



October 24, 2019

MEMORANDUM

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

Nathaniel Laney, Ed.D. Principal
Potomac High School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for the Period October 1, 2016 through July 30, 2019

An audit of the financial records of Potomac High School was completed for the period October 1, 2016 through July 30, 2019. 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 Fund (APM) and Board of Education policies and procedures. The exceptions noted are included in the attached report.

As principal of the school, you will be responsible for preparing an action plan by **November 25, 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: Derrick Martin, Internal Auditor II, email address: derrick.martin@pgcps.org. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org.

Enclosure

cc: Alvin Thornton, Ph. D, Board Chair
Monica Goldson, Ed.D, Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Helen Coley, Ed. D, Chief School Support and Leadership
Michael Herbstman, Chief Financial Officer
James Dougherty, Director, Financial Services
Carletta Marrow, Ed. D, Associate Superintendent of High Schools
Suzann King, Esq., Executive Director, Board of Education
Joeday Newsom, Esq., Ethics Compliance Officer
Theodore Dzodzomenyo, Internal Auditor II

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Potomac High School for the period October 1, 2016 through July 31, 2019. Potomac High School's Principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

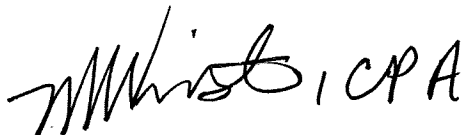
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we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

Our examination disclosed the following:

- *Delinquent Deposits,*
- *Mismanagement of Disbursements,*
- *Delinquent Financial Reporting,*
- *Noncompliance with Vending Policies,*
- *Delinquent Payment of Invoices, and*
- *End of Year MTF Envelope Submission 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 for School Activity Funds (APM).

In our opinion, except for the deviation from the criteria described in the preceding paragraph, the APM 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, 2019.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit on the student activity funds (SAF) for Potomac High School for the period October 1, 2016 through July 31, 2019. The audit was conducted as part of the audit plan for the year.

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 to determine 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 all bank statements, financial reports, cancelled checks and all available Monetary Transmittal Form (MTF) envelopes submitted by staff for the period October 1, 2016 through July 31, 2019. 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:

2020.01: Delinquent Deposits

There were **50** instances where funds received were held between **1 to 42** days before deposits were made. The staff members collected the funds over a period of time before remittance to the recordkeeping staff in most of the noted instances.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* states that, bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. Staff members should also never hold funds overnight.

According to the recordkeeping staff, teachers were informed about the requirement to remit all funds on a daily basis. However, not all staff members consistently adhere to this requirement.

Delinquent deposits constitute non-compliance with BOE policies and procedures and increase financial risk and fraud. In addition, funds received are not immediately available for students' use.

Recommendation: Staff members must be reminded, through documented communication, about the specific requirement for teachers to remit funds daily. The principal should also provide oversight to ensure that bank deposits are made promptly.

2020.02: Mismanagement of Disbursements

The following noncompliance relative to cash disbursements were noted:

- A. ***Inadequate Principal Approval of Disbursements*** – There were **16** instances where staff members did not obtain the principal's authorization prior to the purchase of items.
- B. ***Inadequate Documentation of Disbursements*** – There were **80** SFEEFs reviewed where, the “*Funds Available*” section was not completed to document the balance of funds available in the fund account to be charged for the expenditure.
- C. ***Recording of Voided Checks in SFO***– The recordkeeping staff did not record all voided checks in the accounting system.

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

- A. Accounting Procedures Manual for School Activity Funds **Section 4.5.3.1**, “*Pre-Approval by the Principal*” states that, prior to ordering or purchasing goods or services; a School Funds Expenditure Form must be completed and signed by the Principal. Schools and their Student Activity Funds 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. The SFEF includes a field for the recordkeeping staff that states, “*Bookkeeper must verify amount from current YTD Report for restricted and unrestricted balances*”.

Reportedly, the recordkeeping staff failed to monitor SFEFs to ensure that teachers obtained proper authorization prior to obligating the school. Moreover, the recordkeeping staff was not aware that, this information was pertinent to the disbursement process. The recordkeeping staff was not aware that all voided checks are required to be recorded in the accounting system and also was not conversant with how to record them.

Lack of proper approval or pre-approval can financially obligate the school for goods and services for which funds may not be available and also lead to insolvency of the school. This noncompliance violates the BOE’s policies and procedures and exposes the school to fraud, waste and abuse of its resources.

- A. The school risks writing checks from accounts that do not have sufficient funds to cover those expenses and the financial risk of insolvency is enhanced.
- B. Financial records are incomplete when all checks are not listed in the accounting system and the risk of fraud increases when not all checks could be verified.

Recommendation: The principal and record keeping staff should perform the following to improve the disbursement of SAF:

- A. All staff members must be reminded through written communication that, the principal’s approval must be obtained prior to obligating the school financially.
- B. The recordkeeping staff must begin to verify and indicate the account balance on the SFEF prior to presenting it to the principal for approval. The principal must hold the recordkeeping staff accountable for compliance.

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- C. The recordkeeping staff should consult with the SAF Administrator for guidance on how to account for every check in the accounting system and ensure that all checks, issued or voided, are recorded in the financial system.

2020.03: Delinquent Financial Reporting

There were **12** instances noted during the audit period where monthly bank reconciliations were not completed timely by the recordkeeping staff. The reconciliations were between 16 and 52 days delinquent.

According to the APM, Section 4.2.2, *Bank Account Procedures*, the principal should receive the bank statement unopened. After reviewing the statement and the cancelled checks, the principal should sign the bank statement and pass it to the Bookkeeper. The bank account must be reconciled within seven (7) days from receipt of the bank statement. Also, Section 5.2.1, *Financial Reporting Requirements Procedures* require that, the principal receive the report package from the bookkeeper by the 15th of each month.

According to the recordkeeping staff, the delay in preparation of reconciliations was during the periods when she was on leave. Reportedly, entries are usually recorded in the accounting system timely but there is usually a delay on the recordkeeping staff's part to finalize the reconciliation process by selecting "Finish".

Delinquent reporting impacts the timeliness and reliability of financial information used in the fiscal decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Recommendation: The recordkeeping staff should ensure that bank reconciliations are completed within 7 days of receiving the statement from the bank and that all financial reports are presented to the principal for review by the 15th day of each month. The principal should hold the recordkeeping staff accountable for timely report submission and perform a thorough review of the monthly financial reports as evidenced by signature.

2020.04: Noncompliance with Vending Policies

The school operates 14 vending machines (9 soda and 5 snacks) for faculty and students. The following noncompliance regarding administration of vending machines were noted:

- A. The school signed a "three (1) year" contract for vending machines for the School Year 2019/2020.
- B. The vending machines at the school were operating during school hours.

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The Accounting Procedures Manual (APM) Section 9.8, *Vending Machine Sales*, states that, all schools with vending machines must have a signed contract stipulating commissions due the school and frequency that these commissions are remitted. The contract term cannot exceed one year. Also, vending machines offering beverages can result in a competitive situation between the school and Food and Nutrition Services (FNS). Information regarding Federal regulations restricting the sale of competitive food and foods of minimal nutritional value are contained in Administrative Procedure No. 3542.44, *The Access and Sales of Competitive Foods and Foods of Minimal Nutritional Value in Schools and Outside of the FNS Program* prohibits schools from selling goods of minimal nutritional value from 12:01 a.m. until the end of the last lunch period every day.

The school was not aware of the vending policies as documented in the APM and AP No. 3542 and as a result was non-compliant.

Recommendation: The principal and recordkeeping staff should take the following steps to improve the administration of vending machines at Potomac High School:

- A. Contact the vending company to request that the contract be amended to reflect the contract period required by the APM.
- B. Contact the vendor to request placement of a timer on the vending machines making them accessible to students only during allowable periods as specified by the federal government.

2020.05: Delinquent Payment of Invoices

There were 6 instances where payments were not remitted to vendors in a timely manner. Invoices were paid between 34 to 60 days after the due dates.

Invoices should be paid within 30 days of receipt or by the due date specified. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.

The recordkeeping staff was not aware of the outstanding checks until the invoices were presented for payment, by which time they were delinquent.

Delinquent payment of invoices could force the vendor to place the BOE's account with a collection agency where significant collection fees could be assessed.

Recommendation: The recordkeeping staff must remind staff members that invoices and receipts must be obtained from the vendors and submitted for payment within 30 days of purchase.

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2020.06: End of Year MTF Envelope Submission Procedures Not Followed

The MTF envelope submission process was not administered as outlined in the APM. There were 3 staff members who did not submit MTF envelopes containing 169 MTF remittances at the end of FY 2018 and FY 2019.

It is the responsibility of staff members to maintain and submit all pink and yellow remittance copies of MTFs generated during the year to the principal or a designated administrator, at school year-end. The MTF remittance copies are required to be submitted in year-end envelopes that are sealed and signed across the seal. Under no circumstances are the envelopes to be given to the bookkeeper.

Staff members were instructed to submit their MTFs in sealed MTF envelopes at the end of the school years. However, the principal did not verify that all staff members followed the MTF envelope submission instruction. The ineffective year-end MTF envelope submission process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The audit trail for determining that all funds collected were subsequently remitted for deposit was compromised.

Recommendation: The principal must ensure that, the end-of year MTF envelope submission procedure is added to the checklist for the school's end-of-the school year procedures. Each staff member must be provided their respective "Receiptee History" Report prior to the last day of school to allow adequate time to locate and submit remittance copies as required by the APM. The principal should provide oversight of this process to ensure staff are compliant.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Potomac High School was issued for the period ended September 30, 2016. During that period, the principal and recordkeeping staff were in their current positions. There were 6 reported findings in the previous audit and 3 are repeated in this current report. The following findings were noted because of that audit and the current status is indicated.

- **Untimely Deposits** - Condition still exists. See 2020.01 regarding *Delinquent Deposits*.
- **Inadequate documentation of Receipts** - Condition was not noted during this audit.
- **Mismanagement of Disbursements** - Condition still exists. See 2020.02 regarding *Mismanagement of Disbursements*.

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- **Checks Processed With One Signature** - *Condition* was not noted during this audit
- **Improper Administration of Voided Checks** - Condition was not tested during this audit due to removal from APM.
- **Year-End Transmittal Envelops** - Condition still exists. See 2020.06 regarding *End of Year MTF Envelope Submission Procedures Not Followed.*

ACKNOWLEDGEMENT

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