



November 16, 2018

**MEMORANDUM**

To: Nikki Brown, Ed.D., Instructional Director  
Cluster 4

Ashanti Bryant Foster, Ed. D., Principal  
Thomas Stone Elementary School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for Period July 1, 2014 through June 30, 2018

An audit was completed of the financial records of **Thomas Stone Elementary School** was completed for the period July 1, 2014 through June 30, 2018. 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 Funds (APM) and Board of Education (BOE) policies and procedures. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible APM. Please note that you are required to provide your action plan using the attached Microsoft word template within 30 days or by December 16, 2018. Please send a PDF and word version of your action plan 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).

Enclosure

- cc: Segun Eubanks, Ed. D, Board Chair  
Monica Goldson, Ed. D, Interim Chief Executive Officer  
Carolyn Boston, Vice Chair, Board of Education  
Members, Board of Education  
Christian Rhodes, Chief of Staff  
Erica Berry Wilson, Esq., Executive Director, Board of Education  
Helen Coley, Ed. D, Chief, School Support and Leadership  
Kassandra G Lassiter, Ed. D., Associate Superintendent, Elementary Schools  
J. Michael Dougherty, CPA, Esq., Director Financial Services  
Alanna Cooper, Internal Auditor II

# Internal Audit Report

## Thomas Stone Elementary School Student Activity Funds

For the Period Ended June 30, 2018

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

**Table of Contents**

INTERNAL AUDITOR’S REPORT..... 2  
SUMMARY ..... 3  
OBJECTIVES ..... 3  
SCOPE ..... 3  
FINDINGS AND RECOMMENDATIONS..... 4  
STATUS OF PRIOR AUDIT FINDINGS.....12  
ACKNOWLEDGEMENT ..... 13

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

Internal Auditor's Report

We have examined the Student Activity Funds of Thomas Stone Elementary School for the period July 1, 2014 through June 30, 2018. Thomas Stone Elementary 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,*
- *Financial Reporting,*
- *Fundraiser Forms, and*
- *Administration of Vending Contracts,*
- *Restricted Account Deficits, and*
- *Drop Safe Not on Premises/Blank Checks Not Safeguarded*

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

In our opinion, except for the deviations from the criteria described in the preceding paragraph, the SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended June 30, 2018.



Michele Winston, CPA,  
Director Internal Audit

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

**SUMMARY**

The Internal Audit department completed an audit of the student activity funds (SAF) of Thomas Stone Elementary School for the period July 1, 2014 through June 30, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures.

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

**OBJECTIVES**

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school was in compliance with the policies and procedures of the 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, cancelled checks and voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2014 through June 30, 2018. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

**FINDINGS AND RECOMMENDATIONS**

The audit resulted in the following findings and recommendations:

**2019.01: Mismanagement of Funds Received**

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

- A. ***Delinquent Deposits*** - There were **16** instances where funds were not deposited timely. Amounts up to **\$1,123.00** were held up to **83** days. *(This condition was also noted in the previous audit as of June 30, 2012.)*
- B. ***Inadequate Documentation of Funds Received*** - There were **10** instances where the recordkeeping staff accepted MTFs that were incomplete or not properly documented. For example, remittance data in section 2 of MTFs was omitted. *(This condition was also noted in the previous audit as of June 30, 2012.)*
- C. ***Year-End Monetary Transmittal Form Envelopes*** - The year-end MTF submission process was not operating as required by procedures outlined in the APM. There were **56** instances where school staff did not remit the pink copy of the MTF with year-end MTF envelopes collected. There were **3** instances where the yellow and pink MTF copy could not be located. The recordkeeping staff was aware of and had access to the location of the FY 2017 and FY 2018 year end MTF envelopes. *(This condition was also noted in the previous audit as of June 30, 2012.)*
- D. ***Changes on Monetary Transmittal Forms Not Initialed*** - There were **4** instances where changes on MTFs were improperly made. The individuals making changes did not initial the changes as required.

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

- A. All funds collected are required to be remitted to the recordkeeping staff on the day of collection. The recordkeeping staff is also required to make timely deposit of these funds, at least every other day. No more than \$250.00 should be kept in the building overnight.
- B. Staff members collecting funds are required to complete MTFs entirely and submit to the recordkeeping staff along with funds collected. The following information must be included, 1) who collected funds; 2) when it was collected;

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

- 3) from whom it was collected; 4) the amount and form of the collection; and 5) the reason for collecting. Sections 1 and 2 of MTFs must be completed.
- C. Prior to departing the school at year-end, staff and program managers are required to submit the pink and yellow MTF remittance copies in sealed envelopes (with their signature over the seal) to the designated administrator. Year-end MTF envelopes should be stored in a location inaccessible to the bookkeeper. All SAF records must be retained for a period of 7 years and/or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Forms, cancelled checks and contracts.
- D. The top of the MTF states, "... the recordkeeping staff will not accept this form if: a pencil or white-out is used, changes are not initialed, funds are not as exactly indicated in Section 1; or Section 2 is not completed or an appropriate list is not attached."

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

- A. According to the recordkeeping staff, in some instances she forgot funds were in the safe to be deposited.
- B. School staff were not held accountable for ensuring accurate MTF completion.
- C. The administrator collecting the year-end MTF envelopes did not have access to the drawer where the year-end MTFs are typically stored. The recordkeeping staff stored them in an alternative location where she had access.
- D. Changes that were not initialed on MTF documents occurred due to an oversight by the recordkeeping staff.

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

**Recommendation:** The following is recommended for the principal and recordkeeping staff to properly manage funds received:

- A. The recordkeeping staff should be diligent in ensuring all funds remitted are deposited timely.
- B. The principal and recordkeeping staff should re-train school staff on how to properly complete and adequately support MTFs submitted to the bookkeeper.

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

The recordkeeping staff should closely review MTF packages to ensure accuracy and completeness prior to acceptance and approval. Teachers and the recordkeeping staff should be held accountable for compliance.

- C. The principal must ensure the designated storage area for year-end MTFs is accessible to the administrator collecting year-end MTFs. The recordkeeping staff should not access the year-end MTF envelopes once collected.
- D. The recordkeeping staff should be diligent in ensuring all changes on MTFs are initialed.

**2019.02: Mismanagement of Disbursements**

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

- A. ***Incomplete and Inadequate Documentation*** - There were **4** instances where expenditures reviewed did not have the appropriate approval documentation. The recordkeeping staff failed to complete all post-approval sections of School Funds Expenditure Forms (SFEFs) detailing payment and check information. *(This condition was also noted in the previous audit as of June 30, 2012.)*
- B. ***Inadequate Principal Approval*** – There were **6** instances where SFEFs reviewed during the audit period were not adequately approved by the principal. This includes **4** instances where checks were issued prior to the principal's dated and signed approval evidencing review of adequate supporting documentation. Also, there were **2** instances where SFEFs were not used detailing evidence of principal approval.
- C. ***Delinquent Vendor Payments*** - There were **3** instances where payments made to vendors were not issued timely. Payments were made between 2 weeks and 2 months late.

The APM provides the following guidelines relative to the administration of cash disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed, signed and dated (approved) by the principal. Following review of adequate supporting documentation, the principal must provide post approval permitting a check to be issued for the disbursement.
- B. Invoices should be paid by the stated due date or within 30 days of the invoice date.



Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

| Contributory factors in the mismanagement of disbursements were as follows:

- A. The recordkeeping staff was not diligent in ensuring all sections of the SFEFs were completed.
- B. The recordkeeping staff hastily provided checks to the principal for approval but failed to have the SFEF approved in each instance.
- C. The vendor for the Scholastic Bookfair was required to provide the school with an updated invoice. The updated invoice was not received timely but maintained the same payment due date. The BOE field trip approval process contributes to delinquent field trip invoice payments. The field trip packet requires an invoice for the transportation to be remitted. Some transportation vendors require payment within 2 weeks of the invoice date. However, trip sponsors cannot begin collecting funds for the field trip until the trip has been approved by the area office.

Inadequate documentation of expenditures reduces assurance that purchases were made in accordance with BOE policy and procedures. The risk of insolvency and fraud is present when appropriate approval is not obtained prior to purchase and expenditures are not adequately documented. Vendors could discontinue conducting business with the BOE when invoices are not paid timely. Also, late fees can be assessed for delinquency.

**Recommendation:** The principal and recordkeeping staff must perform the following to improve the administration of disbursements:

- A. The recordkeeping staff must be diligent in ensuring accurate completion of SAF disbursement documentation.
- B. The recordkeeping staff must consistently provide the SFEF for pre and post approval during expenditure processing. The principal must be diligent to ensure approval signatures are dated.
- C. The recordkeeping staff should consider requesting an extension on the invoice due date in instances where there are delays in approval by the area office or the vendor. The recordkeeping staff must be diligent in ensuring supporting documentation for disbursements accurately reflect invoice terms.

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

**2019.03: Financial Reporting**

The following exceptions relative to financial reporting were noted:

- A. ***Financial Reports Not Completed Timely*** - There were **30** instances during the audit period where monthly financial reports approximately **4** months delinquent.
- B. ***Insolvency Report Not Properly Completed*** - The recordkeeping staff did not accurately complete the *Insolvency Report* during the audit period. Unpaid bills were consistently indicated as \$0.00, without preparation of the Unpaid Bills Determination Spreadsheet.
- C. ***Fund Transfer Journal Entry Proof Sheets*** –There were **20** instances where Fund Transfer Journal Entry Proof Sheets could not be located. ***(This condition was also noted in the previous audit as of June 30, 2012.)***
- D. ***Un-located Cancelled Checks*** - There were **5** instances where cancelled checks could not be located.

The APM provides the following guidance pertaining to SAF financial reporting:

- A. 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 recordkeeping staff for reconciliation. The reconciliation should be completed by the recordkeeping staff 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 presented to the principal for review.
- B. Section 5.2, *Financial Reporting Requirements*, states that the Insolvency Report should be completed monthly and requires the recordkeeping staff to record data to calculate the school's solvency. The recordkeeping staff must manually calculate the value of unpaid bills that existed at the end of each reporting period for both restricted and unrestricted funds to complete the report.
- C. Section 4.5.4.2 *Transfers Between Restricted and Unrestricted Net Accounts* states, transfers between restricted accounts are only authorized if reviewed and approved by the principal.
- D. Section 4.2.2, *Bank Account Procedures*, states that the bank must return images of all cancelled checks to the school with the monthly bank statement.

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

The recordkeeping staff stated that financial reports were prepared late in a few instances due to extended absences or when bank statements are not received timely. In other instances, the recordkeeping staff was not diligent in ensuring financial reports are completed timely. The recordkeeping staff never fully understood how to accurately complete the Unpaid Bills Determination Spreadsheet. The recordkeeping staff recalled maintaining the Funds Transfer Journal Entry Proof Sheets behind the monthly financial reports but was unable to locate them upon request. The recordkeeping staff could not locate all bank statements for the audit period detailing all cancelled checks.

Delinquent reporting and inaccurate transaction details 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 identify individual transactions may have been impacted. Additionally, the principal and recordkeeping staff may be less aware of open invoices which can lead to untimely payments and/or interest and penalties. Unauthorized transfers can potentially lead to insolvent restricted accounts. The risk of fraudulent check processing is increased when cancelled check images are not reviewed.

**Recommendation:** The principal and recordkeeping staff must perform the following to improve financial reporting:

- A. The principal should contact the Accounting and Financial Reporting Office when extended leave is communicated by the recordkeeping staff. The principal and recordkeeping staff should use the school's online banking option to retrieve bank statements and more promptly initiate the reconciliation process.
- B. The recordkeeping staff should contact the Accounting and Financial Reporting office to obtain clarity on the accurate completion of the Unpaid Bills Determination Spreadsheet.
- C. The Accounting and Financial Reporting Office should use the trimester reports review as an opportunity for feedback and to train recordkeeping staff who do not fully understand the reporting requirements.
- D. The principal and recordkeeping staff should implement an adequate records management system that ensures all financial records are properly organized and accessible upon request.

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

**2019.04: Fundraiser Forms**

The Fundraiser Request and Authorization Form, Fundraiser Completion Form, and Annual Fundraiser Report for school wide fundraisers held during the audit period were not always completed.

Administrative Procedure 5135.1, *Fundraising* requires the completion of Fundraiser Request and Authorization Forms, the Fundraiser Completion Form and the Annual Fund Raising Summary Report for fundraising events held by schools.

The recordkeeping staff provided fundraiser forms to all staff conducting fundraisers; however, the forms were not completed and returned. *(This condition was also noted in the previous audit as of June 30, 2012.)* Financial records are not complete and profit/loss ratio of fundraisers conducted could not be determined. The school is not in compliance with the requirements regarding administration of fundraising events.

**Recommendation:** The recordkeeping staff should inform the principal when she does not have sufficient time to complete the required documentation for fundraising activities. The principal should re-evaluate the recordkeeping staff's work load to ensure that the required responsibilities relative to fundraiser administration are prioritized.

**2019.05: Administration of Vending Contracts**

The school does not have a copy of the current vending contract for the 2 vending machines located at the school.

Administrative Procedure 5135.2, *Principal's Contracting Authority*, requires the principal, as an agent of the BOE, to approve and sign all agreements and contracts entered into for all school activities. Additionally, the APM, Section 9.8, *Vending Machine Sales*, states, "all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency that these commissions are remitted."

The principal and recordkeeping staff failed to obtain a contract annually.

Failure to have a formal contract in place constitutes non-compliance with BOE policies and procedures. There is an increased risk of inadequate maintenance of the machines and insufficient commission revenue without a formal agreement with the vending company.

**Recommendation:** The principal should review the APM to become familiar with the requirements of school contracts and specific policies and procedures pertaining to the

Thomas Stone Elementary School  
 Student Activity Funds  
 Internal Audit Report  
 For the Period Ended June 30, 2018

administration of vending machines. 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.

**2019.06: Principal Sponsored Activities Fund Account Deficits**

The following Principal Sponsored Activities (PSA) Fund Accounts contained deficits which aggregated to approximately **(\$5,263.19)** as of June 30, 2018.

<u>Account #</u>	<u>Account Description</u>	<u>Amount</u>
450.20	PSA- Food	(\$3,350.06)
450.50	PSA- Transfer In	(\$585.68)
450.60	PSA- Gifts	(\$1,327.45)
	<b>Total</b>	<b>(\$5,263.19)</b>

According to the APM, the principal as the fiduciary agent for SAF, should ensure all accounts are solvent at all times.

The former principal incurred deficits in the PSA fund accounts. During her tenure, there was no regard for the available PSA balance prior to staff-related disbursements. *(This condition was also noted in the previous audit as of June 30, 2012.)*

SAF is not used efficiently when overspending occurs in PSA fund accounts. Students are not receiving maximum benefit from funds that should be available to them.

**Recommendation:** The principal should work towards elimination of the restricted fund account deficits by taking advantage of the allowable percentage of profits from schoolwide fundraiser and vending commission until the deficits are resolved.

**2019.07: Drop Safe Not on Premises/Blank Checks Not Safeguarded**

The school does not have a drop safe onsite. Currently, a portable safe is located in a closet in the principal's office and does not permit staff to drop funds at all times. The blank check stock is also maintained in a locked cabinet in the main office where only the bookkeeper has access.

According to the APM Section 4.5.2.2, *Cash Receipts Procedures*, depository (drop) safes are required for every school. The safe should be bolted to the floor and placed in a location accessible to staff which will facilitate remitting funds in the recordkeeping staff's absence. Exhibit B of the APM, *Staff Responsibility for School Activity Funds*

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

states that the recordkeeping staff/financial secretary is responsible for safeguarding the blank check stock.

According to the recordkeeping staff she was not aware that a drop safe was required at the school. The principal directed the recordkeeping staff to purchase a drop safe. Blank checks were not maintained in the safe in accordance with the APM because the recordkeeping staff wanted the checks to be in closer proximity to her working area. Inadequate safeguarding of funds increases the potential for loss and unauthorized access to funds.

**Recommendation:** The principal should purchase a drop safe to be installed onsite in accordance with the requirements of the APM. A log should accompany the drop safe to alert the recordkeeping staff of when funds are dropped in the safe. The blank check stock must be maintained in the safe.

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

The previous audit report for Thomas Stone Elementary School was issued for the period ended June 30, 2012. During that period, the current recordkeeping staff and principal were not in their current positions. The current principal's tenure began in July 2016. The current recordkeeping staff's tenure began in September 2012. The following findings were noted as a result of that audit and the current status is indicated below.

- **Retention of Records** - Condition still exists. See **2019.01** regarding *Mismanagement of Funds Received*; and **2019.03** regarding *Financial Reporting*.
- **Lack of Segregation of Duties** - Control appears to be working
- **Transactions Incorrectly Posted** - Control appears to be working.
- **Cash Collected Not Deposited** – Controls appear to be working.
- **Delinquent Deposit of Funds** - See **2019.01** regarding *Mismanagement of Funds Received*.
- **Incomplete and/or Inadequate Remittance Documentation** – Condition still exists. See **2019.01** regarding *Mismanagement of Funds Received*.
- **Incomplete and/or Inadequate Supporting Documentation for Expenditures** – Condition still exists. See **2019.02** regarding *Mismanagement of Disbursements*.

Thomas Stone Elementary School  
Student Activity Funds  
Internal Audit Report  
For the Period Ended June 30, 2018

- **Failure to Pay Services Rendered Through the BOE Oracle System** – Control appears to be working.
- **Principal Sponsored Activity Account Deficit (PSA)** – Condition still exists. See **2019.06** regarding *Restricted Account Deficits*.
- **Checks Issued with a Single Signature**– Controls appear to be working.
- **Failure to Maintain an Accurate Monetary Transmittal Form (MTF) Log** – Controls appear to be working.
- **Failure to Retain Monetary Transmittal Forms** – Condition still exists. See **2019.01** regarding *Mismanagement of Funds Received*.
- **Some Voided Checks Were Not Entered into the Quickbooks Financial System and/or Properly Voided** – Controls appear to be working.
- **Sales Tax not Collected and/or Paid to the State of Maryland** – Controls appear to be working.
- **Failure to Complete Fundraiser Completion Reports and Annual Fundraising Summary Reports** – Condition still exists. See **2019.04** regarding *Fundraiser Forms*.

**ACKNOWLEDGEMENT**

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