash Disbursement Inclusion of Supporting*

Documentation requires that all checks must have itemized documentation attached to the School Funds Expenditure Form (SFEF) that supports the amount of the expenditure. Price quotes are not an acceptable documentation. Invoices and/or reimbursements should be paid within 30 days of receipt or by the due date stated on the invoice.

B. Section 4.5.3.2 (2) *Cash Disbursement Inclusion of Supporting*

Documentation indicates that situations may arise where checks are issued before an expense occurs. These situations should be treated as *ADVANCES* to staff. Also, the APM Section 4.5.3.2 (3) *Cash Disbursement Use of Board Approved Vendors* requires all checks must be written to an approved/active vendor through SFO. The only exceptions are for staff reimbursements and parent refunds. For checks reimbursing staff, the vendor is *REIMBURSEMENT*; for checks refunding a parent, the vendor is *REFUND*.

The noncompliance regarding management of funds disbursed occurred for the following reasons:

- A. The recordkeeping staff failed to hold school staff accountable for providing sufficient, complete documentation to substantiate all checks processed.

- B. Procedures were not enforced to ensure that staff's requests for reimbursements and/or payments were submitted timely to the recordkeeping staff for processing. The current recordkeeping staff was not aware of the "Advance" vendor option that is required to be used when processing advance funds to the staff. The current recordkeeping staff was on leave for approximately 3 months during FY 2020. There was a substitute recordkeeping staff during that time who incorrectly posted all employee advances, student refunds and some vendor payments as reimbursements in SFO.

Internal control is compromised and financial records are distorted when sufficient documentation is not provided to substantiate expenditures; payments and reimbursements are delinquent and the "Reimbursement" vendor option is incorrectly used to process non-reimbursement payments.

Recommendations: The following recommendations are suggested for appropriate management of disbursements:

- A. The principal should establish procedures to ensure that all disbursements are made in accordance with the APM and sound business practices.

- B. All school staff should be reminded that sufficient, adequate documentation is required for all checks issued. Staff should be reminded of the appropriate types of documentation.

- C. The staff should be reminded of the importance to submit requests for payments and reimbursement in a timely manner.

- D. The recordkeeping staff should ensure that all checks are issued using the appropriate vendor option.

2020.03 Delinquent Financial Reporting

Monthly reporting requirements were not always followed. There were at least **8** instances where the monthly bank reconciliations were not completed timely by the recordkeeping staff. Financial reporting delinquency ranged from **10** to **61** days. The APM section 5.1.2 *Monthly Reconciliation and Financial Reporting* states that the recordkeeping staff is required to complete the bank reconciliation within 7 days of receiving the statement from the bank. All financial reports including bank reconciliations should be completed by the 15th of each month and submitted to the principal for review and approval. The recordkeeping staff indicated that in addition to her recordkeeping responsibilities she also had payroll responsibilities and sometimes was unable to complete the monthly financial reporting as required. The principal’s fiscal responsibility is compromised when monthly reporting is not available and/or reviewed timely. ***This finding was noted during the previous audit period ended June 2017.***

Recommendations: The principal should establish policies to ensure that the recordkeeping staff performs monthly financial reporting in accordance with scheduled requirements included in the APM (bank reconciliation within 7 days after receiving the statement from the bank and completion of financial reports by the 15th of each month). The principal and recordkeeping staff should meet on a monthly basis to review and approve financial reports. The recordkeeping staff should ensure the financial reporting is accurate for the principal to make fiscally responsible decisions on behalf of the school.

2020.04 Deficits in Restrict Fund Accounts

The following **11** restricted fund accounts had deficits as of February 29, 2020 totaling **\$25,882.64**:

	Account #	Account Description	Account Balance
	304.82	Class of 2018 Fundraiser	(\$ 1,635.59)
	304.94	Class of 2019 Activities	(6,689.34)
	316.00	National Honor Society	(365.00)
	320.00	School Store	(1,294.74)
	327.00	Choir	(61.00)
	440.00	PBIS	(159.18)
	450.00-450.50	PSA	(14,316.41)
	510.00	Family & Consumer Science	(169.21)
	520.00	Business Education	(108.20)
	535.00	Chinese	(651.65)
	591.00	Skills USA	<u>(432.32)</u>
	Total		<u>(\$25,882.64)</u>

The APM, section 4.3 *Fund Accounts*, states that restricted funds are those funds that are raised by a specific group and/or for a specific purpose and are required to be used exclusively for that group and/or purpose and not for the general needs of the school. Expenditures for all restricted accounts are limited to the amount of funds collected for those activities. Therefore, if restricted accounts exceed the available cash, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure that restricted accounts are solvent at all times.

The reasons for the most significant deficits are as follows:

- A. Reportedly, the acting principals allowed the Class of 2018 to overspend on class activities. During this period the 2 acting principals and recordkeeping staff did not monitor the availability of funds in the account prior to approving expenditures.
- B. The current principal and recordkeeping staff did not monitor spending in the Class of 2019 accounts closely to ensure that the account was adequately funded to pay for related expenditures. The current principal purchased jackets and scarves to be sold in the school store. The items did not sell as anticipated, as such; the school was unable to recover the cost of the merchandise. This is the current principal's first assignment with PGCPs as a high school principal and he was not familiar with the specific accounts activities.
- C. The current principal inherited a large deficit of **(\$12,683.82)** in the Principal Sponsored Activity (PSA) fund account prior to start of his tenure on July 1, 2018. The current principal purchased food and staff shirts, which increased the amount of the current deficit to **(\$14,316.41)**. He was not aware that he was prohibited from spending out of the PSA fund account if the account was in a deficit.

Overspending in restricted accounts results in insufficient funds being available to administer student activities. Funds are not available for the principal to adequately fund the educational needs of the school. Proper financial management has not occurred and could lead to further deficits and insolvency for the school.

Recommendations: The principal should contact the Accounting and Financial Reporting Office for guidance on resolving the restricted account deficits that existed prior to his tenure. The principal should ensure that sponsors are not allowed to exceed their account balance. Also, adequate planning and budgeting should occur to ensure that the school's resources are used properly and to prevent further deficits.

2020.05 Administration of Voided Checks

There were **26** instances of noncompliance regarding the administration of voided checks as follows:

- ***Voided Checks Not Properly Mutilated:*** There were at least **11** instances where checks were not properly voided by removal of the signature line.
- ***Voided Checks Not Entered into the School's Accounting System (SFO):*** There were at least **15** instances where voided checks were not entered into the accounting system by the recordkeeping staff as required by the APM.

The APM, section 4.5.3.2, Policies and Procedures, Voiding Checks requires accounting for a physical check (in SFO) when an error is made at the time it is prepared or a check is damaged. Voided checks are defaced by removal of the signature and account lines. The physical check is then filed in check number sequence with images of cancelled checks.

The principal, current and substitute recordkeeping staff failed to ensure that voiding of checks was administered in compliance with BOE policies and procedures. None was familiar with the voided check process. The current and substitute recordkeeping staff were not aware that all voided checks had to be entered into the school's accounting system.

Inappropriate administration of checks exposes the school to check fraud, and waste and abuse of its resources.

This finding was noted during the previous audit period ended June 2017.

Recommendations: The principal should complete a periodic review of voided checks to ensure that the voided check process is in compliance with BOE policies and procedures. The recordkeeping staff should ensure that checks are properly voided and entered into the school's accounting system. All check signers must take the time to get familiar with the policy and procedures set forth in the APM relative to voiding checks.

2020.06 Year-End Monetary Transmittal Forms Submission Process

The year-end MTF submission process is not operating as required by the policies outlined in the APM. There were at least **25** staff members who failed to submit either (pink or yellow) or both (pink and yellow) MTF copies of their year-end MTF remittances.

The APM section 4.5.2.2 (1) *Collecting Funds* indicates that school staff is responsible for completing the MTF and maintaining an envelope containing all the MTF (pink and yellow) remittance copies prepared during the year. Staff members are required to submit copies in signed, sealed MTF envelopes to the designated administrator during the year-end checkout process. Under no circumstances should the signed, sealed MTF envelopes be given to the recordkeeping staff. The envelopes should remain sealed until requested by Internal Audit. The year-end MTF envelopes should not be retained in a place that is accessible to recordkeeping staff.

School staff did not consistently follow the policies and procedures relative to the yearend MTF envelope submission during the year-end check out process. Even though the office secretary received the appropriate end of year MTF report, "Receiptee History," there was no follow-up to ensure that all MTFs were submitted prior to the end of the year close-out process.

The audit trail for reviewing cash receipts was compromised. As a result, internal controls for ensuring that all SAF collected were subsequently deposited was weakened and the

potential for loss of assets increased. ***This finding was noted during the previous audit period ended June 2017.***

Recommendations: Staff must be reminded of their responsibility relative to the yearend MTF submission. Each staff must be held accountable for returning MTFs as required.

The recordkeeping staff should continue to print the "Receiptee History" report from the school's accounting system listing MTFs issued and provide it to the administrator and/or the principal's designee responsible for collecting MTF envelopes at year-end. The principal should instruct the collection of the MTF envelopes based on the report. The principal or designee, someone other than the recordkeeping staff, should ensure that all MTF envelopes are collected and remain sealed until reviewed by Internal Audit.

2020.07 Fundraiser Reports Not Completed

The school did not comply with the requirements for administering fundraisers during the audit period. The school held several fundraising activities during the audit period. However, *Fundraiser Completion Reports*. Annual reports summarizing fundraising activities were not completed by the principal or designee.

Administrative Procedure 5135.1, *Fundraising* requires schools to complete Fundraiser Completion Reports and the Annual Fund Raising Summary Report for all fundraisers sponsored. These documents must be maintained on file for public and auditor review upon request.

The principal, fundraiser sponsors and recordkeeping staff failed to adhere to the requirements relative to completion of fundraiser forms.

It could not be readily determined that the school's fundraisers yielded an overall profit for the school. As a result, pertinent financial information for the school's administrators to make fiscal decisions was not available. ***This finding was noted during the previous audit period ended June 2017.***

Recommendations: The principal must establish procedures to ensure completion of all Fundraiser Completion Reports by fundraising sponsors on the results of fundraising activities held during the school year. The principal or designee should complete reports at the end of each school year to summarize fundraising activities held. Required reports must be maintained on file for public and auditor review.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Crossland High School was issued for the period ended June 30, 2017. The current principal was not on staff. The current principal began his tenure July 1, 2018. The recordkeeping staff was on staff during that audit. There were **9** findings noted as a result of that audit and **7** are repeated in this audit and summarized below:

- **Missing Funds** – Controls appear to be working.
- **Delinquent Deposits** – Condition still exists. **See Finding 2020.01** regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements:**
 - **Delinquent Payments and/or Reimbursements** – Condition still exists. **See Finding 2020.02** regarding *Mismanagement of Disbursements: Delinquent Payments and/or Reimbursements*.
 - **Non-Approved Vendors** – Controls appear to be working.
 - **Missing School Funds Expenditure Forms, Organization of Disbursements** – Controls appear to be working.
 - **Use of the Reimbursement and Refund Vendor Accounts in the School Funds Online (SFO)** – Condition still exists. **See Finding 2020.02** regarding *Mismanagement of Disbursements: Inappropriate Use of the Reimbursement Vendor Option in School Funds Online*
- **Inappropriate Payments for Security Services** – Controls appear to be working.
- **Delinquent Financial Reporting** – Condition still exists. **See Finding 2020.03** regarding *Delinquent Financial Reporting*.
- **Fundraiser Forms/Reports not Completed/Unauthorized Fundraiser** – Condition still exists. **See Finding 2020.07** regarding *Fundraiser Reports not Completed*.
- **Year-End Monetary Transmittal Forms Envelope Submission** – Condition still exists. **See Finding 2020.06** regarding *Year-End Monetary Transmittal Form (MTF) Process*.

- **Administration of Voided Checks** – Condition still exists. See **Finding 2020.05** regarding *Administration of Voided Checks*.
- **Disposition of Senior Class Accounts** – Controls appear to be working.

ACKNOWLEDGEMENT

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