



January 20, 2022

MEMORANDUM

To: Kelvin Moore, Instructional Director
Cluster 9

Denise Dunn, Principal
Kettering Middle School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of October 30, 2021

An audit of the financial records of **Kettering Middle School** was completed for the period January 1, 2018 through October 30, 2021. 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 policies and procedures. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan by **February 22, 2022**, indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your signed and dated action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, email address: internal.audit@pgcps.org. A copy of the action plan should be forwarded to Danyelle Washington, Business Analyst, email address: dany.washington@pgcps.org; Katrina Greene, School Activity Funds Support Specialist, email address: katrina.greene@pgcps.org; Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org.

cc: Juanita Miller, Ed. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer of Schools
Members, Board of Education
Mychael Dickerson, Chief of Staff
Michael Herbtzman, Chief Financial Officer
J. Michael Dougherty, Director, Financial Services
Helen Coley, Ed. D., Chief of School Support and Leadership
David Curry, Ed. D., Associate Superintendent
Joeday Newsom, Esq., Ethics Compliance Officer
Robin Welsh, Director of Monitoring, Accountability and Compliance
Katrina Greene, School Activity Fund Support Specialist
Janice Walters-Semple, CPA, Supervisor Internal Audit
Benjamin Hanks, Internal Auditor II

Internal Audit Report

Kettering Middle School
School Activity Funds

For the Period Ended October 31, 2021

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

Table of Contents

Internal Auditor's Report	2
SUMMARY	3
OBJECTIVES	3
SCOPE	3
FINDINGS AND RECOMMENDATIONS	4
STATUS OF PRIOR AUDIT FINDINGS	8
ACKNOWLEDGEMENT	9

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

Internal Auditor's Report

We have examined the School Activity Funds (SAF) of Kettering Middle School for the period January 1, 2018 to October 31, 2021. 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 Generally Accepted Government Auditing Standards 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:

- *Records Management,*
- *Mismanagement of Funds Received,*
- *Mismanagement of a Disbursement,*
- *Check Signers, and*
- *Yearbook Account Deficit*

The findings 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 deviation from the criteria described in the preceding paragraph, the SAF referred to above was not administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended October 31, 2021.



Michele Winston, CPA
Director, Internal Audit

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

SUMMARY

The Internal Audit Department has completed an audit of the school activity funds (SAF) for Kettering Middle School for the period January 1, 2018 to October 31, 2021. The audit was conducted 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.

This audit report includes **5** findings which occurred under the leadership of the current principal. A listing of the findings and the personnel responsible are included in the appendix at the end of the audit report. 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 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period January 1, 2018 to October 31, 2021. Also, available receipts, disbursements and supporting documentation were reviewed for the said period.

This is an audit of funds related to students' activities at the school and does not include SOR funds or any funds not derived from students' activities for the audit period.

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following finding and recommendation.

2022.01 Records Management

There were **31** instances of noncompliance regarding records management:

The following records could not be located to substantiate SAF transactions during the audit:

- **2** Cash Receipts Records (Monetary Transmittal Form, Bank Deposit Receipt, SFO Report)
- **3** Cash Disbursements Records (School Funds Expenditure Form, invoice/receipt, cancelled check)
- **4** Voided Checks
- **15** Cancelled Checks
- **7** Monetary Transmittal Forms from **4** staff members' Year End Monetary Transmittal Form envelopes

According to APM section *6.12 Record Retention*, 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, School Funds Expenditure Forms, cancelled checks and contracts.

The principal indicated that due to staff and management oversight, transactions and records retention policies were not adequately followed during the COVID-19 pandemic response and that proper controls and procedures were not followed or reinforced upon the school reopening.

The absence of an effective records management system impacts the retrieval of requested financial documentation. Specifically, the planned completion date of audit fieldwork was extended as a result of additional time being required to locate documents for testing. Evidence for determining that internal controls for ensuring that all SAF policies and procedures are followed is removed when financial records are unavailable for review.

Recommendations: The principal and recordkeeping staff should establish an adequate records management system which ensures that all financial documents are maintained in an organized manner. The principal should remind staff that all MTFs should be retained and submitted at the end of each school year to the principal and/or designee. The principal

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

should also conduct a periodic review of financial records to determine proper organization. The recordkeeping staff must be held accountable for compliance.

2022.02 Mismanagement of Funds Received

There were **7** instances of noncompliance regarding the processing of funds received:

- A. ***Delinquent Deposits:*** There were **2** instances where funds collected were held for a longer period than required by the APM. The first MTF was completed by a staff member on 12/11/2019 and reviewed and deposited by the bookkeeper on 1/2/2020, resulting in the deposit being made **22 days** late. The second deposit of three money orders was lodged in the school's safe and was identified on 11/15/2021 during fieldwork without a corresponding completed MTF. The deposit was subsequently made on December 7, 2021.
- B. ***Incomplete Monetary Transmittal Forms:*** There were **2** instances where MTFs were not properly completed as required. *Grand Totals* were not calculated and recorded on the MTFs.
- C. ***End of Year Monetary Transmittal Form Process:*** There was 1 instance where the yellow and pink MTF remittances were not retained and included in a staff member's MTF envelope. The remittances were instead filed by the recordkeeping staff with the corresponding deposit documentation.

According to APM Section 4.5.2.2 (1) *Collecting Funds*, Funds collected in excess of \$250.00 are required to be deposited on the day of collection, otherwise deposits should be made every other day. Each MTF must be completed with who collected funds, when it was collected, from whom it was collected, the amount and form that was collected, and the reason it was collected and submitted with remitted funds. School staff are prohibited from holding funds overnight.

The recordkeeping staff did not notice that the MTFs did not include monetary description grand total in 2 instances. Reportedly, the recordkeeping staff misunderstood the policy regarding deposit frequency and documentation of MTFs and delayed making two deposits in accordance with the requirements of the APM. The recordkeeping staff inadvertently included the yellow and pink MTF remittances with the deposit records.

Improper administration of funds received compromises internal controls required for efficient processing of SAF audits. Timely and accurate financial information is not available when deposits are not made promptly. The source of funds, amount of funds, preparer of the MTF, and source of funds cannot be verified when collections are not

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

adequately documented. Moreover, the audit trail is obscured when financial records are not retained as required.

Recommendations: The recordkeeping staff should check the drop safe daily to ensure that all MTFs include the required documentation attached that verifies the source and amount of funds received, and that all deposits are made in a timely manner. Staff members must provide adequate documentation to substantiate collected funds when drops are made in recordkeeping staff's absence. The principal should perform periodic review of collection records to ensure that all MTFs are completed as required. The recordkeeping staff must be required to carefully review MTFs submitted with funds to ensure that the appropriate remittances are returned to staff members. The principal must hold the recordkeeping staff accountable for processing collections in accordance with the requirements of the APM.

2022.03 Mismanagement of a Disbursement

There was **1** instance where an expenditure for \$1,044.00 was not approved by the principal prior to issuing the disbursement. The amount of funds available for the expenditure was not determined or confirmed when providing the SFEF to the principal for approval. The noted disbursement was processed on January 20, 2020 for two invoices resulting in delinquencies of **7** and **13** days.

According to APM section 4.5.3.1 (1) *Cash Disbursements Pre-Approval by the Principal*, a School Funds Expenditure Form must be completed and signed by the principal prior to ordering or purchasing goods or services. These procedures are designed to assure that disbursements are valid (i.e. they promote the general welfare, education and morale of the students), properly documented, reviewed and approved before being made. Section 4.5.3.1 (2) *Inclusion of Supporting Documentation* requires invoices to be paid within 30 days of receipt or by the due date.

The principal was on medical leave from November 2019 to January 2020. This expenditure request was submitted prior to the principal commencing medical leave, but the invoices were received while the principal was on leave. The principal approved the expenditure request on 1/2/2020 upon return to work, but the check was issued 20 days later. The recordkeeping staff was not aware of the requirement to document available funds on the expenditure request form during the pre-approval process.

Internal controls are compromised and financial records are distorted when payments are not issued timely and when disbursements are not properly approved. Failure to accurately complete the SFEF reduces assurance that purchases were made in accordance with policy and procedures of the APM.

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

Recommendations: Requests for payment should be promptly and thoroughly reviewed to ensure expenditures are processed as required by the APM. The principal and recordkeeping staff should implement internal controls to ensure that vendor payments are processed as required when the principal is not immediately available.

2022.04 Check Signers

The audit revealed that the current principal is not an authorized signer for the school checking account. The current principal was appointed to her position on July 1, 2018. The current check signers are the recordkeeping staff and the two assistant principals.

According to Administrative Procedure 4180 *School Bank Accounts: Opening of New Accounts and Changing Signatures*, schools must maintain three authorized signers on the checking account: the principal, the bookkeeper, and another administrator. The principal and bookkeeper should be the primary signers on the account, while the third should be an administrator who can sign in either of the primary signatories' absence.

Upon joining the school, the principal noted that the bank signature card already listed 3 signers. Therefore, the principal decided to leave the signature card unchanged in favor of relying on reviewing monthly financial statements and approving expenditures as adequate internal controls.

The principal's fiduciary responsibility is not appropriately performed when the fiduciary agent of the school does not have check signing authority.

Recommendations: The principal should immediately complete the proper documentation to be added to the school's bank account signature card. The Assistant Treasurer should be contacted for assistance with the procedures to remove one of the alternate check signers and ensure that the principal is added as a check signer to school's bank account signature card to be in compliance with AP 4180 and the APM.

2022.05 Yearbook Account Deficit

The school's Yearbook account included a deficit of (\$1,278.54) as of 10/31/2021.

According to the APM, expenditures are limited to the amount of funds collected for those activities. Therefore, if restricted expenditures exceed the available cash, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure that restricted accounts are solvent at all times.

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

The former principal allowed a staff member to purchase yearbooks out-of-pocket and was subsequently reimbursed despite the Yearbook account's available balance resulting in the account deficit.

Overspending in the Yearbook account constitutes noncompliance with the guidelines documented in the APM. Funds that should have provided benefits to students were reduced, and students did not receive the maximum possible benefit from the resources that should have been available to them.

Recommendations: The principal should work towards elimination of the deficit. This can be accomplished by discontinuing expenditures from the Yearbook account until the deficit is resolved. Staff members must be advised that all purchases must be preapproved using a properly completed SFEF. The principal must ensure that there is adequate funds in the restricted fund account prior to approval of purchases.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Kettering Middle School was issued for the period ended December 31, 2017. The current principal's tenure began July 1, 2018; however, the current recordkeeping staff was on staff during that audit. There were **13** findings noted as a result of that audit and **5** were repeated in the current audit as summarized below.

- **Missing Funds** – Condition was not noted during this audit.
- **Mismanagement of Funds Received** – Condition still exists. **See Finding 2022.02** regarding *Mismanagement of Funds Received*.
- **Segregation of Duties** – Condition was not noted during this audit.
- **Mismanagement of Disbursements** – Condition still exists. **See Finding 2022.03** regarding *Mismanagement of Disbursements*.
- **Records Management** – Condition still exists. **See Finding 2022.01** regarding *Records Management*.
- **Security of Student Activity Funds** – Condition was not noted during this audit.
- **Monthly Financial Reporting** – Condition was not noted during this audit.
- **Administration of Contracts** – Condition was not noted during this audit.
- **Principal Sponsored Activity (PSA) Fund Account Deficit** – Condition still exists. **See Finding 2022.05** regarding *Yearbook Account Deficit*.

**Kettering Middle School
School Activity Funds
Internal Audit Report
For Period Ended October 31, 2021**

- **Unauthorized Transfer of Funds** – Condition was not noted during this audit.
- **Year-End Monetary Transmittal Form Envelope Process** – Condition still exists. See **Finding 2022.01** regarding *Records Management*.
- **Fundraiser Forms Not Completed** – Condition was not noted during this audit.

ACKNOWLEDGEMENT

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

Prince George's County Public Schools
Internal Audit Department
School/Office: Kettering MS
Response Date: February 22, 2022

	Findings	Recommendations	Concur Non- Concur Partially Concur	Action Plan	Corrective Action Date	Status <u>Implemented</u> Partially Implemented Not Implemented
1.	<u>2022.01 Records Management</u>	The principal and recordkeeping staff should establish an adequate records management system which ensures that all financial documents are maintained in an organized manner. The principal should remind staff that all MTFs should be retained and submitted at the end of each school year to the principal and/or designee. The principal should also conduct a periodic review of financial records to determine proper organization. The recordkeeping staff must be held accountable for compliance.	Concur	The principal will do the following: <ul style="list-style-type: none"> - Meet with the book-keeper in July to discuss, review and revise procedures for MTF's - Review with all staff during Pre-Service Week the procedures for MTF's - Review with all staff the procedures for MTF's in January (mid-year) - Meet with the book-keeper quarterly to review all submitted MTF's (review) 	December 2021	Implemented
2.	<u>2022.02 Mismanagement of Funds Received</u>	The recordkeeping staff should check the drop safe daily to ensure that all MTFs include the required documentation attached that verifies the source and	Concur	The principal will do the following: <ul style="list-style-type: none"> - Meet with the book-keeper in July to discuss, review and revise procedures for 	December 2021	Implemented

Principal Signature *Denee Deun*

Date 2/24/22

		amount of funds received, and that all deposits are made in a timely manner. Staff members must provide adequate documentation to substantiate collected funds when drops are made in recordkeeping staff's absence. The principal should perform periodic review of collection records to ensure that all MTFs are completed as required. The recordkeeping staff must be required to carefully review MTFs submitted with funds to ensure that the appropriate remittances are returned to staff members. The principal must hold the recordkeeping staff accountable for processing collections in accordance with the requirements of the APM.		MTF's and monies dropped in safe - Meet with the book-keeper quarterly to review MTF's and monies dropped in safe		
3.	<u>2022.03</u> <u>Mismanagement</u> <u>of a Disbursement</u>	Requests for payment should be promptly and thoroughly reviewed to ensure expenditures are processed as required by the APM. The principal and recordkeeping staff should implement internal controls to ensure that vendor payments are processed as required when the principal is not immediately available.	Concur	The principal will do the following: - Meet with the book-keeper and administrator-in-charge during the principal's absence in July to discuss, review and revise procedures for MTF's and the record keeping process	December 2021	Implemented

Principal Signature Denise Dunn

Date 2/24/22

4.	<u>2022.04 Check Signers</u>	The principal should immediately complete the proper documentation to be added to the school's bank account signature card. The Assistant Treasurer should be contacted for assistance with the procedures to remove one of the alternate check signers and ensure that the principal is added as a check signer to school's bank account signature card to be in compliance with AP 4180 and the APM.	Concur	The principal is retiring July 2021 and will be on long-term leave beginning the first week in April 2022. The school already has three signers including the administrator-in-charge during the principal's absence	N/A	Not Implemented
5.	<u>2022.05 Yearbook Account Deficit</u>	The principal should work towards elimination of the deficit. This can be accomplished by discontinuing expenditures from the Yearbook account until the deficit is resolved. Staff members must be advised that all purchases must be preapproved using a properly completed SFEF. The principal must ensure that there is adequate funds in the restricted fund account prior to approval of purchases.	Concur	The principal will do the following: - Collaborate with the book-keeper to move current funds from in-active accounts to rectify the deficit	December 2021	Implemented

Principal Signature Denise Duan

Date 2/24/22