


July 31, 2019

MEMORANDUM

To: Kelvin Moore,
Area 2 Instructional Director

Dallas Lee, Principal
Drew Freeman Middle School

From: Michele Winston, CPA, 
Director Internal Audit

Re: Financial Audit for February 1, 2017 through March 31, 2019

An audit was completed on the financial records of Drew Freeman Middle School for the period February 1, 2017 through March 31, 2019. The audit indicates that the school's financial records and procedures require some improvements to be in accordance with the Accounting Procedures Manual 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 principal of the school, you will be responsible for preparing an action plan by **August 31, 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, email address internal.audit@pgcps.org. A copy of your action plan should also be forwarded to Jerry Chandler, Business Analyst, email address: jerry.chandler@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.

Enclosure

cc: Alvin Thornton, Ed. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, Director, Financial Services
David Curry, Ed. D., Associate Superintendent
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Jeffrey Carpenter, Director, Employee Labor and Relations
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**Drew Freeman Middle School
Student Activity Funds**

For the Period Ended March 31, 2019

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

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

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Drew Freeman Middle School for the period February 1, 2017 through March 31, 2019. Drew Freeman Middle 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:

- *Mismanagement of Disbursements,*
- *Mismanagement of Funds Received,*
- *Year-End Monetary Transmittal Form Envelopes Submission Process*
- *Excessive Spending in a Restricted Account*
- *Vending Machines Contract*
- *Fundraiser Forms*

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 for School Activity Funds (APM).

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 March 31, 2019.

Michele Winston, CPA, Director
Internal Audit

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for Drew Freeman Middle School for the period February 1, 2017 through March 31, 2019. The audit was conducted as part of the department's 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 complies with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit 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 bank statements, financial reports, selected cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period February 1, 2017 through March 31, 2019. In addition, selected receipts, disbursements and supporting documentation were reviewed for the said period.

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations

2020:01 Management of Disbursements

The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Supporting Documentation*** – There were **three** instances where expenditures reviewed during the audit period did not include the appropriate supporting documentation. Invoices or store receipts were not available to substantiate expenditures in these instances.
- B. ***Delinquent Payment of Invoices*** – There were **seven** instances where payments were made after the due dates on the invoices. The delinquency ranged from **2 to 64** days
- C. ***Use of an Unapproved Vendor*** - There was **one** instance where the Choir Director was reimbursed for expenses *paid for services from* an unapproved vendor.
- D. ***Voided Checks*** - During the review of the school’s voided checks, the following exceptions were noted:
 - 1. There were **five** instances where checks were issued and voided in SFO on the same date and with the same check numbers.
 - 2. There were **8** instances where voided checks could not be located in the school’s files to determine appropriate disposition.
 - 3. There was **1** instance where a voided check was not properly approved by the principal.

The APM provides the following guidelines regarding the administration of cash disbursements:

- Section 4.5.3.1 (2) ***Cash Disbursements, Inclusion of Supporting Documentation*** requires that invoices and/or reimbursements are paid within 30 days of receipt and include appropriate documentation attached to substantiate the payment. Price quotations are not acceptable documentation.
- Section 4.5.3.2 ***Summary of Check Disbursement Procedures*** requires voided checks to be defaced, and filed in check number order with cancelled check images.

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

- The APM indicates that for checks reimbursing staff, the vendor should be classified as “Reimbursement”. However, at no time should “Reimbursement”, be used to pay unapproved vendors in *SFO*.

BOE policies, procedures, and sound business practices were not followed regarding provision of supporting documentation, timely payment of expenditures and processing of voided checks. The system of checks and balances is compromised when BOE policies, procedures, and sound business practices are not followed. Purchases may be made for items that do not benefit students when cash disbursement procedures are not followed.

Recommendation: The following corrective actions should be implemented for Drew Freeman Middle School disbursements to be made in accordance with BOE policies and procedures:

1. The recordkeeping staff must ensure that all disbursements are properly supported with invoices and/or store receipts **prior to** preparation of checks for the principal’s signature.
2. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
3. The principal must implement internal control to ensure voided checks are properly approved, properly entered into the SFO accounting system, defaced, and filed in check number order with cancelled check images.
4. Additionally, the principal must implement internal control to ensure that only BOE approved vendors are paid using SAF.

2020:02 Management of Funds Received

There were at **26** instances of non-compliance regarding the administration of funds received. The following indicates the issues noted:

A. *Monetary Transmittal Form Documentation (MTF)*

- There were **three** instances where collections were not properly supported (no class list was provided or a sales inventory list where required).
- There were **2** instances where funds collected were not properly entered into the SFO accounting system.

B. *Delinquent Deposit* - There were **21** instances where bank deposits were made between **4** and **97** days delinquent.

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

C. *Transfer of Funds Received* - There were **11** instances where transfers were not made in accordance with the requirements of the APM.

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

- MTFs should be supported with student remittance forms, fundraiser forms or other documentation that shows the source and purpose of the funds. All funds collected should be remitted to the bookkeeper and deposited in the form that it was received. Section 1 and 2 of the MTF must agree and be completed.
- Recordkeeping staff must make deposits of all funds received at least every other day. However, no more than **\$250** should be kept in the building overnight.
- Transfers between restricted accounts should only be authorized if reviewed and approved by the principal.

The school's recordkeeping staff did not follow BOE policies and procedures as established in the APM. Internal controls were not implemented to ensure that funds collected at the school along with relevant supporting documentation was thoroughly reviewed. Teachers were not held accountable for ensuring funds were remitted to the recordkeeping staff on the day of collection. The principal did not enforce the requirement for the recordkeeping staff to obtain approval as documented on the Funds Transfer Journal Entry Forms prior to transfer being made. Internal controls regarding the collection of funds were compromised which increased the potential for loss of assets.

Recommendation: The following corrective actions should be implemented for Drew Freeman Middle School's collections to be processed in accordance with BOE policies and procedures:

1. The recordkeeping staff must be held accountable for ensuring that all MTF documentation is properly completed and supporting documentation is attached to substantiate amounts collected prior to acceptance.
2. The recordkeeping staff must be reminded that all funds collected and remitted should be deposited at least every other day and daily when funds exceed **\$250.00**. Teachers must be held accountable for ensuring that funds are remitted to the recordkeeping staff on the day of collection.
3. The principal must implement internal controls to ensure that the all transfers between restricted and unrestricted/net accounts are approved prior to posting in SFO.

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

2020.03 Year-End Monetary Transmittal Form Envelopes Submission Process

The year-end MTF submission and collection process was not operating as required by the policies outlined in the APM. MTF envelopes for FY 2017 could not be located for review. There was also **one** instance in FY 2018 where a MTF was missing from a teacher's MTF envelope.

According to the APM, staff members are responsible for maintaining MTF envelopes containing all pink and yellow MTF remittance copies generated during the year. MTF envelopes are required to be signed, sealed and submitted to the designated administrator prior to the year-end check out process. ***Under no circumstances should the signed, sealed MTF envelopes be given to the Bookkeeper.*** The envelopes should remain sealed until requested by Internal Audit.

The former principal did not implement internal controls for FY2017 to ensure that the MTF submission process was followed. Failure to locate MTFs has resulted in the audit trail for reviewing cash receipts being compromised. Evidence for ensuring that all SAF collected was subsequently deposited was removed and the potential for loss of assets increased.

Recommendation: Staff must be reminded of their responsibility relative to MTF envelopes submission during year-end process. The recordkeeping staff should print the "Receiptee History" report from the accounting system and provide it to the administrator responsible for collecting MTF envelopes at year-end. The principal should instruct the administrator to obtain the MTF envelopes based on the report. In addition, each employee must be held accountable for returning MTF envelopes as part of the year-end check out process.

2020.04 Excessive Spending in a Restricted Account

There was **1** restricted fund account (Choir) with a deficit (**\$748.56**) as of March 31, 2019.

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for respective restricted activities. When a restricted account exceeds the available cash, the account is insolvent. As the fiduciary agent for the SAF the principal has responsibility to ensure that all accounts are solvent at all times.

The principal and the bookkeeper did not monitor accounts to ensure that restricted accounts maintain positive balances. Spending occurred in excess of available funds in the respective account resulting in restricted account deficit. BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed.

Students are not receiving the maximum possible benefit of the resources that should have been available to them.

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

Recommendation: All potential expenditures must be evaluated with regard to available resources and care must be exercised to ensure the resources are used for the maximum benefit of students. Spending in the Choir account must cease until the account's deficit is resolved.

2020.05 Vending Machines Contract

A current signed contract stipulating commissions due the school and frequency of commissions was not on file.

The APM, Section 9.8, *Vending Machine Sales*, states that all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency these commissions are remitted. The contract term cannot exceed one year.

The principal did not ensure that the school established a contractual agreement for vending. The recordkeeping staff did not deposit of **all** funds received. Due to the nonexistence of a valid contractual agreement for vending, the BOE cannot determine if the school is deriving maximum benefits from the operation of the vending machines.

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 consult with Purchasing and Supply Services to identify an alternate vending company in absence of a contract.

2020.06 Fundraiser Forms

The school failed to complete the Fundraiser Request and Authorization, Completion Reports and annual reports summarizing all fundraising events for the school year.

The APM Section 7.2.2 *Procedures* requires clubs and organizations to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Report and the Annual Fund Raising Summary Report. These documents must be maintained on file for public and auditor review upon request.

BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed. As a result, it is difficult to determine whether the fundraiser conducted by the school yielded any financial benefit or losses to the school since financial records are not complete and profit / loss ratio of fundraisers conducted could not be determined.

Recommendation: The principal must establish procedures to ensure that the requirement to complete the Fundraiser Request and Authorization Form prior to the commencement of all school fundraisers. The sponsors must also complete the Fundraiser Completion Form at the end of each fundraiser. Staff should be held accountable for compliance. In

Drew Freeman Middle School
Student Activity Funds
Internal Audit Report
For the Period Ended March 31, 2019

addition, at the end of the school year, the recordkeeping staff should remember to generate reports of all fundraising activities for the principal to complete the summary of fundraising activities.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Drew Freeman Middle School was issued for the period ending January 31, 2017. During that period, the recordkeeping staff was in her current position; however, principal was not in his current position. The previous audit report had **4** reportable conditions, of which **3** are repeated. The following findings were noted in the prior audit and the status is indicated below:

- **Management of Funds Received** - Condition still exists. See **2020.02** regarding, *Management of Funds Received*.
- **Inadequate Approvals of Expenditures** - Controls appear to be working.
- **Administration of Vending Machines Contract** - Condition still exists. See **2020.05** regarding, *Vending Machines Contract*.
- **Fundraiser Forms** - Condition still exists. See **2019.06** regarding *Fundraiser Forms*.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Drew Freeman Middle School for their cooperation and assistance extended during the audit.