



September 27, 2019

MEMORANDUM

To: Kelvin Moore
Area 2 Instructional Director

Charity Magruder, Ed. D., Principal
Stephen Decatur Middle School

From: Michele Winston, CPA,
Director Internal Audit

Re: Financial Audit for September 1, 2017 through June 30, 2019

An audit was completed on the financial records of **Stephen Decatur Middle School** for the period September 1, 2017 through June 30, 2019. The audit indicates that the school's internal controls have failed to adequately safeguard funds and processes require significant 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 **October 30, 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. Please send the WORD and PDF version of your action plan and other correspondence.

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, Esq., 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
Dan Reagan, Internal Auditor II

Internal Audit Report

**Stephen Decatur Middle School
Student Activity Funds**

For the Period Ended June 30, 2019

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Stephen Decatur Middle School for the period September 1, 2017 through June 30, 2019. Stephen Decatur 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:

- *Funds Not Deposited,*
- *Insolvency Report Not Properly Completed,*
- *Shortcomings in T-Shirt Fundraiser,*
- *Mismanagement of Financial Reporting,*
- *Mismanagement of Funds Received,*
- *Mismanagement of Disbursements,*
- *Insolvent Principal-Sponsored Activities Account,*
- *Year-End Monetary Transmittal Form Procedures Not Followed,*
- *Fundraiser Forms Not Completed,*
- *Club Budgets Not Developed,*
- *Voided Checks Not Properly Defaced,*
- *Failure to Maintain a Current Vending Contract, and*
- *Management Oversight.*

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, the deviations from the criteria described in the preceding paragraph represent material non-compliance with BOE policies and procedures and the APM for the period ended June 30, 2019.

Michele Winston, CPA, Director
Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for Stephen Decatur Middle School for the period September 1, 2017 through June 30, 2019. The audit was conducted as a result of a notification from Accounting and Financial Reporting that the Principal had discovered over \$6,000 in funds not deposited in the financial recordkeeping staff's drawer and in the school's drop-safe.

The audit indicates that the school's internal controls have failed to adequately safeguard funds and procedures **require significant improvements** to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education 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 September 1, 2017 through June 30, 2019. In addition, selected 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 Funds Not Deposited

Student activity funds collected were not subsequently deposited, resulting in missing funds:

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Funds remitted to the financial recordkeeping staff, but not deposited:

Between August 23 and August 31, 2019, the Principal found \$8,074.86 in undeposited funds that had been collected during FY2019. These funds were found in the financial recordkeeping staff's desk drawer, the drop safe, and the vault. Further details of the \$8,074.86, includes the following:

- \$4,560.91 had corresponding MTFs identified;
- \$272.00 had support to determine what and when the funds were collected, but there were no corresponding MTFs identified; and
- The remaining \$3,241.95 was unsupported but was recorded on August 26, 2019 in SFO in the "Uncategorized Deposits" account.

Funds documented by staff as collected on MTFs but no record of deposit:

The subsequent investigation of staff MTF remittance copies identified \$3,483.00 in collected funds with no record of deposit as follows:

MTF	MTF Date	Amount	Account
393802	5/24/2019	\$210.00	480 – Yearbook
393783	5/10/2019	\$360.00	480 – Yearbook
393808	6/17/2019	\$1,400.00	420 – Field Trips
393735	3/26/2019	\$825.00	Unclear
393796	5/21/2019	\$202.00	420 – Field Trips
393784	5/10/2019	\$100.00	420 – Field Trips
393770	1/18/2019	\$110.00	420 – Field Trips
393795	5/21/2019	\$50.00	311 – 8 th Grade
393804	5/29/2019	\$70.00	311 – 8 th Grade
393814	6/12/2019	\$140.00	201 – Athletics
393815	6/19/2019	\$16.00	425 – Library
Total:		\$3,483.00	

With MTF records exceeding the uncategorized deposits, at least **\$241.05** in collected funds has not been deposited and is missing.

The Accounting Procedures Manual, Section 4.5.2, Cash Receipts, states that Staff members collecting money are required to complete an MTF and submit it to the Bookkeeper along with money collected. No more than \$250 should be kept in the building overnight. If money is kept on-hand at the school awaiting deposit, it must be kept in a locked fireproof safe, which only the Principal and Bookkeeper can access the contents. Staff members should never holds funds overnight.

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The current financial recordkeeping staff began their role in September 2018. Due to inexperience and competing priorities in the front office, they did not begin making deposits until December 2018. Beginning in December 2018, the Principal began providing official letters of reprimand to the financial recordkeeping staff as a result of delinquent deposits and bank reconciliations.

Despite the warnings, the financial recordkeeping staff stated that they never became acclimated to their bookkeeping duties. They never reviewed the Accounting Procedures Manual and were unclear as to how to best handle the financial processes. They continued to be distracted by secondary duties in the front office, and did not make bank deposits on a regular basis. Although they usually put undeposited funds in the drop safe, they sometimes stored funds in their drawer. Work was done on the front office in the school and desks and offices were moved at the end of FY2019. The financial recordkeeping staff forgot about the money in the drawer and misplaced some MTFs.

The practice of delinquent deposits (*See Finding 2012.05*) and failing to safeguard funds represents significant risk to funds intended for student use. At least **\$241.05** remains outstanding, and over \$8,000 was placed at risk of being lost or stolen between June and August 2019.

Recommendation: The following should be performed to correct deficiencies resulting in student activity funds collected but not deposited:

- A. The current financial recordkeeping staff should provide **\$241.05** restitution for the missing funds.
- B. The Principal and current financial recordkeeping staff, in coordination with Accounting and Financial Reporting, should make transfers in SFO to account properly for the \$3,241.00 in uncategorized deposits. The chart above should be used as reference.
- C. Employee Labor Relations Office should consider disciplinary action for the current financial recordkeeping staff for their failure to safeguard funds and make timely deposits.
- D. The current financial recordkeeping staff should establish a process to ensure bank deposits are completed daily. The Principal should provide oversight to the process by providing daily checks of the deposit slips and drop safe and hold the financial recordkeeping staff accountable for compliance.

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2020.02 Insolvency Report Not Properly Completed

The financial recordkeeping staff did not complete an Insolvency Report for June 2019. The May 2019 Insolvency Report was included in the June section of the trimester report, and signed by the Principal on July 12, 2019.

An Unpaid Bills Spreadsheet dated June 2019 was included, but showed unpaid bills totalling \$0. However, six open invoices totalling \$2,974.71 were discovered that were omitted from the Insolvency Report adjustment for unpaid bills.

SAF Accounting Procedures Manual, **Section 5.2, *Financial Reporting Requirements***, states that the Insolvency Report should be completed monthly and requires the bookkeeper to manually record data in order to calculate the school's solvency. The bookkeeper must manually calculate the value of unpaid bills that existed as of the end of each reporting period for both restricted and unrestricted funds to complete the report.

The financial recordkeeping staff stated that they did not fully understand the purpose of the Unpaid Bills Spreadsheet or how to complete it. She was unaware that the amount had to be carried forward to the Insolvency Report. Further, she stated that she was always in a rush to complete monthly financial reports and may have entered the wrong date when trying to complete the June 2019 Insolvency Report.

Failure to complete an unpaid bills spreadsheet can affect the school's solvency calculation on a monthly basis. As a result, the principal and financial recordkeeping staff may be less aware of open invoices which can lead to untimely payments (*See Finding 2018.02*). The incorrect date on the Insolvency Report, and the Principal and Accounting and Financial Reporting not detecting the error indicates that solvency was not properly evaluated for June 2019. The school is only solvent in the amount of \$11,102.21 as of June 30, 2019. The solvency was originally calculated in error at the amount of \$7,317.52. Insolvency risk should be evaluated every month.

Recommendation: The following should be performed to help ensure proper completion of the Insolvency Report on a monthly basis:

- A. The financial recordkeeping staff should familiarize themselves with the instructions for the Unpaid Bills Spreadsheet and should complete it properly for future monthly reports.
- B. The Principal should provide oversight to ensure that reports are properly completed and dated prior to providing signatory approval.
- C. Accounting and Financial Reporting should ensure that all reports are dated properly during the trimester review to ensure that solvency is being adequately assessed, particularly for schools with low available funds.

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2020.03 Shortcomings in T-Shirt Fundraiser

The school has purchased and re-sold school t-shirts during FY2018 and FY2019 as a fundraiser. According to the Principal, the shirts are purchased for \$4.00 and resold for \$10.00 at school events and in the front office to interested parents and students. However, expenditures for t-shirts have exceeded receipts by **\$2,331.35** during the audit period. Reportedly, there are no remaining t-shirts available for sale from FY2018 or FY2019.

The Accounting Procedures Manual, Section 7.1, *Importance of Planning*, states that the purpose of the budget is to present a plan and to serve as a benchmark for monitoring a planned activity to ensure that is not headed towards a deficit. The Fundraising Authorization Form and Fundraiser Completion Report provide the pre- and post-activity budgeting information for fundraising activities.

The Principal did not establish effective controls over this fundraiser. There is no official sponsor, and several staff members were authorized to sell the t-shirts at school functions or in the front office. There was no accounting to track which t-shirts were sold and accountability for the sales. The financial recordkeeping staff stated that many t-shirts were provided to homeless students, which may account for some of the shortcomings. However, there was no record of these giveaways.

During 2018, a Fundraiser Authorization Form was completed in August 2017 with a planned profit of \$1,208.50. However, the Fundraiser Completion Report indicated a loss of \$634.00 as of June 2018. Despite the loss, the Principal did not adjust controls to ensure a profit in 2019. Further, fundraiser forms were not completed during FY2019 (*See Finding 2020.09*).

The insolvent fundraisers in 2018 and 2019 represent student funds no longer available for intended use. Further, the lack of accounting for t-shirts has prevented a determination of whether all collected funds have been properly remitted and deposited.

Recommendation: The Principal should immediately discontinue t-shirts sales until an effective process can be established. An effective process would involve the Principal assigning a fundraiser sponsor, with responsibilities tracking t-shirts sold and given away. All records of t-shirts distributed should be documented and made available to the Principal for review. A Fundraiser Authorization Form should be developed to set reasonable goals, and the Fundraiser Completion Report should be developed to assess the success of the fundraiser.

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2020.04 Mismanagement of Bank Reconciliations

The following deficiencies were noted that were considered mismanagement of monthly bank reconciliations:

- Improper reconciliation - The June 2019 bank reconciliation was not properly reconciled. The financial recordkeeping staff inputted an unsupported adjusting entry of \$60.04 in order to force the reconciliation. The Principal signed the reconciliation and Accounting and Financial Reporting did not note the discrepancy during the review of the third trimester report.
- Delinquent Reconciliation - A total of 7 of the 11 reconciliations reviewed were not completed and approved by the Principal timely.

The Accounting Procedures Manual (APM), Section 5.0, *Monthly Reconciliation and Financial Reporting*, states that the purpose of the bank reconciliations is to ensure that differences between the bank and SFO balances are due to timing, rather than error. Further, it states that the Principal should receive and approve the package of reports, to include the bank reconciliation, by the 15th of each month.

The current financial recordkeeping staff has not read or reviewed the Accounting Procedures Manual in order to be able to properly manage the bank reconciliation process. Reconciliations were not completed timely or effectively.

The financial recordkeeping staff entered check numbers incorrectly for a number of months during 2019 (*See Finding 2019.06*). As such, SFO records and bank records regarding cleared checks did not match, and the financial recordkeeping staff marked the wrong checks as cleared during the June 2019 reconciliation. Further, the bank statement showed an incorrect amount for one check (Check #1180), but the financial recordkeeping staff did not notice. As a result, the financial recordkeeping staff was unable to complete the reconciliation. They forced the reconciliation with an unsupported adjusting entry.

The Principal was unaware that the adjusting entry was a potential problem and did not follow up during her review. Accounting and Financial Reporting also reviewed the reconciliation during the third trimester review, but did not notice the unsupported adjusting entry.

Untimely and unapproved bank reconciliations constitute non-compliance with BOE policies and procedures and increased financial risk to the school. The bank reconciliation process is the most effective internal control to ensure that funds are properly deposited and recorded when done timely and properly. In several instances (*See Findings 2020.01, 2020.05, 2020.06*), funds were not being properly deposited and recorded. The reconciliation process did not detect any of these discrepancies as intended.

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Recommendation: The following is recommended to correct deficiencies in performance of monthly bank reconciliations:

- A. The Principal, in coordination with Accounting and Financial Reporting, should contact SunTrust to rectify the discrepancy of amount for Check #11180. Once rectified, the June 2019 reconciliation should be amended.
- B. The financial recordkeeping staff should ensure that check numbers are entered into SFO correctly to facilitate the reconciliation process. Any discrepancies should be investigated and remedied prior to completing and submitting the bank reconciliation to the Principal and to Accounting and Financial Reporting. It is imperative the bank reconciliations be completed timely to ensure quick remediation of any discrepancies.
- C. The Principal should provide oversight to the reconciliation process to ensure that it is done accurately and timely. All adjusting entries should be reviewed to ensure appropriateness.
- D. Accounting and Financial Reporting should ensure that all unsupported adjusting entries on reconciliations are reported. Consolidated Reporting on reconciliation adjusting entries should be pursued through SFO during trimester reviews so that adjusting entries can be better detected.

2020.05 Mismanagement of Funds Received

The following exceptions pertaining to the management of receipts were identified:

- 1. ***Cash Back from Overpayment Not Returned to School:*** A staff member received a \$131.80 check made out to Sam's Club based on an online quote. However, the actual cost of items was \$111.82. The receipt indicates that **\$19.98** in cash was returned to the staff member. However, there is no record of those funds being returned to the school.
- 2. ***Delinquent Deposits:*** There were **32** instances where the deposit was not made timely following initial collection of funds. this included 14 instances where deposits were made over a week after the MTF date. ***(This condition was noted in the previous audit dated August 31, 2017)***
- 3. ***Accounting Errors:*** There were **2** instances where funds received were recorded in the wrong account in SFO. Further, there were **16** instances where the receiptee was misidentified in SFO.

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4. ***Funds Collected without MTF:*** The Drop Safe Log indicated several instances where teachers were dropping funds without an MTF.
5. ***MTF Log Incomplete:*** An MTF log has been established for teachers preparing to collect funds. However, there were several MTFs that were not included on the log.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* includes the following provisions:

- A. Staff members collecting money are required to complete a MTF and submit it to the Bookkeeper along with money collected.
- B. The Bookkeeper must make deposits of all funds received at least every other day. However, no more than \$250.000 should be kept in the building overnight.
- C. If money is kept on-hand at the school awaiting deposit, it must be kept in a secure location. A secure location is a locked fireproof safe, which only the Principal and Bookkeeper can access the contents. Drop safes are required for every school. The safe should be bolted to the floor and in a location accessible to staff which will facilitate submitting money, even if the Bookkeeper is unavailable. A log should be maintained where staff members record their name and the date of the 'drop'. The money should be sealed in an envelope with the completed, signed MTF enclosed. On the following day, the staff member dropping off money should make sure the Bookkeeper has a record of the deposit. Money should never be dropped without an MTF.
- D. A MTF log is required and maintained by the Bookkeeper to include a numerical list of the MTF's, the name of individuals and dates the forms were issued, the date returned to the Bookkeeper, and the total amount of the MTF.
- E. The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries* states that the Bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions. In addition, they must make the Principal aware when either a lack of time or distractions are adversely affecting the ability to successfully complete their bookkeeping duties.

The following was reported as being contributory to mismanagement of funds received:

- The current financial recordkeeping staff has not read or reviewed the Accounting Procedures Manual in order to be able to properly manage the cash collection process.
- The staff member who received the cash back from Sam's Club no longer works for PGCPs, and it could not be determined whether funds were attempted to be returned.

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- During FY2018, the previous financial recordkeeping staff appeared to make deposits timely outside of a few exceptions. However, records indicated that staff members often held funds for several days before completing the MTF and submitting the funds to the front office. During FY2019, the current financial recordkeeping staff did not make timely deposits. Due to inexperience and being overwhelmed, the current financial recordkeeping staff got behind on deposits early in the year and never caught up. They did not allocate time to make a bank deposit daily.
- The Principal stated that she has trained staff on the importance of remitting funds timely, but was not aware that this direction was not being followed.
- The current financial recordkeeping staff stated that they were often in a hurry when recording transactions in SFO, and were not diligent to ensure that receiptee and account information was always correct.
- The current financial recordkeeping staff did not require all staff members to complete MTFs when dropping money in the drop safe. They stated that in rare instances, small amounts of money were added to previous MTFs that had yet to be deposited, as a way of saving MTFs. Further, the current financial recordkeeping staff stated that she did not ever review the MTF log for completeness.

The lack of effective internal controls over cash collections constitute non-compliance with Board policies and procedures and have greatly increased the risk of lost or stolen funds. Funds being held by teachers and the financial recordkeeping staff without logged MTFs are at risk. At least **\$241.05** has been lost and is no longer available for student use. (*See Finding 2020.01*)

The misclassification of receipts in SFO compromises certain clubs or organizations' ability to use the funds that they raised. Further, it compromises the audit trail necessary to ensure proper administration of student activity funds.

Recommendation: The following should be performed to help ensure deficiencies in management of funds received are corrected:

- A. The financial recordkeeping staff should manage the cash collection process to ensure compliance with the Accounting Procedures Manual. Specifically, the financial recordkeeping staff should ensure that deposits are made daily, and that all MTFs are properly distributed and logged.
- B. The Principal should increase her oversight of the financial process to include intermittent reviews of MTFs and the drop safe log to ensure that staff members and financial recordkeeping staff are fulfilling their responsibilities when it comes to submitting, depositing, and recording funds received.

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2020.06 Mismanagement of Disbursements

The following exceptions pertaining to the management of disbursements were identified:

1. ***Accounting Errors:*** There were **29** instances where the check number was entered into SFO improperly and 6 instances where the check was posted to the wrong account in SFO.
2. ***Lack of Proper Support:*** There were **3** instances where expenditures were not properly supported by invoices, store receipts, or equivalent.
3. ***Lack of Proper Pre-Approval:*** There were **6** instances where the Principal did not provide written pre-approval prior to the commitment of funds. Documentation was not sufficient to make a determination of whether pre-approval was made in **3** other instances. *(This condition was noted in the previous audit dated August 31, 2017)*
4. ***Delinquent Payments:*** There were **2** instances where payments were made to vendors after the due dates on the invoices. Additionally, **6** invoices from FY2019 remain unpaid as of September 2019.
5. ***Missing Documentation:*** There was **1** instance where a SFEF was not included with a check and another instance where there was no documentation (SFEF, check, receipt) on file for an expenditure. Cancelled check images could not be located in **21** instances.

The APM, Section 4.5.3, *Cash Disbursements*, includes the following provisions:

- A. All checks must have itemized documentation attached to the School Funds Expenditure Form that supports the amount of the check. Examples of supporting documents are cash register receipts, invoices, bills of sales, etc. Examples of documents that are not itemized invoices or receipts include credit card receipts, statements, order confirmations, price quotes and packing slips.
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for front office staff to indicate funds available in the relevant account prior to the principal providing pre-approval.
- C. Principals should review invoices and statements for past due amounts and ensure payments are made within 30 days of the invoice, or by the due date on the invoice.
- D. Images of cancelled checks must be returned with the bank statement. Once received, these images are to be maintained in a separate cancelled check file for the entire year. The Bookkeeper must safeguard these images of cancelled checks, including endorsement information the bank of the checks.

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APM, Section 6.12, *Record Retention*, states that ALL SAF records must be retained for a period of seven years and/or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursements authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.

The APM, Section 3.2.2, *Bookkeepers/Financial Secretaries* states that the Bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions. In addition, they must make the Principal aware when either a lack of time or distractions are adversely affecting the ability to successfully complete their bookkeeping duties.

The following was reported as being contributory to mismanagement of disbursements:

- The current financial recordkeeping staff has not read or reviewed the Accounting Procedures Manual during their tenure. Further, they stated that they have been hesitant to ask questions when unclear on a process.
- The current financial recordkeeping staff was unaware that they had misclassified check numbers in SFO. They stated that they did not always check to make sure that the number was correct before printing.
- The current financial recordkeeping staff was unaware of the need to transfer athletic funds to the correct sub-account prior to disbursement. Payments for the athletic banquet were made out of the athletic allotment and concession accounts because those accounts had a balance at the time.

Reportedly, the lack of support for expenditures, delinquent payments, and missing receipts and SFEEFs were due to the current financial recordkeeping staff being new and overwhelmed by all of the responsibilities of the position. They were also unaware of the need to maintain cancelled check images.

The Principal improved the pre-approval process after the last audit, but field trip expenditures were not properly pre-approved on SFEEFs during this audit period. They were not included in the initial field trip approval process. Instead, SFEEFs were developed by field trip organizers well after funds were already committed to the venues or transportation vendor.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. The incorrect check numbers have complicated the bank reconciliation process (*See Finding 2020.03*). The misclassification of expenditures and failure to retain all records compromises the audit trail necessary to investigate potential fraud. The lack of pre-approval for field trip expenditures can lead to inappropriate expenditures or insolvent accounts (*See Finding 2020.11*).

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Delinquent payments to vendors have resulted in late charges and eroding relationships with vendors. One open invoice has already resulted in \$7.01 in late charges. Another vendor stated to the Principal that they will not be doing business with the school in the future. These late charges and eroding relationships represent a limitation on student usage of funds raised or received on their behalf.

Recommendation: The following should be performed to help ensure deficiencies in management of funds received are corrected:

- A. The financial recordkeeping staff should manage the expenditure process to ensure compliance with the Accounting Procedures Manual. Specifically, the financial recordkeeping staff should ensure that check numbers are correct, and expenditures are supported, approved, and accounted for properly.
- B. The Principal and financial recordkeeping staff should ensure that SFEFs are included in the field trip approval packet to ensure pre-approval.
- C. The Principal should increase her oversight of the expenditure process to improve controls. She should intermittently review check documentation to ensure that expenditures are in compliance with the APM. Further, she should review invoices on a monthly basis to ensure that payments are made timely. The open invoices identified should be immediately paid.

2020.07 Insolvent Principal-Sponsored Activities Account

The Principal Sponsored Activities (PSA) account has an overall deficit of (\$9,862.41) as of June 30, 2019. Despite notifications to suspend spending in the PSA account until it reached solvency in each trimester review from Accounting and Financial Reporting, the school spent \$951.62 on staff activities that were posted to the insolvent PSA account in FY2018. *(This condition was noted in the previous audit dated August 31, 2017)*

The APM, Section 9.6, PSA for Staff, states that discretionary expenditures incurred by the Principal on behalf of school staff are grouped in the PSA accounting category. These activities must be of a professional nature that enhances staff members' job performance. If the PSA account has a deficit, faculty spending must be ceased until the existing PSA deficit is resolved. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the following sources:

- 100% of Vending commission from machines located in the staff lounge
- 25% of student vending commission
- 15% of school-wide fundraiser profits, including picture commissions
- Up to 25% of senior class residual funds.

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The PSA account has been insolvent since the Principal arrived at the school, and she is aware that the account continues to be insolvent. However, two of the subaccounts have positive balances, and she and the previous financial recordkeeping staff mistakenly thought that funds were available for staff items at the end of the 2018 school year.

Failure to properly manage PSA spending constitutes non-compliance with BOE policies and procedures. A deficit in the PSA account represents funds that are no longer eligible for positive student experiences.

Recommendation: The Principal and financial recordkeeping staff should immediately familiarize themselves with the specific restrictions for PSA. Expenditures should be suspended until the account is brought to solvency.

2020.08 Year-End Monetary Transmittal Form Procedures Not Followed

There were 2 employees' end of year MTF envelopes for 2018-2019 that could not be found. This accounted for 15 MTFs, totaling \$11,816.00 that could not be verified. (*This condition was noted in the previous audit dated August 31, 2017*). There were also 4 instances, that the yellow bookkeeper's remittance copy could not be found in the file.

The APM, Section 4.5.2.2, *Cash Receipts: General Policies*, requires the pink MTF remittance copies to be retained by the preparer. The white and yellow MTF remittance copies are submitted to the bookkeeper with remitted funds. After approving MTFs, the Bookkeeper returns yellow MTF remittance copies to the originator. Prior to departing the school at year-end, faculty and program managers seal envelopes containing yellow and pink remittance copies of MTFs (with their signature over the seal) and submit them to the designated administrator. The bookkeeper is required to print the SFO "Receiptee History" Report and submit it to the designated administrator. This alerts the administrator which MTF envelope packages to expect.

The following was reported as being contributory to monetary transmittal form procedures not being followed:

- One of the missing envelopes was for the Principal. The Principal was unaware that her MTFs needed to be maintained and sealed in an envelope each year. She provided the financial recordkeeping staff with all three copies each time she collected money.
- The current financial recordkeeping staff did not provide a list of all receiptees to the Principal's designee to ensure that all envelopes were collected.
- The current financial recordkeeping staff misplaced yellow copies of MTFs prior to returning them to staff to include in envelopes (*See Finding 2020.01*).

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The ineffective year-end MTF process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The audit trail for ensuring that SAF collected were subsequently remitted and deposited was compromised. For example, staff MTF copies were needed to determine classification for funds found in Finding 2020.01.

Recommendation: The Principal should ensure that she follows the same process as staff members regarding maintaining and turning in MTF copies.

The financial recordkeeping staff should be held accountable for returning all remittance copies to staff promptly. Staff should also be made aware of this requirement. The financial recordkeeping staff should provide a receiptee list to the Principal's designee for collecting envelopes each year. The receiptee list can be used to identify missing envelopes.

2020.09 Fundraiser Forms Not Completed

Fundraiser Authorization Forms, Fundraiser Completion Reports, and an annual fundraising summary were not completed in 2018-2019. (*This condition was noted in the previous audit dated August 31, 2017*)

The APM, Section 7.2.2, *Fundraising Procedures*, states that club fundraisers must be formally approved by the Principal using a Fundraiser Authorization Form. At the conclusion of all fundraisers, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, the Principal should prepare an annual report summarizing all fundraising activities concluded during the year. The data in this annual report should be available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

Following the 2017 audit, the Principal and former financial recordkeeping staff established a process to complete Fundraiser Authorization and Completion Reports for all fundraisers. However, the current financial recordkeeping staff was unaware that this was part of her responsibility, and the process was not continued. The current financial recordkeeping staff has not read or reviewed the Accounting Procedures Manual.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, Fundraiser Completion Reports bolster the budgeting process which can ensure optimal performance by each fundraiser (*See Finding 2020.03*).

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Recommendation: The Principal should re-establish the process for completing required fundraiser forms. She should then provide increased oversight throughout the year to ensure that forms are being completed and maintained. The completed Fundraiser Completion Reports can be used to complete the annual fundraising summary each year.

2020.10 Voided Checks Not Properly Defaced

The following deficiencies were note regarding voided checks:

- A voided check was not properly defaced by removing the signature line In **1** instance.
- The voided check could not be located to ensure it had properly been defaced in **4** instances. *(This condition was noted in the previous audit dated August 31, 2017)*
- There were **2** voided checks that were not properly indicated as “voided” in SFO. *(This condition was noted in the previous audit dated August 31, 2017)*

The APM, Section 4.5.3, *Cash Disbursements*, states that voided checks must be defaced and filed in check number order with cancelled check images. The checks should be noted as voided in SFO.

The current financial recordkeeping staff attempts to deface and file all voided checks, but the school’s checks are not filed in number order, which can lead to missing documentation. The failure to properly deface and file voided checks represents non-compliance with Board policies and procedures and increases the risk of check fraud for the school.

Recommendation: The financial recordkeeping staff should deface all voided checks and ensure that they are filed in numerical order in the check file and recorded in SFO. The Principal should provide oversight to this process.

2020.11 Club Budgets Not Developed

The school’s clubs have not developed and submitted annual budgets to the financial recordkeeping staff. *(This condition was noted in the previous audit dated August 31, 2017)*

The SAF Accounting Procedures Manual, **Section 7.3, Class and Club Accounts**, states that a copy of annual budgets for all school clubs should be provided to the School’s Bookkeeper.

As a result of the previous audit, the Principal informed club sponsors that annual budgets were required each year. However, a process was never established to ensure that budgets were completed and submitted. The lack of club and class budgeting constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases the coordination between club sponsors and the school administration when it comes to planning

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and executing necessary payments. For instance, the Band account is insolvent resulting from FY2019 expenditures. The school also has four other insolvent restricted accounts that have existed since before this audit period. A budgeting process will decrease the risk of insolvent accounts.

Recommendation: The Principal and financial recordkeeping staff should develop a budget template for club sponsors to use as early as the 2019-2020 school year. The Principal should provide oversight to the process to ensure all budgets are completed and maintained. The principal and financial recordkeeping staff should seek assistance from the Accounting and Reporting Office if needed.

The Principal should develop a plan to bring the Band account to solvency. Further, the Principal should request closure of the inactive insolvent restricted accounts from Accounting and Financial Reporting.

2020.12 Failure to Maintain a Current Vending Contract

The school does not have an active contract with their vendor for vending machines. (*This condition was noted in the previous audit dated August 31, 2017*)

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.

Despite this being a finding in the previous audit report, the Principal was not aware of the requirement for annual vending contracts. Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of active contract prevents the school from having any recourse if there are issues with service or commissions.

Recommendation: The Principal or financial recordkeeping staff should contact the vendor and obtain a signed contract for the vending machine operations. The contract should stipulate the frequency and percentage of commissions. The contract should be renewed annually. The principal should request assistance from Purchasing and Supply Services to identify an alternate vendor if the current vendor does not comply.

2020.13 Management Oversight

The Principal has failed to implement effective controls to ensure compliance with the APM and to properly safeguard funds. The previous report indicated 9 findings in 2017. There are 7 of

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the **9** findings that are repeated in this report, with **5** additional findings. The Principal has been in place since the last audit

The APM, Section 3.2.1, Principals, states that the principal is the fiduciary agent for the Student Activity Funds. In this role, the principal is responsible for ensuring that these funds are administered in accordance with Prince George's County Public Schools (PGCPS) policies and procedures and spent to provide the maximum benefit possible to the students. It is also important that the principals, who are ultimately responsible for these funds, be aware that the success of the internal control system rests largely with them.

The Principal and previous financial recordkeeping staff worked to improve controls immediately following the previous audit. However, since the previous financial recordkeeping staff left, controls have deteriorated. The current financial recordkeeping staff is less experienced and has struggled performing required processes for administration of SAF. The Principal did begin providing the current financial recordkeeping staff written reprimands in December 2018, but processes did not improve.

Several BOE policies and procedures as established in the Accounting Procedures Manual were not followed. This resulted in internal controls being compromised and funds being jeopardized. At least **\$241.05** in missing funds were identified (*See Finding 2019.01*).

Recommendation: The Principal should immediately read the APM and adopt a more hands-on approach with respect to administration of the school's finances. The following **5** basic principles must be incorporated into the school's policies and procedures, to achieve the internal control objectives:

- Clearly Defined Lines of Authority and Responsibility;
- Segregation of Duties;
- Maintenance of Adequate Documentation and Records;
- Limited Access to Assets, and
- Independent Checks on Performance.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Stephen Decatur Middle School** was issued for the period ending **August 31, 2017**. The Principal has been in place since the last audit and the current financial recordkeeping staff began in July 2018. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Funds Received** – Condition still exists (*See Finding 2020.05 and 2020.08*)

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- **Inadequate Approval of Disbursements** – Condition still exists (*See Finding 2020.06*)
- **Misuse of Student Activity Funds by Former Principal** – Controls appear to be working.
- **Administration of Checks** – Condition still exists (*See Finding 2020.10*)
- **Fundraiser Forms Not Completed** – Condition still exists (*See Finding 2020.09*)
- **Inadequate Approvals of Transfers** – Controls appear to be working.
- **Deficit in the Principal Sponsored Activities Account** – Condition still exists (*See Finding 2020.07*)
- **Lack of Budgeting for Clubs and Organizations** – Condition still exists (*See Finding 2020.11*)
- **Vending Machine Contract** – Condition still exists (*See Finding 2020.12*)

ACKNOWLEDGEMENT

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