

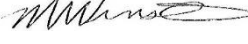


August 20, 2021

**MEMORANDUM**

To: **Charoscar Coleman, Ed. D.**, Instructional Director  
Cluster 10

**Lonice Priester**, Acting Principal  
Fairmont Heights High School

From: **Michele Winston, CPA**, Director   
Internal Audit

Re: Financial Audit for July 1, 2018 through June 30, 2021

An audit of the financial records of **Fairmont Heights High School** was conducted for the period July 1, 2018 through June 30, 2021. 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 **September 20, 2021** 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](mailto:internal.audit@pgcps.org). A copy of the action plan should be forwarded to Danyelle Washington, Business Analyst, email address: [dany.washington@pgcps.org](mailto:dany.washington@pgcps.org); Deborah Smalls, Business Operations Technician, email address: [deborah.smalls@pgcps.org](mailto:deborah.smalls@pgcps.org); Joeday Newsom, Esq., Ethics Compliance Officer, email address: [joeday.newsom@pgcps.org](mailto:joeday.newsom@pgcps.org) and Katrina Greene, School Activity Funds Support Specialist, email address: [katrina.greene@pgcps.org](mailto:katrina.greene@pgcps.org).

Enc.

cc:

**Juanita Miller, Ed. D.**, Chair, Board of Education  
**Monica Goldson, Ed. D.**, Chief Executive Officer  
Members, Board of Education  
**Mychael Dickerson**, Chief of Staff  
**Helen Coley, Ed. D.**, Chief, School Support and Leadership  
**Carletta Marrow, Ed. D.**, Associate Superintendent, Area 3  
**Michael Herbstman**, Chief Financial Officer  
**James Dougherty, CPA**, Director, Financial Services  
**Joeday Newsom, Esq.**, Ethics Compliance Officer  
**Robin Welsh**, Director of Monitoring, Accountability and Compliance  
**Katrina Greene**, School Activity Funds Support Specialist  
**Janice Walters-Semple, CPA**, Internal Audit Supervisor  
**Derrick Martin**, Internal Auditor II

# Internal Audit Report

Fairmont Heights High School  
Student Activity Funds

For the Period Ended June 30, 2021

Fairmont Heights High School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2021

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Fairmont Heights High School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2021

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Fairmont Heights High School for the period July 1, 2018 through June 30, 2021. Fairmont Heights 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 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:

- *Mismanagement of Disbursements;*
- *Restricted Fund Account Deficits;*
- *Delinquent Monthly Reconciliations;*
- *Inadequate Approval of Fund Transfers*

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 June 30, 2021.



Michele Winston, CPA  
Director, Internal Audit

Fairmont Heights High School  
Student Activity Funds  
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**SUMMARY**

Internal Audit completed an audit of the school activity funds (SAF) for Fairmont Heights High School for the period July 1, 2018 to June 30, 2021.

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.

All 4 findings included in this audit report occurred under the leadership of the current principal. A listing of the findings and the personnel responsible are included in the appendix at the end of the audit report. In addition, 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 (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, and available cancelled checks, all voided checks, and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2018 to June 30, 2021. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period. This is an audit of funds related to students' activities at the school and does not include SOR funds or any funds not derived from students' activities for the audit period.

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**FINDINGS AND RECOMMENDATIONS**

The audit resulted in the following findings and recommendations:

**2022.01 Mismanagement of Disbursements**

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

- ***Pre-approval*** – There were **7** instances where teachers ordered products without pre-approval from the principal.
- ***Delinquent Payments*** – There were **3** instances where vendor invoices were delinquently paid. The delinquency ranged from **20** to **41** days.
- ***Cash Advance*** – There was **1** instance where the recordkeeping staff did not maintain proper supporting documentation to substantiate the cash advance reconciliation.

The APM provides the following requirements for managing cash disbursements:

- Section 4.5.3 *Cash Disbursements* states that prior to ordering or purchasing goods or services; a School Funds Expenditure Form must be fully completed and signed by the Principal.
- Section 4.5.3.1 Procedures: 2. *Inclusion of Supporting Documentation - Invoices should be paid within 30 days of receipt.* The Principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- Section 4.5.3.1 Procedures: 2. *Cash Advances* – staff members are required to return itemized receipts for the amount advanced. If less than the full amount of the check is documented on receipts, the staff member must return the unused funds to the school, complete a MTF, and submit the difference to the Bookkeeper. Accounting for these funds should be completed within two (2) business days.

The recordkeeping staff reportedly misplaced a receipt with details on the reconciliation of an advance payment. In addition, the late payments occurred due to oversight on the recordkeeping staff's part. Reportedly, this has since been remedied with additional internal controls in place to limit delinquent payments. Staff members ordered goods without obtaining the principal's approval. The principal has acknowledged the

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non-preapproval of expenditures and stated there are currently controls in place to stop staff from ordering goods without getting them approved. When funds are not adequately approved, it puts the school at risk for fraud, waste, and abuse. In addition, it threatens the solvency of the school. When billings are paid late, it impacts the public trust when doing business with the school. Also, failure to adequately support advances puts the school at risk for a potential loss of funds.

**Recommendation:** The principal and recordkeeping staff should continue to implement internal controls relative to disbursements to ensure all expenditures are processed as required. School Funds Expenditure Forms should be entirely completed and approved before purchases are made. The staff should be held accountable for compliance. The recordkeeping staff and principal should review the open invoice folder each month to ensure that all invoices are paid according to the agreed terms. The recordkeeping staff should ensure that all supporting documentation is included to support the reconciliation of cash advances.

**2022.02 Restricted Fund Account Deficits**

The following restricted fund accounts contained deficits which aggregated to approximately **(\$6,635.10)** as of June 30, 2021.

Account	Name	Amount
304.83	Class of 2018 Prom	-\$321.46
337.00	Alpha Diamonds	-\$77.75
480.00	Yearbook	-\$6,235.89
<b>Total</b>		<b>-\$6,635.10</b>

The APM Section 5.2.1, Financial Reporting Requirements Procedures states that expenditures for all restricted accounts are limited to the amount of funds collected for those activities. When restricted accounts exceed the available cash, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure all accounts are solvent at all times.

The recordkeeping staff has been working to clear the account deficits. According to the principal, the yearbook account deficit was inherited from a previous administration. The other deficit accounts were because the Class of 2018 did not adequately budget to ensure that sufficient funds were collected to fund the Prom. Also expenditures were made by the sponsor of the Alpha Diamonds group without sufficient funds in the account. The principal and recordkeeping staff are working with the class of 2021's officers to request use of their residual funds to resolve these account deficits. Insolvent restricted fund

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accounts can result in the student body not benefiting from the resources that should be available to them.

**Recommendation:** The principal should work towards elimination of all fund deficits. Class sponsors must be required to prepare and submit budgets to help ensure that overspending is prevented. The School Funds Expenditure Form should be completed entirely to include available account balance information. The principal should review this information and approve spending only when available balances exceed requested expenditures. The principal should discontinue spending from the restricted fund accounts until the deficits are resolved.

### **2022.03 Delinquent Monthly Bank Reconciliations**

There were **4** instances where the school failed to complete the monthly bank reconciliations by the 15<sup>th</sup> day of the subsequent month.

*The APM Section 5.1.2 Procedures: Monthly Reconciliations and Financial Reporting* states that monthly bank reconciliations should be completed by the bookkeeper within 7 days after receiving the statement from the bank. Typically this process should be completed by the 15<sup>th</sup> of each month. The completed reconciliation should be forwarded to the principal every month for review and approval.

The recordkeeping staff did not complete the monthly reconciliation by the 15<sup>th</sup> of the subsequent month because of an oversight. According to the principal and recordkeeping staff monthly reports had to be thoroughly reviewed which resulted in delays in some instances.

Performance of timely bank reconciliations is an essential control for ensuring accuracy of checking account balances. Failure to complete monthly reconciliations causes the school to miss discrepancy errors that may occur from month to month.

**Recommendation:** The principal should ensure that the monthly financial reports are prepared and reviewed within the required timeframe in accordance with the APM.

### **2022.04 Inadequate Approval of Fund Transfers**

There were **37** instances where the principal did not approve the Fund Transfer Journal Entry Proof Sheet as evidence of approval of the transfers as required.

The APM Section 4.5.4.2 *Transfers Between Restricted and Unrestricted/Net Accounts* states, “Transfers between restricted accounts are only authorized if reviewed and approved by the principal.”



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The recordkeeping staff reportedly did not engage in the practice of submitting the Fund Transfer Journal Entry Proof Sheet to the principal for approval of the transfers.

Funds transferred between restricted fund accounts without the principal's approval can lead to unauthorized use of SAF. In addition, the school can be vulnerable to insolvent accounts due to inappropriate restricted fund transfers.

**Recommendation:** The principal and recordkeeping staff should ensure that all transfers are approved by the principal and the Fund Transfer Journal Entry Proof Sheet should be retained on file as evidence of compliance.

### **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Fairmont Heights High School was issued for the period ended June 30, 2018. During that period, the principal and recordkeeping staff were in their current positions. The previous audit report included **8** reportable conditions, of which **3** are repeated in the current audit report. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Administration of Gate Receipts** – Controls appear to be working
- **Mismanagement of Funds Received** – Controls appear to be working
- **Mismanagement of Disbursements** – See finding 2022.01 regarding *Mismanagement of Disbursements*
- **Sales Taxes Collection/Remittance Process** – Controls appear to be working
- **Excessive Spending in Restricted Accounts** – See finding 2022.2 regarding *Restricted Fund Account Deficits*
- **Unauthorized Transfer of Funds** – See finding 2022.04 regarding *Inadequate Approval of Fund Transfers*
- **Year-End Monetary Transmittal Form Envelope Process** – Controls appear to be working
- **Improvement Needed in Management Oversight** – Controls appear to be working

### **ACKNOWLEDGEMENT**

We would like to thank the principal and record keeping staff of Fairmont Heights High School for their cooperation and assistance during the audit.