

CONFIDENTIAL



December 8, 2017

MEMORANDUM

To: Edward Ryans, Ed. D., Instructional Director
Cluster 15

Daria Valentine, Ed. D., Principal
Greenbelt Middle School

From: Michele Winston, CPA, Director
Internal Audit

A handwritten signature in black ink, appearing to read "Michele Winston", is written over the "From:" line of the memorandum.

Re: Financial Audit for Period July 1, 2014 through September 30, 2017

An audit of the financial records of **Greenbelt Middle School** was completed for the period July 1, 2014 through September 30, 2017. The audit results indicate that the school's internal controls require improvement to ensure compliance with Board of Education (BOE) policies and the Accounting Procedures Manual for School Activity Funds (APM). The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within **30** days, indicating steps that will be taken to ensure compliance with the APM. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. 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: Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org. A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: Deborah.smalls@pgcps.org.

This report is intended solely for information and use of the Board Chair and Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended to be and should not be used by anyone other than the specified parties.

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair
Kevin M. Maxwell, Ph.D, Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Lupi Quinteros-Grady, Board Member, District 2
Monique Whittington Davis, Ed. D., Deputy Superintendent
J. Michael Dougherty, Director, Financial Services
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Erica Berry Wilson, Esq., Executive Director, Board of Education
Darrel Haley, Supervising Budget Analyst
Daniel Reagan, Internal Auditor II

Internal Audit Report

Greenbelt Middle School Student Activity Funds

For the Period Ended September 30, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Greenbelt Middle School for the period July 1, 2014 to September 30, 2017. Greenbelt 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 Funds Received;*
- *Mismanagement of Disbursements;*
- *Grants Not Properly Reported;*
- *Restricted Fund Account Deficits;*
- *Administration of Voided Checks;*
- *Inadequate Approval of Transfers;*
- *Fundraiser Forms Not Completed;*
- *Budgeting for Clubs and Organizations; and*
- *Administration of Vending Contract*

Individually or in 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 SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended September 30, 2017.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Greenbelt Middle School for the period July 1, 2014 to September 30, 2017. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures but 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.

This report is intended solely for information and use of the Board Chair, Chief Executive Officer and other parties specifically stated in the accompanying transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

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 APM and the 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, available cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period July 1, 2014 to September 30, 2017. 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:

2018.01 Mismanagement of Funds Received

The following exceptions pertaining to the management of funds received were identified:

- A. ***Incorrect Reporting of Deposits:*** There were **2** instances in early 2016 where deposit amounts were not accurately recorded in SFO. Deposits exceeded recordings by \$740.50.
- B. ***Delinquent Deposits:*** There were **19** instances where deposits were made between 1 and 21 days after collection.
- C. ***Inadequate Supporting Documentation:*** There were **3** instances where remittance information was not sufficient to substantiate the collection and deposit amount.
- D. ***Mandatory Ticket Reports:*** There were **3** instances where the athletic director did not use the Mandatory Ticket Report to support athletic admission revenue reported on MTFs.

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

- A. Section 3.2.2, *Bookkeepers/Financial Secretaries*, states that the bookkeeper is responsible for accurately recording and reporting the school's financial transactions. 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.
- B. According to Section 4.5.2.2, (1) *Cash Receipts, Procedures, Guidelines for Bank Deposits* bookkeepers are required to make deposit of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.
- C. Section 4.5.2.2, (2) *Cash Receipts, Procedures, Collecting Funds: Completing the Monetary Transmittal Form* requires MTFs to be completely entirely with the following information – 1) who collected funds; 2) date of collection; 3) source of collected funds; 4) the amount and form of the collection; and 5) the purpose of the collection. If additional space is needed, a Student Remittance Report, Excel

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spreadsheet, class list, receipts, or ticket/report stubs, can be used as an attachment.

- D. Section 7.4.2, *Sporting Events and Ticketing* states that upon satisfactory completion of all sporting events, the athletic director should report to the principal and turn over all money collected (along with an MTF and completed Mandatory Ticket Report) to the school's bookkeeper for deposit in the appropriate Interscholastic Athletics account.

Contributory factors in the mismanagement of funds received are as follows:

- A. The two instances of incorrect recording of deposits occurred during the bookkeeper's first few months in her role. The mistakes were attributed to being undertrained and overwhelmed. She has since become more familiar and comfortable with accurately recording and depositing all funds remitted.
- B. The bookkeeper stated that staff has been reminded of the requirements for daily remittance but has not always complied. MTFs are often not completed until after several days of collections. This has resulted in delinquent deposits and complications with remittance information in some cases. The bookkeeper also explained that her duties in the front office frequently prevent her from making timely bank deposits, particularly when other secretaries are absent.
- C. The Bookkeeper and athletic director were unaware of the requirement for Mandatory Ticket Reports to be used when selling tickets for middle school athletic events.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The amount collected on the MTF exceeded the deposited amount by \$14.00 in one instance of a deposit not being properly recorded. A more significant amount of funds collected but not deposited could result from a lack of controls over deposits.

Untimely deposits can lead to lost or stolen funds. Insufficient remittance information compromises the audit trail and can prevent accurate refunds, if needed.

Recommendation: The following is recommended for the principal and bookkeeper to properly manage funds received:

- A. The principal and bookkeeper should provide training to staff on the specific requirements for collection and remittance of funds collected from students.

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- B. The principal and bookkeeper should establish controls in the front office to ensure that bank deposits are made timely by the bookkeeper. The principal should consider designating a specific time period during the day for staff to remit funds to the bookkeeper and for the bookkeeper to make deposits.
- C. The athletic director should immediately begin using the Mandatory Ticket Report to substantiate MTFs for athletic ticket revenue and be held accountable for compliance.

2018.02 Mismanagement of Disbursements

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

- A. ***Misclassification:*** There were **32** instances where expenditures were classified in wrong accounts in SFO.
- B. ***Delinquent Invoices:*** There were **4** instances where payments to vendors were not made within 30 days of receipt of invoices.
- C. ***Incomplete Documentation:*** There were **38** instances where the bookkeeper did not indicate the amount of funds available for the relevant fund accounts on School Funds Expenditure Forms (SFEFs).

The APM, Section 4.3.2, *Fund Account Procedures* and Section 4.5.3, *Cash Disbursements*, includes the following provisions for administering SAF:

- A. Accounting transactions should be recorded in the most specific account relating to the activity.
- B. 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.
- C. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for the bookkeeper to indicate funds available in the relevant account prior to the principal providing pre-approval.

Misclassified entries were caused by the bookkeeper's failure to post journal entries. The bookkeeper posted transactions to accounts with available funds instead of doing transfer entries to move funds to appropriate accounts for disbursement. For example, field day activities were spent out of fundraising and donation accounts, rather than available funds being transferred from these accounts to the unrestricted "Special Events" account.

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The bookkeeper was reportedly unaware of the requirement to include the total balance of fund accounts indicating funds available for particular expenditures on the SFEFs. The bookkeeper could not speak to the cause of the delinquent payments. According to the bookkeeper she attempts to make payments to vendors as soon as invoices are received. The instances of delinquent may have been oversight.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Delinquent payments can result in late fees and eroding of relationships with vendors. Incorrect classification of expenditures results in inaccurate financial statements which can compromise the audit trail. SFEFs not being completed properly can ultimately lead to insolvent accounts when the principal is unaware of the funds available (*See Finding 2018.04*).

Recommendation: The new bookkeeper should begin posting journal entry transfers within subaccounts and within unrestricted accounts to ensure accounting for disbursements is accurate. Further, she should immediately begin use of the “funds available” field on SFEFs and the principal should ensure that this information is provided before affixing his approval signature. The principal should assign specific time for the bookkeeper to process deposits and make deposit timely.

2018.03 Grants Not Properly Reported

Grants received from July 1, 2015 were not properly reported to the Grants Financial Management Office. The school received 5 grants totaling **\$28,462.00** during this period.

The APM, Section 9.3, *Accounting for Grants and Donations*, states that all grants made directly to schools, irrespective of amount should be reported to the Grants Financial Management Office (GFMO) on a School Grant Reporting Form. The completed form and attachments should be electronically transmitted to the GFMO within 5 days of a grant award.

The former bookkeeper continued to handle grants as part of her duties as the principal’s secretary. She explained that prior to the 2015-2016 school years; she forwarded all grant proceeds to the GFMO. When the policy changed in June 2015, the former and current bookkeepers were not aware of the reporting requirements.

GFMO reviews all grants to determine whether they meet the criteria to be managed at the school level. In addition, it allows them to keep a record of all grant money received by PGcps. Failure at the school level to report grants to GFMO compromises both of these efforts.

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Recommendation: The current principal, principal’s secretary, and the current bookkeeper should familiarize themselves with the reporting requirements for grants, and then develop controls to ensure compliance.

2018.04 Restricted Fund Account Deficits

The following restricted fund accounts contained deficits which aggregated to **(\$5,163.10)** as of September 30, 2017.

<u>Account #</u>	<u>Account Description</u>	<u>Amount</u>
308.00	Employee Sunshine Fund	(\$177.73)
314.00	Media Center	(\$79.00)
316.00	National Honor Society	(\$323.93)
327.00	Commitment Team	(\$599.50)
333.00	Sport Group	(\$1,545.95)
415.15	ESOL Donation	(\$573.61)
415.20	Feed a Family	(\$490.00)
415.35	TAG – Univ. of Md. Donation	(\$28.08)
427.00	T-Shirts	(\$178.38)
450	Principal Sponsored Activities	(\$171.44)
490.00	BOE to Reimburse	(\$888.34)
506.00	CRI	(\$107.14)
	Total	(\$5,163.10)

The APM, Section 5.2.1, *Financial Reporting Procedures*, states that the principal, as the fiduciary agent for SAF, should ensure accounts are solvent at all times.

The APM, Section 4.5.4, *Transfer of Funds*, states that principals are responsible for requesting the closure of inactive restricted accounts after ensuring there are no outstanding bills.

The bookkeeper’s failure of complete the “Funds Available” field on SFEFs prior to the principal’s pre-approval of expenditures increases the risk of excessive spending in restricted accounts (*See Finding 2018.02*).

Many of the deficits above existed prior to the audit period. The previous audit as of December 31, 2013 noted deficits totaling (\$19,604.94). The school worked to resolve a number of insolvent restricted fund accounts during the audit period. However, no requests were made to the Assistant Comptroller to close inactive accounts.

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SAF is not used efficiently when overspending occurs in restricted accounts. It is also not fiscally prudent to incur expenditures prior to sufficient funding being available.

Students were not receiving maximum benefit from funds that should have been made available to them.

Recommendation: The principal and current bookkeeper should work towards elimination of all fund deficits.

- A. The current bookkeeper should research to determine how the accounts resulted in deficits full review of all restricted accounts, both with carry forward balances and deficits should be conducted with the Accounting and Financial Reporting Office. Subsequently, the principal should request closure of inactive accounts.
- B. The principal should be mindful of available balances prior to authorizing expenditures. The Bookkeeper should be held accountable for providing this information on SFEFs in the space provided. (*See Finding 2018.02*).

2018.05 Administration of Voided Checks

The following exceptions pertaining to the management of voided checks were identified:

- A. There were **50** instances where voided checks were not properly approved by the principal.
- B. There were **5** instances where voided checks could not be located in the school's files to determine whether they were properly defaced.
- C. There were **10** instances where voided checks were not properly recorded in SFO.

The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and unable to be used, the physical check must still be accounted for. The word "VOID" is written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer to keep the empty transaction in the system. A SFEF should also be completed for the principal's approval.

The current bookkeeper was not aware of the specific requirements for voiding checks. In particular, she was not aware that voided checks required principal approval.

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The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. The lack of principal approval increases the risk of check fraud.

Recommendation: The current principal and bookkeeper should familiarize themselves with the procedures for voiding checks as outlined in the APM and demonstrate compliance by approving, recording, and maintaining voided checks.

2018.06 Inadequate Approval of Transfers

There were 5 instances where funds were transferred from the PY Carryover account without approval from the Accounting and Financial Reporting Office.

The APM, Section 4.5.4, *Transfer of Funds*, states that in order to use Prior-Year Carryover funds, the principal must forward a request to the Director of Business Operations (currently Director Financial Services) detailing the items to be purchased, purpose and the amount of the request. Only upon written approval should funds be transferred from the PY Carryover account.

The bookkeeper was not fully aware of requirements for usage of PY Carryover. She only used PY Carryover funds when no other unrestricted balances existed, but did not receive approval.

Failure to obtain approval for transfers constitutes non-compliance with BOE policies and procedures. Funds transferred from PY Carryover without BOE approval can lead to overall insolvency for the school.

Recommendation: The current principal and bookkeeper should familiarize themselves with the procedures for the transfer of funds and establish procedures to ensure compliance. Specifically, the current principal and bookkeeper should obtain approval from the Accounting and Financial Reporting Office before usage of PY Carryover, and document those approvals.

2018.07 Fundraiser Forms Not Completed

Fundraiser Completion Report and annual fundraiser summaries were not completed for the fundraisers conducted during the audit period.

The APM, Section 7.2.2, *Fundraising Procedures*, states that fundraisers must be formally approved by the principal using a Fundraiser Request and Authorization Form. At the conclusion of the event, 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

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available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

The bookkeeper has set up procedures requiring all club fundraisers to be approved via a Fundraiser Request and Authorization Form. However, she was not aware of the requirement for Fundraiser Completion Reports and annual summaries.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures. In addition, 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 helps with monitoring performance of each fundraiser.

Recommendation: The current principal and bookkeeper should familiarize themselves with the procedures for completing fundraiser forms and establish procedures to ensure compliance. Staff should be trained on these procedures and held accountable for compliance.

2018.08 Budgeting for Clubs and Organizations

School clubs and organizations have not developed and submitted annual budgets. The school has several clubs that conduct financial activity, to include the SGA, History Club, Mentor Program; etc.

The APM, Section 7.3, *Class and Club Accounts*, requires principals and teachers to work closely with students in planning finances (budgeting) for their clubs and organizations. School clubs shall have as much autonomy as possible in spending money as permitted by BOE regulations. However, funds shall not be used without majority consent of the students involved. Copies of annual budgets must be provided to the school's bookkeeper.

The current bookkeeper was unaware of the new requirement for annual budgets to be submitted by clubs and organizations. The current bookkeeper stated that club sponsors have been stressed in past years due to a lack of financial planning and awareness of whether funds were available for large, end-of-year expenditures.

Failure to develop and submit annual club budgets constitutes non-compliance with BOE policies and procedures. Further, the lack of budgeting can lead to insolvent accounts (*See 2018.04*) or substandard experience for students in extracurricular activities.

Recommendation: The principal and current bookkeeper should develop and document procedures for club sponsors to develop and submit annual budgets. The budgeting

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process should include increased communication between the sponsors, current bookkeeper and principal so that club activities can be effectively planned and executed.

2018.09 Administration of Vending Contract

The school has not obtained and maintained a current, annual contract with their vendor for vending machines.

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 current bookkeeper 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 contract prevents the school from having any recourse if there are issues with service or commissions.

Recommendation: The current bookkeeper 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.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Greenbelt Middle School was issued for the period ended December 31, 2013. The current principal's tenure began in August 2017. The current bookkeeper assumed bookkeeping duties in December 2015. 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 2018.01 regarding *Mismanagement of Funds Received*.
- **Un-validated Deposit Slips** – Controls appear to be working.
- **Mismanagement of Disbursements** – Condition still exists. See Finding 2018.02 regarding *Mismanagement of Disbursement*.
- **Excessive Spending in Restricted Accounts** – Condition still exists. See Finding 2018.04 regarding *Restricted Fund Account Deficits*.
- **Deficit in Principal Sponsored Activities Fund** – Controls appear to be working.

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ACKNOWLEDGEMENT

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