



March 15, 2018

**MEMORANDUM**

To: Charoscar Colman, Instructional Director  
Cluster 5

Katrina Pinder, Acting Principal  
Kettering Middle School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Student Activity Funds Financial Audit as of December 31, 2017

An audit of the financial records **Kettering Middle School** was completed for the period January 1, 2016 through December 31, 2017. The audit indicates that the school's financial records and procedures require **significant improvement** to be in accordance with the Accounting Procedures Manual (APM) for School Activity Funds (SAF) and Board of Education policies and procedures. The exceptions noted are included in the attached report.

As the acting 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. Please note that you are required to provide your signed 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](mailto: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](mailto: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.***

cc: Segun Eubanks, Ed. D., Board Chair  
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools  
Carolyn Boston, Vice Chair, Board of Education  
Members, Board of Education  
Monique Whittington Davis, Ed. D., Deputy Superintendent  
Denise Greene, Ed. D., Associate Superintendent, Area I  
John Pfister, Chief Financial Officer  
J. Michael Dougherty, Director Financial Services  
Lewis Robinson, Director Employee Labor Relations  
Erica Berry Wilson, Esq., Board Executive Director  
Alicia Robinson, Internal Auditor II

# Internal Audit Report

## Kettering Middle School Student Activity Funds

For the Period Ended December 31, 2017

**Kettering Middle School  
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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Kettering Middle School for the period January 1, 2016 to December 31, 2017. Kettering Middle School's principal is responsible for the administration of the 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:

- *Missing Funds*
- *Mismanagement of Funds Received,*
- *Segregation of Duties,*
- *Mismanagement of Disbursements,*
- *Records Management,*
- *Security of Student Activity Funds,*
- *Monthly Financial Reporting,*
- *Administration of Contracts,*
- *Principal Sponsored Activity (PSA) Fund Account Deficit,*
- *Unauthorized Transfer of Funds,*
- *Administration of Voided Checks,*
- *Year-End Monetary Transmittal Form Envelope Process, and*
- *Fundraiser Reports Not Completed*

These findings, individually or in aggregate, resulted in a material deviation from Board of Education (BOE) Policies and Procedures and the requirements of the Accounting Procedures Manual for the School Activity Funds (APM).

In our opinion, considering the significant deviations from the criteria described in the preceding paragraph, the SAF referred to above, has not been administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended December 31, 2017.



Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Kettering Middle School for the period January 1, 2016 through December 31, 2017. The audit was conducted as part of the annual audit plan.

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 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period January 1, 2016 to December 31, 2017. Also, available 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 Missing Funds**

**Missing Funds:** There were at least **2** instances where funds totaling **\$215.00** were missing from documented funds collected. In both instances the recordkeeping staff signed the MTFs evidencing verification of funds and included a notation that there was a shortage.

- a. **8th Grade EOY Activity** – Employee A collected funds for the 8<sup>th</sup> grade end of year activities. Each student was responsible for paying \$100.00 for EOY dance, yearbook, cook-out and a college tour. Funds were collected and deposited from April 12, 2017 to May 9, 2017. There were 8 MTFs completed and submitted. The total collected was \$13,790.00 and the total deposited was \$13,675.00, resulting in the aggregate total missing funds of **\$115.00**.
  
- b. **Athletic Donation** – Employee B collected athletic donations from April 5, 2017 to April 12, 2017 to supplement pregame meals for the athletic program. The total collection substantiated was \$1,100.00; however, only \$1,000.00 was remitted for deposit, resulting in missing funds of **\$100.00**.

The APM section 4.5.2.2 (3) *Preparing Bank Deposits*, require the bookkeeper verify the total on MTF and applicable attachments. The funds counted must agree with the MTF and the actual funds remitted. When discrepancies are noted, the bookkeeper must immediately contact the individual who submitted the MTF. The discrepancy must be resolved.

MTFs were reviewed and the originators were expected to provide explanations and/or additional funds. However, no follow-up was conducted by recordkeeping staff.

The recordkeeping staff is responsible for the missing funds totaling **\$215.00**. Funds that should have been available to the student body were no longer available.

**Recommendation:** The recordkeeping staff must ensure that all funds remitted agree with the documentation provided prior to acceptance. Efforts should be made to recover missing funds from Employee A and Employee B. Otherwise, the recordkeeping staff is responsible for the missing funds of **\$215.00**.

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**2018.02 Mismanagement of Funds Received**

There were at least **44** instances of noncompliance regarding the administration of funds received. The following indicates the issues of non-compliance:

- B. ***Delinquent Deposits:*** There were at least **17** instances where funds collected for various school activities were held for a longer period than required by the APM (between **4** and **153** days), prior to remittance to the bookkeeper and/or the financial institution for deposit. ***This finding was noted during the previous audit period ended December 2015.***
- C. ***Inadequate Supporting Documentation:*** There were at least **4** instances where staff submitted MTFs without sufficient supporting documentation. ***This finding was noted during the previous audit period ended December 2015.***
- D. ***Inappropriate or no Deposit Slip:*** There were at least **17** instances where generic deposit tickets were not validated or no deposit slip was attached as verification of each deposit. ***This finding was noted during the previous audit period ended December 2015.***
- E. ***Sales Tax not collected and/or Paid on Non-Fundraiser Items Sold:*** There were at least **6** instances where sales tax was not collected or remitted for sales taxable items, for example, band/choir uniforms/music sheets, yearbooks and staff shirts.

The following criteria are established by the BOE:

- A. The APM section 4.5.2.2 (1), (2) *Collecting Funds* require **all** funds collected to be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely deposits with the financial institution. Deposits are recommended at least every other day when funds under \$250.00 are collected. Funds collected in excess of \$250.00 are required to be deposited on the day of collection.
- B. The APM requires that the MTF must be completed entirely indicating from whom the funds were received, amount and form of collection and reason for collecting the funds. If additional space is needed, then a Student Remittance Report, class list, receipts or ticket/report stubs can be attached.
- C. The APM section 4.5.2.2 (3) *Preparing Bank Deposits* requires a duplicate bank deposit slip to be completed, validated by the bank, returned and attached to the MTF deposit documentation. Both the original and duplicate deposit slip should be taken to the bank to allow the duplicate to be validated. The validated copy is filed at the school with the MTF supporting the deposit.

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- D. The APM section 8.3 *Sales Tax Procedures* require sales tax to be assessed on all non-fundraising sales. Administrative Procedure 5137 *Sales Tax* provides direction to school principals for the collection and remittance of sales tax liabilities resulting from the sale of goods and merchandise.

The following explanations were provided for non-compliance regarding management of receipts:

- A. The staff retained funds until most, if not all, were collected for an activity prior to remittance. The athletic director did not remit funds collected for athletic events timely to the bookkeeper. During the summer of 2017, the school was unexpectedly moved for renovations and mail was not delivered timely. Also the recordkeeping staff was not aware that the name of the vending company was changed, therefore opening of vending checks was overlooked.
- B. Staff indicated documentation was attached to the book fair MTF when it was submitted, but it was not found. The bookkeeper did not follow up to ensure documentation supported each MTF submitted.
- C. When recordkeeping staff attempted to order bank deposit slips, the bank teller requested her to speak with someone in management. This presented a challenge as the recordkeeping staff was always in a hurry. Also, the online option was not used to obtain deposit slips. Hence, generic deposit slips were used in the interim.
- D. The recordkeeping staff was not aware that sales tax had to be remitted to the State of Maryland Comptroller for taxable items sold.

Mismanagement of funds received constitutes noncompliance with BOE policies and procedures and increases financial risk to the school and to staff members. Specifically,

- A. Delinquent deposits violate the school's compliance with APM requirements. Accuracy of reports is impacted when there is a delay in remittance and processing of SAF and the potential for loss of funds is increased.
- B. The audit trail for reviewing cash receipts was compromised due to lack of documentation. Also, it could not be determined that funds received were deposited in the same form and denomination as collected.
- C. Failure to adhere to the APM requirement for completing detailed duplicate deposit tickets has impacted the audit trail for determining that all funds received were deposited.



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D. The school has violated BOE and the State of Maryland policies and procedures regarding sales tax and may be subject to the assessment of penalties and interest.

**Recommendation:** The acting principal should implement the following recommendations to ensure compliance with management of collection:

A. Staff should be held accountable for ensuring that all funds received are remitted promptly to recordkeeping staff. Also, the recordkeeping staff should be held accountable for making timely deposits.

B. Staff should be reminded of the requirement for adequately substantiating funds collected with MTFs and supporting documentation verifying source of funds. Recordkeeping staff should not accept MTFs that do not comply.

C. The acting principal must require recordkeeping staff to ensure that each deposit is accompanied by a validated detailed deposit slip. Detailed validated deposit tickets should be ordered in advance and retained as support of the MTF documentation.

D. The recordkeeping staff must ensure that all applicable sales tax are accurately deducted and posted for all non-fundraising items sold. Subsequently these funds must be promptly remitted to the State of Maryland.

E. The acting principal should complete a periodic review of cash receipt files to ensure compliance with Board policies and procedures (all funds are accurately documented, funds are remitted and deposited timely, documentation is attached to MTFs, validated deposit tickets are attached to each deposit and applicable sales tax is assessed for all non-fundraiser items sold).

**2018.03 Segregation of Duties**

There were at least 7 instances where collections were processed without adequate segregation of duties.

A. The recordkeeping staff collected commission checks and currency from students for 8<sup>th</sup> grade end of year activities. The recordkeeping staff prepared the MTF to document the collection and had the 8<sup>th</sup> grade sponsor sign as the preparer.

B. The recordkeeping staff completed MTFs and signed as the preparer. In those cases, the former principal signed *as approver* the MTFs prepared by the bookkeeper to verify the receipt of funds. The bookkeeper also entered the transactions in the accounting system.

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- C. On separate occasions, the bookkeeper collected and deposited funds without completing MTFs.

The APM section 4.5.2.2 (1), (2) *Collecting Funds* requires that the bookkeeper review the MTF details and verify that it agrees with collected funds and documentation submitted. School staff is responsible for initiating the financial documentation process. Staff members receiving money from students and other sources are responsible for documenting funds received on MTFs. Under no circumstances should the bookkeeper accept and/or collect funds without a completed MTF.

The former principal failed to designate another individual to collect funds received directly in the office. The recordkeeping staff received vending checks and accepted other funds without a MTF.

Internal controls requiring adequate segregation of duties are compromised when SAF are received directly by the recordkeeping staff. The audit trail for reviewing cash receipts was compromised when MTFs were not prepared. Internal controls for ensuring all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased. *This finding was noted during the previous audit period ended December 2015.*

**Recommendation:** The acting principal must establish procedures that will ensure adequate segregation of duties to include the following:

- a) Funds collected must be recorded on MTFs by school staff other than the recordkeeping staff.
- b) The recordkeeping staff should only verify the details reported on the MTF document and funds remitted.
- c) The acting principal should designate another individual, besides the secretary, to collect funds submitted directly to the school office and complete a MTF.
- d) All funds remitted to the recordkeeping staff must be accompanied with a MTF and appropriate documentation to substantiate funds.

**2018.04 Mismanagement of Disbursements**

There were at least **25** instances of non-compliance regarding disbursements. The following indicates the instances of non-compliance:

- A. ***Overages/Shortages Reimbursement and/or Advance Payments:*** There were at least **7** instances where the following reimbursements and/or advances were issued to staff incorrectly calculated and overages/shortages occurred:
- There were at least **3** instances where Employee C submitted reimbursement

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requests that were calculated incorrectly resulting in a net amount due to the employee of \$ **85.12**. (Shortage - \$92.18; Overage - \$7.06).

- There were at least **3** instances where Employee D submitted reimbursement requests that were calculated incorrectly resulting in a net amount due to the employee of \$ **3.31**. (Shortage - \$4.00; Overage - \$7.31).
- There was at least **1** instance where Employee E requested a check to BJ's on June 1, 2017 for \$120.00. The documentation attached to the School Funds Expenditure Form was a shopping cart list that indicated a total of \$113.17. Additional supporting documentation was not provided resulting in \$**6.83** due to the school.

B. ***Delinquent Payment of Invoices and/or Reimbursements:*** There were at least **5** instances where either invoices and/or reimbursements were not paid timely. The delinquency ranged from approximately **40 to 182** days.

- In one instance, athletic awards were purchased on June 5, 2017 but the invoice was not paid until December 4, 2017 (6 month delinquent).
- In another instance, a staff member requested reimbursement on April 26, 2017, but the reimbursement was not issued until August 30, 2017 (4 months delinquent).
- There was an additional delinquent invoice totaling \$**238.00** from June 22, 2017 for additional yearbooks ordered. The invoice was still outstanding as of the end of fieldwork (7 months delinquent).

C. ***Incomplete and/or Inadequate Documentation:*** There were at least **7** instances where checks were issued without the required supporting documentation. There were instances where expenditures were paid from a quote, an estimate or credit card statement.

D. ***Use of the Reimbursement Vendor Accounts in School Funds Online (SFO):*** There were at least **2** instances where the bookkeeper used the "Reimbursement Vendor" option in SFO to issue refunds to parents.

E. ***Services Rendered:*** There were at least **2** instances where reimbursements were issued to staff for third party services rendered.

- A staff member paid \$500.00 for the services of a Disc Jockey for the 8<sup>th</sup> grade dance and received reimbursement.

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- A staff member paid \$150.00 for the services of an accompanist and received reimbursement.

F. ***Misclassified Transactions:*** There were at least **8** instances where expenditures were incorrectly posted to either the principal sponsored activity (PSA) fund account, student vending or the school's fundraiser account for various student activities. ***This finding was noted during the previous audit period ended December 2015.***

The following guidance is established in the APM relative to administration of disbursements:

- A. Section 4.5.3.1 (2) *Cash Disbursements Inclusion of Supporting Documentation* states that all checks must have itemized documentation to support the amount of the check. Examples of documents that are not itemized invoices or receipts are credit card receipts, statements, price quotes, etc. Receipts should be reviewed to ensure the accurate total due.
- B. Section 4.5.3.1 (2) *Cash Disbursement Inclusion of Supporting Documentation* requires invoices and/or reimbursements to be paid within 30 days of receipt and have appropriate documentation.
- C. In January 2015, the BOE began a process of implementing School Funds Online (SFO) for administering SAF. As part of this system, the "Reimbursement" Option was created for posting reimbursable expenses payable to staff and the "Refund" Option was created to post refundable expenses to parents.
- D. Internal Revenue Service requires entities to report payments for services rendered on IRS Form 1096 MISC. Schools within Prince George's County BOE are not exempted from complying with this regulation and are expected to issue IRS Form 1099 MISC to payees.
- E. The APM section 3.2.2 *Ownership, Bookkeepers/Financial Secretaries* states that the bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions.

The following cause resulted from the non-compliance regarding management of disbursements:

- A. Store receipts presented to substantiate expenditures were not recalculated to ensure accuracy of checks issued.
- B. Reportedly, during the summer of FY 2017 the school relocated due to renovations which resulted in untimely payments of expenditures. The yearbook

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sponsor did not submit the yearbook invoice to recordkeeping staff promptly for payment.

- C. Staff submitted inadequate supporting documentation when payments were due and no follow-up was performed to ensure that sufficient supporting documentation was obtained.
- D. The recordkeeping staff was uninformed of the difference between the reimbursement and refund option.
- E. The recordkeeping staff were not aware that checks could not be issued for reimbursement of services rendered provided by a third party. They were unaware that the vendor had to be issued a check directly from SFO to ensure a 1099 was issued from PGCPs.
- F. The recordkeeping staff was not familiar with APM guidance for accurately recording SAF transactions.

The following effect resulted from the noncompliance of management of disbursements:

- A. Internal controls are compromised and financial records are distorted when payments and/or reimbursement are not issued timely, sufficiently substantiated, and inaccurate. Inaccuracies also increase the risk of loss to students.
- B. Using the Reimbursement Vendor" option in SFO incorrectly results in inaccuracies in the information presented in the school's financial reports.
- C. The checks were not issued directly to the individuals who provided services to the schools; therefore, the information necessary to ensure compliance with the regulatory agencies was unavailable. Fines and penalties could be assessed to PGCPs for non-compliance with State and Federal laws regarding payment to individuals for services rendered.

**Recommendation:** The following recommendations are suggested for the school to adequately manage disbursements:

- A. The acting principal should establish procedures to ensure that all disbursements are made in accordance with the requirements of the BOE.
- B. Reimbursements must be accurately processed by recalculating receipts submitted with the SFEF.
- C. Staff should be reminded that invoices and reimbursement requests are to be submitted timely for payment. Requests for payments should be thoroughly

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reviewed to ensure accurate and timely payments.

- D. The recordkeeping staff must ensure that the appropriate Reimbursement/Refund Vendor option is used when issuing checks through SFO. Refunds to parents must be processed using the Refund Vendor option.
- E. The acting principal should establish procedures to ensure that requests and information regarding payments processed for services rendered are issued directly to service providers, captured in the school's accounting system and forwarded to the Accounts Payable department for issuance of IRS Form 1099-MISC to the recipient.
- F. Due care should be exercised when recording transactions to ensure correct posting and accurate financial reporting.

**2018.05 Records Management**

The school's financial records were not organized for FY 2016 and FY 2017.

- A. The deposits were not filed in date order.
- B. The disbursements were not filed in numerical order.
- C. There were at least 2 SFEEFs that could not be located for review.
- D. The cancelled checks were not filed in numerical order.

The APM section 3.2.2 *Bookkeepers/Financial Secretaries* requires the bookkeeper or financial secretary to accurately record and report the school's financial transactions. The bookkeeper should produce and maintain all required reports in an organized fashion. The APM also requires the maintenance of financial records for at least 7 years or until audited.

The staff member charged with maintaining the school's financial records indicated that she thought the deposits should be maintained by MTF number and the checks issued by date order. Folders and papers were located during the audit, which should have been filed in with the financial records. The former principal did not ensure that the school's financial records were organized in a way that would ensure easy access and retrieval.

Failure to maintain financial records in an organized manner impacted audit efficiency. Excessive time was spent in organizing financial records date and numerical order to facilitate audit sampling. Moreover, disorganization could impact the school's effectiveness in administering SAF. *This finding was noted during the previous audit period ended December 2015.*

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**Recommendation:** The acting principal must establish procedures to ensure that there is adequate records management at the school to include the following:

- A. Cancelled checks and disbursements should be filed in numerical order.
- B. Deposit documentation should be filed in date order.
- C. The acting principal should ensure that BOE guidance is followed to ensure adherence to records management requirements. The acting principal should complete periodic reviews to ensure that financial records are adequately maintained. The recordkeeping staff should be held accountable for compliance.

**2018.06 Security of Student Activity Funds**

The school purchased a drop safe in FY 2016; however, the drop safe has not been used to secure SAF remitted to the front office in the bookkeeper's absence. A locked file cabinet is currently used to secure funds instead. School staff was instructed to remit funds to the former principal or to lock funds in their classroom. Neither the recordkeeping staff nor the former principal was able to access the school safe. *This finding was noted during the previous audit period ended December 2015.*

The APM section 4.5.2.2 (2) *Guidelines for Bank Deposits*, require funds held to be kept in a secure location within the school i.e. locked fireproof drop safe or a locked file cabinet within the school vault, which only the principal and bookkeeper can access.

The maintenance department locked the drop safe while securing it to the floor. As a result the bookkeeper was unable to access the drop safe using the access code that was provided. Contact has not been made with the safe vendor or a locksmith to gain access.

Access to SAF is compromised when funds are not held in a secure location. Requiring staff to secure funds in their classroom also increases the risk of theft or loss of funds.

**Recommendation:** A locksmith or the safe company should be immediately contacted to change the combination/lock on the drop safe. Only the principal and recordkeeping staff should have access to the drop safe contents. The safe should be opened daily to ensure timely processing of transactions. A safe log should be established to document when individuals place funds in the drop safe. The acting principal should complete periodic reviews of the safe and safe log.

**2018.07 Monthly Financial Reporting**

Monthly financial reports were not always completed timely during FY 2016 and FY 2017. The December 2016 financial report was not completed until February 10, 2017.

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The April 2017 financial report was not completed until June 27, 2017. The Unpaid Bills Determination Worksheet was not completed during the audit period. Also, copies of the school's signed financial reports submitted to the Accounting Office were not maintained.

The APM section 5.2.1 *Financial Reporting Requirements Procedures* require the following monthly reports be reviewed and signed by the principal:

- Bank Reconciliation Reports
- Available Funds Report/Insolvency Report
- Year to Date Report
- Journey Entry Register

Recordkeeping staff responsible for maintaining the school's financial records stated the following factors as reasons reports were not completed and/or submitted timely:

- Bank statements were not received via mail in a timely manner
- Not having access to retrieve the bank statements online
- In a few instances, competing responsibilities/assignments caused delays with getting to the bank to retrieve bank statements during renovation.
- Waiting for the bank statements to be reviewed and signed by the principal to begin the reporting process
- Waiting for the principal's final signatures after completion of monthly reports

Noncompliance with the reporting requirements impacted the former principal's ability to understand the school's financial status required to make informed financial decisions. The former principal's fiscal responsibility was hindered by not being made aware of funds available.

**Recommendation:** The acting principal must implement procedures to ensure that the required statements and documentation necessary for timely completion of monthly reports are made available to the recordkeeping staff to ensure compliance with the Board's reporting requirements.

Recordkeeping duties must be organized in a manner that provides sufficient time for report preparation. The acting principal must promptly review bank statements and final reports to facilitate reporting compliance.



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**2018.08 Administration of Contracts**

The following instances of noncompliance with contract administration were identified:

- ***Year Books:*** Annual contracts were signed by the sponsor instead of the former principal.
- ***FY 2018 Student Pictures:*** The FY 2018 student pictures contract was signed by the company representative on January 10, 2018 even though picture days were November 8, 2017 and December 20, 2017. The former principal did not sign the contract.
- ***Vending Contract:*** A vending contract could not be located for the audit period.
- ***Purchasing and Supply Services:*** The school did not provide Purchasing and Supply Services with the applicable contracts.

The principal is the fiduciary agent of the school and is responsible for signing all contracts. Administrative Procedure 5135.2, *Contracts*, provides guidance on contract authority as it relates to SAF. The principal's contracting authority is subject to the following limitations as stated in Administrative Procedure 5135.2: 1) no single contract for greater than \$10,000; 2) the sum of contracts with one vendor in a school year cannot exceed \$10,000 without approval of an Instructional Director and the Purchasing & Supply Services Director; 3) contracts for a single activity may not exceed \$20,000 without prior approval; 4) the authorization granted to principals shall not be delegated; and 5) Purchasing and Supply Services is the repository for contracts -- all contracts must be on file in that department.

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

The yearbook sponsor was not aware that the former principal was required to sign the student pictures contract and the former principal's signature was not obtained. The school used the student picture vendor for several years and the dates of service had already been scheduled previously for the visit. The recordkeeping staff could not explain why a dually signed contract was not on file. Several attempts were made to contact the vending company, but as of the end of fieldwork no response was received.

As a result of noncompliance with contracting requirements, the former principal was not aware of the financial obligation placed upon the school for the yearbooks, student

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pictures and vending machines. The terms and conditions of the vending contract could not be determined. Also, the percentage of vending proceeds due the school and the timeframe for receiving those funds was not established. Students may not have received the benefits they should have received from the school's vending activities. The Purchasing and Supply Services Department is responsible for oversight of contracted services and was not aware of the vending, yearbook or student picture contracts since they were not on file with their office.

**Recommendation:** The acting principal must establish procedures to ensure that contracts are established, adhered to, and maintained on file in compliance with BOE policies and procedures. Staff must be made aware that principal has sole fiduciary authority for entering contracts on behalf of the school.

All contracts must be forwarded to Purchasing and Supply Services for retention. The acting principal should consult with Purchasing and Supply Services to identify an alternate vending company in absence of a contract.

**2018.09 Principal Sponsored Activity (PSA) Fund Account Deficit**

The PSA fund account had a **deficit** of **(\$3,371.05)** as of December 31, 2017. The previous deficit as of the audit period ended December 2015 was **(\$1,735.30)**.

According to APM, "Discretionary expenditures incurred by the principal on behalf of the school staff are grouped in the accounting category "Principal Sponsored Activities." These activities must be of a professional nature that enhances the staff members' job performance. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the authorized sources" as follows: 100% of vending commissions from machines located in the Staff Lounge, 25% of vending commissions from student-accessed machines up to the first \$50,000, not including sponsorships or signing bonuses offered by vending companies, and 15% of school-wide fundraiser profits.

An excessive amount of funds were transferred from the Mid Atlantic Fundraiser (MAF) and student pictures which resulted in the PSA fund account appearing as solvent and encouraged spending from this account. The former principal purchased polo shirts for the administration staff in FY 2017 from PSA which also contributed to the increase the deficit in the fund account.

The inappropriate transfers impacted the spending decisions of the former principal. Overspending on PSA constitutes noncompliance with the policy documented in the APM. Funds that should have provided benefits to students were reduced. Students did not receive the maximum possible benefit from the resources that should have been available to them. ***This finding was noted during the previous audit period ended***

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**Recommendation:** The acting principal should work towards the elimination of this deficit. This can be accomplished by discontinuing expenditures from the PSA fund account and only transferring authorized vending and fundraising profit proceeds until the deficit is completely resolved.

**2018.10 Unauthorized Transfer of Funds**

There were at least **18** instances where inappropriate transfers were processed during the audit period.

***Transfers from PY Carryover:*** The bookkeeper performed **10** transfers totaling **\$1,111.22** from PY Carryover to “General Unrestricted Postage” and “Maintenance of School”, as well as from “Administrative Allotment” to “General Restricted PBIS”, “National Honor Society” and “Athletic Accounts”. Authorization was not obtained from Accounting and Financial Reporting for these transfers.

***Transfers from Restricted Accounts:*** The Accounting Office Technician completed **3** transfers totaling **\$6,184.74** from “General Restricted PSA” to “Restricted PBIS” and from “Unrestricted MAF” to “Restricted Prince George’s County” which were prohibited by the APM. These transfers were not approved by the former principal but were performed to offset deficits in restricted accounts.

***Excessive Transfers:*** There were **5** transfers completed by the bookkeeper and the Accounting Office Technician that were excessive. Transfers to PSA exceeded the specified percentages as outlined in the APM. The transfers were not reviewed and/or approved by staff in Accounting and Financial Reporting with approval authority prior to processing.

The APM section 4.5.5 *Prior-Year (PY) Carryover Funds* states that principals may request the use of PY Carryover funds to purchase instructional materials, computers, maintenance needs, or other items for the school. The request must be sent to the Accounting and Financial Reporting Office detailing the reason for the transfer. Only upon written approval should funds be transferred from the PY Carryover account.

Also, the APM section 4.5.4.2 *Transfer of Funds Transfers Between Restricted and Unrestricted/net Accounts* states, “Transfers between restricted accounts are only authorized if reviewed and approved by the principal. Transfers from unrestricted to restricted accounts are not allowed except for the applicable transfers to PSA from vending and/or fundraising activities.” For example, 100% of vending commission from machines located in the staff lounge, 25% of vending commissions from student-accessed machines and 15% of school-wide fundraiser profits, including picture commissions.

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A request for approval from Accounting and Financial Reporting to transfer funds from PY Carryover to various unrestricted accounts to offset the deficit in those accounts was not obtained. Reportedly, the recordkeeping staff was not aware that transfers were only allowed from the fundraiser profit to PSA. The Accounting Office Technician had no plausible explanation for posting incorrect and/or inaccurate transfers from “MAF” and “Student Pictures” to “PSA” and “Prince George’s County.”

Inappropriate transfers have resulted in misstatement of financial information presented to administrators for decision-making.

**Recommendation:** The acting principal must implement procedures to ensure that only allowable transfers are completed with appropriate documentation and approval from the acting principal or the Accounting and Financial Reporting Office. Review of financial reports and fundraiser documentation must be performed to ensure that transfers are performed as required.

**2018.11 Administration of Voided Checks**

There were at least 17 instances of non-compliance regarding voided checks. The following issues were noted:

- A. Voided Checks Not Entered in the School’s Accounting System:* There were at least 4 instances where voided checks were not entered and/or not properly voided in the accounting system.
- B. Unsigned School Funds Expenditure Forms (SFEF) or Void Check Proof Sheets (VCPS):* There were at least 13 instances where the SFEF or VCPS were either not completed or not signed by the former principal. *This finding was noted during the previous audit period ended December 2015.*

The APM, section 4.5.3.2, *Policies and Procedures, Voiding Checks* requires checks to be voided in the computer. A SFEF or a VCPS from SFO should also be completed, noting that the check was voided. The principal is required to sign the SFEF or the VCPS to acknowledge that the check was voided. The physical check is then filed in check number sequence with images of cancelled checks.

The staff member charged with maintaining the school’s financial records simply forgot to void the checks in SFO. She was not aware that the former principal was required to sign the SFEF and/or VCPS acknowledging that the check was void. As such, forms were not presented for signature.

Inappropriate administration of checks exposes the school to check fraud, waste and abuse of its resources.

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**Recommendation:** The following is recommended for compliance with policies and procedures for appropriate management of voided checks:

- A. The acting principal should establish and document procedures to ensure that there is proper administration of voided checks.
- B. Voided checks should have completed SFEF or VCPS on file signed by the acting principal attached and entered into SFO.
- C. The acting principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures. All check signers must take the time to get familiar with the policy and procedures set forth in the APM regarding voiding checks.

**2018.12 Year-End Monetary Transmittal Form Envelope Process**

The year-end MTF submission process is not operating as outlined in the APM. There were at least 4 staff members in FY 2017 that failed to submit all of their MTFs at year-end. Also, FY 2016 end of year MTFs could not be located. MTF envelopes were not sealed and signed by all staff. *This finding was noted during the previous audit period ended December 2015.*

The APM section 4.5.2.2 (1) *Collecting Funds: Completing the Monetary Transmittal Form* states that each staff collecting SAF is responsible for maintaining an envelope containing all the MTF (pink and yellow) remittance copies for MTFs prepared during the school year. Staff is required to submit copies in signed, sealed envelopes to the designated administrator during the year-end check out process. The envelopes should remain sealed until requested by Internal Audit. The year-end MTF envelopes should be retained in a place that is inaccessible to the bookkeeper.

BOE policies and procedures relative to the MTF envelope submission process were not consistently following during the year-end check out process. The current principal could not locate the FY 2016 end of year MTFs in the former principal's office.

The audit trail for reviewing cash receipts was compromised. As a result, internal controls for ensuring that all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased.

**Recommendation:** Staff must be reminded of their responsibility for MTF envelope submission. Staff members must be held accountable for submitting their MTF envelopes as part of the year-end check out process.

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The acting principal should require a copy of the Receiptee History report to be provided to the administrator responsible for collecting MTF envelopes at year-end. The acting principal or designee should ensure that all end of year MTF envelopes are collected, sealed and retained in a secure place until reviewed by Internal Audit.

**2018.13 Fundraiser Reports Not Completed**

The school did not comply with the requirements for administering fundraisers during the audit period. Several fundraising activities were held during the audit period. However, Fundraiser Completion Reports and the annual reports summarizing fundraising activities were not completed (i.e. Band, Chorus, 8<sup>th</sup> Grade Activities and Kidsasbrokers).

Administrative Procedure 5135.1, *Fundraising* requires schools to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the annual reports summarizing fundraising activities for all fundraisers sponsored. These documents must be maintained on file for public and auditor review upon request. Approval must be obtained prior to the onset of a fundraiser.

The fundraiser sponsors failed to ensure that Fundraiser Completion Reports were submitted at the conclusion of each fundraiser. Follow-up action was not performed to ensure compliance. The former principal did not ensure that the fundraiser requirements were followed at the conclusion of each fundraiser.

It could not be readily determined that the school's fundraisers yielded an overall profit for the school. As a result, pertinent financial information for the principal to make fiscal decisions was not available. *This finding was noted during the previous audit period ended December 2015.*

**Recommendation:** The acting principal must establish procedures to ensure approval and completion of fundraising reports. The acting principal or designee should complete required fundraiser reports at the end of the each school year to summarize fundraising activities held. Required reports must be maintained on file for public and auditor review.

**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Kettering Middle School was issued for the period ended December 2015. The acting principal was not on staff. Her tenure began on January 16, 2018. The recordkeeping staff was in her current position for the entire audit period. The following findings were noted as a result of that audit and the current status is indicated below:

- **Mismanagement of Funds Received.** Condition still exists. See Finding 2018.02 regarding *Mismanagement of Funds Received*.

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- **Segregation of Duties** – Condition still exists. See **Finding 2018.03** regarding *Segregation of Duties*.
- **Security of Student Activity Funds** – Condition still exists. See **Finding 2018.06** regarding *Security of Student Activity Funds*.
- **Administration of Student Activity Funds Records** – Condition still exists. See **Finding 2018.05** regarding *Records Management*.
- **Principal Sponsored Activity (PSA) Account Deficit** – Condition still exists. See **Finding 2018.09** regarding *Principal Sponsored Activity (PSA) Fund Account Deficit*.
- **Misclassification of Transactions** – Condition still exists. See **Finding 2018.04** regarding *Mismanagement of Disbursements – Misclassified Transactions*.
- **Administration of Voided Checks** – Condition still exists. See **Finding 2018.11** regarding *Administration of Voided Checks*.
- **Year-End Monetary Transmittal Forms Envelopes Process** – Condition still exists. See **Finding 2018.12** regarding *Year-End Monetary Transmittal Form Envelope Process*.
- **Failure to Complete Fundraising Reports** – Condition still exists. See **Finding 2018.13** regarding *Fundraiser Reports Not Completed*.

**ACKNOWLEDGEMENT**

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