



January 23, 2018

**MEMORANDUM**

To: Susan Holiday, Instructional Director  
Cluster 10

Andrew Dalton, Principal  
Melwood Elementary School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for the Period September 1, 2013 through October 31, 2017

An audit of the financial records of **Melwood Elementary School** was completed for the period September 1, 2013 through October 31, 2017. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Fund (APM) and Board of Education policies and procedures. The exceptions noted are included in the attached report.

As principal of the school, you will be responsible for preparing an action plan within **30** days, indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, Attention: 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.*

Enclosure

cc. Segun Eubanks, Ed. D., Board Chair  
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools  
Monique Whittington Davis, Ed. D., Deputy Superintendent  
Helen Coley, Ed. D., Associate Superintendent, Area II  
Carolyn Boston, Vice Chair, Board of Education  
Erica Berry Wilson, Esq., Executive Director, Board of Education  
Sonya Williams, Board Member, District 9  
J. Michael Dougherty CPA, Esq., Director, Financial Services  
Theodore Dzodzomenyo, Internal Auditor II

# Internal Audit Report

Melwood Elementary School  
Student Activity Funds

For the Period Ended October 31, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Melwood Elementary School for the period September 1, 2013 through October 31, 2017. Melwood Elementary School 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:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Excessive Spending in Principal Sponsored Activities Fund Account*
- *Administration of Vending Machines*
- *Delinquent Financial Reporting*
- *Administration of Monetary Transmittal Forms Envelopes*

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 (APM) for School Activity Funds.

In our opinion, except for the deviation from the criteria described in the preceding paragraph, the APM referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended October 31, 2017.



Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit on the student activity funds (SAF) for Melwood Elementary School for the period September 1, 2013 through October 31, 2017. The audit was conducted as part of the audit plan for the year.

Detailed findings from the current audit are cited on the following pages with accompanying recommendations for corrective action.

*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 to determine whether the school was in compliance with the policies and procedures of the Accounting Procedures Manual for School Activity Funds (APM) and the Board of Education (BOE). It is important to recognize that, while the audit report focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

**SCOPE**

The audit was based on our review of selected bank statements, financial reports, cancelled checks and all voided checks and available Monetary Transmittal Form (MTF) envelopes submitted by staff for the period September 2013 through October 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. ***Segregation of Duties*** - There were 17 (2 sampled and 15 otherwise identified) instances during the audit period where the financial documentation process of funds received did not comply with the requirements of the APM. Staff responsible for financial recordkeeping collected funds, prepared MTFs, entered the transactions in SFO and made deposits with the bank without segregation of duties. In all instances, the MTFs were not verified by a second person.
- B. ***Delinquent Deposits*** - There were 3 instances during audit period where deposits were not made timely. Collections were held up to 3 days before deposits were made.

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

- A. Section 4.5.2.2(3), "*Preparing Bank Deposits*" states that the bookkeeper is responsible for counting funds, verifying the total on the MTFs and applicable attachments. Also, Section 3.2.3, "*Faculty/Program Managers*" states that, in their role as primary recipient of funds, teachers, **not the Bookkeeper**, are responsible for initiating the financial documentation process.
- B. Section 4.5.2.2(2), *Guidelines for Bank Deposits*, bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. The APM also prohibits staff members from holding funds overnight.

The following factors contributed to mismanagement of funds received:

- A. Reportedly funds were collected during the summer when there was limited staff available for collection of checks. Also, it was assumed that it was appropriate to collect and process checks in this manner.
- B. Staff members did not submit the MTFs and remit funds daily for the funds to be deposited in the bank on the day of collection.

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Inadequate segregation of duties and untimely deposits constitute a compromise of internal controls, violate BOE policies and procedures outlined in the APM and increase the potential of fraud and loss of assets. *(This finding was noted during the previous audit period ended August 31, 2013.)*

**Recommendation:** The following steps must be taken to ensure SAF is administered in accordance with requirements of the APM:

- A. The principal and financial recordkeeping staff should review the APM to become familiar with responsibilities relative to collection of SAF. Also, the principal should establish procedures for collection of SAF when there is limited staff available onsite.
- B. Staff members must be reminded through written communication that all funds collected are required to be remitted to the bookkeeper on the day of collection to facilitate timely deposits. Staff should be held accountable for compliance.

**2017.02: Mismanagement of Disbursements**

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

- A. ***Comingling of Funds*** - During FY 2016, SAF and PTA funds were commingled when the school collected funds for a PTA sponsored event and wrote a check to the PTA for \$50.00 in excess of the amounts collected.
- B. ***Inadequate Approval of Disbursements*** - There were **11** instances during the audit period (**FY 2016 – 4, FY 2017 – 5 and FY 2018 – 2**) where the documentation to substantiate disbursements were insufficient. Staff members did not obtain the principal's approval prior to the purchase, the principal did not indicate the date of approval on School Funds Expenditure Forms (SFEFs), the "Funds Available" section was not completed, and SFEFs were not properly completed. *(This finding was noted during the previous audit period ended August 31, 2013.)*
- C. ***Dual Signature*** - There were **2** instances in FY 2018 where checks were issued without a second signature appended.
- D. ***Voided checks*** – There were **2** instances where the principal did not sign the Void Check Proof Sheets evidencing approval for the voided transactions. In a separate

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instance a voided check was not properly defaced by removal of the signature lines.

The APM provides the following guidelines regarding the disbursement of funds:

- A. Section 6.11, "*Affiliated Organizations*" states that, Funds collected by outside/affiliated parent organizations should not be accounted for in the SAF. This includes booster clubs, advisory groups, Parent Teacher Associations (PTA), and Parent Teacher Student Association (PTSA). These funds shall be handled by that organization and cannot be commingled with the funds of the school.
- B. Section 4.5.3, "*Cash Disbursements*" states that, prior to ordering or purchasing goods or services; a SFEF must be completed and signed by the principal. Schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete this form. Prudent business practices also require that, the date on which a disbursement is approved be indicated.
- C. Section 4.5.3.4(f), *Check Writing* states that, two authorized signatures are required on all checks. In accordance with AP 4180, *School Bank Accounts*. The two standard check signers should be the principal and the bookkeeper. The third signer must be a vice-Principal or school administrator.
- D. Section 4.5.3.2, *Policies and Procedures, Voiding Checks*, requires accounting for the physical check when an error is made at the time of preparation or when a check is damaged. The word 'Void' is required to be written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must be voided in the computer.

The following factors contributed to mismanagement of disbursement of funds:

- A. Reportedly, staff was unaware that comingling of SAF with PTA funds was not permitted.
- B. According to the bookkeeper, the non-compliances relative to processing disbursements occurred due to oversight on the part of the administration.
- C. Reportedly, failure to obtain a second signature for noted checks was as the result of an oversight.
- D. Financial recordkeeping staff was not aware that the principal's signature was required on the Void Check Proof Sheet. Also, failure to remove the signature line from the voided check was an oversight.



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Inadequate cash disbursement policies including comingling of SAF, non-approval of expenditures, and failure to adhere to the dual signature requirements increases the potential of fraud and loss of funds and has resulted in overpayment of \$50.00 to the PTA.

**Recommendation:** The following is recommended to ensure disbursements are administered in accordance with requirements of the APM:

- A. The principal and recordkeeping staff should request for the PTA payment of **\$50.00** which represents the difference between the amount collected and amount remitted to the PTA by the school. Internal controls must be implemented to ensure that, financial activities of outside organizations are not recorded in SAF.
- B. All staff members must be reminded that, all expenditures require approval prior to obligating the school. The principal and staff must be held accountable for adhering to the requirements for processing disbursements. This includes the principal's responsibility for including the date of approval on SFEFs. The principal should also ensure that the funds available section on the SFEF is completed prior to finalizing approval.
- C. Financial recordkeeping staff must always ensure that, a second signature is appended on checks, prior to releasing the check to vendors.
- D. The principal must implement internal controls to ensure proper administration of voided checks. All voided checks should be substantiated by completed SFEFs or Voided Check Proof Sheet which must be approved by the principal. Financial recordkeeping staff should be held accountable for being knowledgeable of the APM and BOE policies and procedures relative to student activity funds.

**2018.03: Excessive Spending in Principal Sponsored Activities Fund Account**

The Principal Sponsored Activities Fund Account had a deficit of **(\$1,730.74)** as of October 31, 2017. This represents a reduction of \$2,995.75 from the previous audit of April 30, 2013 which indicated a deficit of **(\$4,726.49)**.

According to the APM Section 9.6, *Principal Sponsored Activities for Staff*, expenditures for authorized principal-sponsored activities are restricted to:

- a. One hundred percent (100%) of vending commission from machines located in the staff lounge;
- b. Twenty-five percent (25%) of vending commissions from student-accessed machines up to the first \$50,000 and then 10% of any amount exceeding \$50,000.

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- These percentages do not apply to sponsorships or signing bonuses that vending companies may offer;
- c. Fifteen percent (15%) of school-wide fundraiser profits, including picture commissions;
  - d. Up to twenty-five (25%) percent of senior class residual funds.

The previous administration incurred staff related expenses without regard to the availability of funds in the account.

The students do not receive maximum benefit from funds that should be available to them. Moreover, the current principal is unable to provide any kind of incentives to current staff members. (*This finding was noted during the previous audit period ended August 31, 2013.*)

**Recommendations:** The principal should continue to cease spending on principal-sponsored activities until the deficit is resolved.

#### **2018.04: Administration of Vending Machines**

The school operates 2 vending machines for which there is not a current vending contract available. The machines are located in the hallway and accessible to the public.

Administrative procedure 5135.2, *Principal's Contracting Authority*, requires the principal, as an agent of the BOE, to approve and sign all contractual agreements entered into for all school activities. 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 that these commissions are remitted."

Under the previous administration, the vending machine operator provided snacks to the school for meetings. The current administration has not made any effort to secure a new contract for vending services because of prior relationships with the vendor.

The school is noncompliant with BOE policies regarding the operation of vending machines and may not be deriving maximum benefits from operation of the vending machines.

**Recommendation:** The principal should review the APM to become familiar with the requirements for administering vending contracts. The principal must ensure that a current vending machine contract is obtained, renewed annually, and maintained on file in compliance with BOE policies and procedures. Purchasing and Supply services may be consulted regarding selection of an alternative approved vendor for vending services.

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**2018.05: Delinquent Financial Reporting**

There were **9** instances during the audit period where monthly bank reconciliations were not completed timely. Financial reporting delinquencies ranged from **1** to **28** days.

Section 5.1.2 *Monthly Reconciliation and Financial Reporting Procedures* states that the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal is required to forward the documents to the bookkeeper for reconciliation. The reconciliation should be completed by the bookkeeper within **7** days of receiving the statement from the bank. The monthly financial reporting process is required to be completed by the 15th day of each month and reports presented to the principal for review.

Reportedly, financial recordkeeping staff on occasions procrastinated and delayed preparation until the monthly deadline for submission of financial reports passed.

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

**Recommendation:** Financial recordkeeping staff should ensure that financial reports are completed by the 15th day of each month as required by the APM. The principal should hold financial recordkeeping staff accountable for timely report submission and ensure that the monthly financial reports are thoroughly reviewed as evidenced by his signature. The principal and financial recordkeeping staff should use the school's online banking option to more promptly initiate the reconciliation process. The Accounting and Financial Reporting Office should hold the principal and financial recordkeeping staff accountable for compliance.

**2018.06: Administration of Monetary Transmittal Form Envelopes**

The year-end MTF submission process was not operating as required by procedures outlined in the APM **17** instances. There were **8** instances where only the yellow MTF remittances were submitted and **9** instances where MTF remittances were excluded from MTF envelopes.

According to the APM, each staff member who collected SAF is responsible for maintaining an envelope containing both pink and yellow copies of MTF remittances generated during the year. The staff member is required to submit the signed, sealed envelope to the designated administrator prior to the year-end check out. The envelopes should remain sealed until requested by Internal Audit.

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The principal did not implement internal controls to ensure that staff members followed BOE policies and procedures relative to the year-end MTF envelope submission process.

***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. (This finding was noted during the previous audit period ended August 31, 2013.)***

**Recommendation:** Staff must be reminded of their responsibility relative to MTF envelopes submission during the year-end process. The “*Receiptee History*” report should be printed from the accounting system and provided to the administrator responsible for collecting MTF envelopes at year-end. The principal should instruct the administrator to obtain MTF envelopes based on the printed report. Also, each employee must be held accountable for returning MTF envelopes including all remittance copies (pink and yellow) as part of the year-end check out process.

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

The previous audit report for Melwood Elementary School was issued for the period ended August 31, 2013. During that period, the principal was not in his current position. The financial recordkeeping staff was in this position one month prior to the commencement of the previous audit. The 5 previously reported findings are repeated in the current report. The following findings were noted as a result of the previous audit and the current status is indicated.

- **Delinquent Deposits-** Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Excessive Spending in Principal Sponsored Activities-** Condition still exists. See **Finding 2018.03** regarding *Excessive Spending in Principal Sponsored Activities*.
- **Inadequate Supporting Documentation -** Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Payments to Vendors for Services -** Condition was not noted during this audit.
- **Changes Not Initialed on Monetary Transmittal Forms-** Condition was not noted during this audit.
- **Expenditures Made Without Proper Approval -** Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Disbursements*.

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- **Sales Tax Not Collected for Items Sold** - Condition was not noted during this audit.
- **Year-End Monetary Transmittal Forms**- Condition still exists. **See Finding 2018.06** regarding *Administration of Monetary Transmittal Form Envelopes*.
- **Management Oversight** - Condition was not noted during this audit.

**ACKNOWLEDGEMENT**

We would like to thank the principal and staff of Melwood Elementary School for their cooperation and assistance extended during the audit.