



December 1, 2022

MEMORANDUM

To: Dallas Lee, Instructional Director
Area II

Cecil Miller, Ed. D., Principal
Stephen Decatur Middle School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of September 30, 2022

An audit of the financial records of **Stephen Decatur Middle School** was completed for the period July 1, 2019 through September 30, 2022. 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 **January 6, 2023** 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; and Katrina Greene, School Activity Fund Support Specialist, email address: katrina.greene@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
Helen Coley, Ed. D., Chief, School Support and Leadership
David Curry, Ed. D., Associate Superintendent
Michael Herbitsman, Chief Financial Officer
James Dougherty, Director, Financial Services
Joeday Newsom, Esq., Director, Board of Education Staff Office
Robin Welsh, Director of Monitoring, Accountability and Compliance
Katrina Greene, School Activity Fund Support Specialist
Janice Walters-Semple, CPA, Supervisor Internal Audit
Alicia Robinson, Internal Auditor II

Internal Audit Report

Stephen Decatur Middle
School

Student Activity Funds

For the Period Ended September 30, 2022

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Stephen Decatur Middle School for the period July 1, 2019 to September 30, 2022. Stephen Decatur 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:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Insolvent Principal Sponsored Activity (PSA) Account*
- *Financial Reporting Requirements*

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, the SAF referred to above, has been administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended September 30, 2022.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

Internal Audit Department completed an audit of the student activity funds (SAF) for Stephen Decatur Middle School for the period July 1, 2019 to September 30, 2022. 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.

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 July 1, 2019 to September 30, 2022. Also, available receipts, disbursements and supporting documentation were reviewed for the said period.

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2023.01 Mismanagement of Funds Received

There were at least **15** instances of non-compliance regarding the administration of receipts. The following indicates the issues of non-compliance:

- A. ***Delinquent Deposits:*** There were at least **12** instances where funds were collected by staff and not remitted timely. Delinquent remittance of funds ranged from **3 to 258 days**. There was one instance where \$267.00 was collected for a field trip and remitted on February 26, 2020, but were not deposited until November 12, 2020, resulting in grossly delinquent deposit of approximately **258** days. In another instance, the Athletic Director (AD) collected funds from a basketball game on

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December 15, 2021, but did not remit the funds to the recordkeeping staff until February 2, 2022, resulting in delinquent remittance of approximately **48** days. *(This condition was also noted in at least the 2 previous audits as of August 31, 2017 and June 30, 2019.)*

- B. *End-of-Year MTF Accessible to Recordkeeping Staff:*** The recordkeeping staff had access to the end-of-year MTFs for FY 2020 through FY 2022. The recordkeeping staff retrieved these end-of-year MTFs from an unlocked file cabinet in the conference room which was the former principal's office.
- C. *Separation of Duties:*** There were at least **2** instances where the recordkeeping staff and other staff members collected funds from parents for Chromebooks and enlisted the assistant principal to complete the MTF. In one instance during February/March 2022 the recordkeeping staff collected \$150.00 of \$370.00 total cash collected. Another staff member collected the remaining \$120.00 in cash. The recordkeeping staff then requested the assistant principal to complete MTF #436210 for the funds received. In a separate instance in August 2022, the recordkeeping staff collected \$150.00 and the assistant principal completed MTF #436231 to document the funds received.

The following criteria are established in the APM:

- A.** The APM section 4.5.2.2 (1), (2) *Collecting Funds and Guidelines for Bank Deposits Completing the MTF*, and (3) *Preparing Bank Deposits*, 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. Staff should ensure that the documentation is accurately stated and totals the funds remitted to the bookkeeper.
- B.** The APM, Section 4.5.2.2, *Cash Receipts: General Policies*, states that prior to departing at year-end, the faculty and program managers are required to submit the pink and yellow remittance copies of the MTF(s) in a sealed envelope with their signature affixed over the seal to the designated administrator. The recordkeeping staff is prohibited from accepting the end-of-year MTFs and therefore should not have access to the process.
- C.** The APM 2.2 *Exhibit A Internal Control Objectives and Principles, Segregation of Duties* states that no one person should ever be made solely responsible for maintaining records on resources that they have custody of, access to, and/or authority over.

The APM 4.5.2.2 (2) *Preparing Bank Deposits* states that the recordkeeping staff is responsible for counting cash, and verifying the total on the MTF and applicable attachments.

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The following causes were provided for non-compliance regarding the management of funds received:

- A. The former principal stated that the money was collected in February 2020 and attributed the delinquency to the closing of schools in March 2020. The former principal did not provide any additional information about why the funds were not deposited prior to the school system shutting down due to COVID-19.

The AD stated that the funds were placed in the safe at the beginning of the third quarter of the second basketball game. The AD was then on leave afterwards. The AD stated that the funds were locked away and had not been given to the recordkeeping staff. No further explanation was provided.

Additionally, other staff members held onto funds until ready to remit them according to the recordkeeping staff.

- B. The former principal stated that the end-of-year MTFs were stored in the conference room (formerly the principal's office) in a locked file cabinet. Access to the file cabinet was limited to the former principal at that time. The current principal's office was moved to another office space, but the file cabinet was left in the conference room. During the current principal's office move, the file cabinet was unlocked and therefore the recordkeeping staff had access to all of the end-of-year MTFs.
- C. Reportedly, the recordkeeping staff collected funds and had the assistant principal complete the MTF due to limited staffing at the school. The assistant principal admitted completing the MTF for funds not collected. The assistant principal stated that the funds were counted and compared to the receipts provided prior to completing the MTF.

The following effects could result from the non-compliance of management of funds received:

- A. The staff were not held accountable for remitting **all** funds timely to the recordkeeping staff. Internal controls are compromised when funds are retained in the school for several days. Failure to remit funds timely constitutes a compromise of internal controls and increases the risk for embezzlement or loss of funds.
- B. Allowing the recordkeeping staff access to the end-of-year MTFs and collection of funds remitted to the office constitutes non-compliance with BOE policies and procedures and increases the financial risk to the school. The audit trail for ensuring the integrity of SAF collected and deposited was compromised.

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Recommendations: The following recommendations are suggested to help ensure collections are properly managed:

- A. Staff members must be held accountable for remitting funds collected to the recordkeeping staff on a daily basis and verifying the source of funds to the MTF. The recordkeeping staff should inform the principal of staff who are non-compliant regarding remitting funds timely.
- B. The principal should ensure that the recordkeeping staff does not have access to the end-of-year MTFs. The end-of-year MTFs should be stored in a location that is inaccessible to the recordkeeping staff.
- C. The principal should designate someone other than the recordkeeping staff to collect funds from parents and/or students when they arrive to the office, complete the MTF and remit the funds to the recordkeeping staff. The recordkeeping staff should not accept funds without a MTF and documentation present.

2023.02 Mismanagement of Disbursements

There were at least **5** instances of non-compliance regarding disbursements. The following indicates the instances of non-compliance:

- A. ***Lack of Proper Pre-Approval:*** There was at least **1** instance the School Funds Expenditure Form (SFEF) was not adequately approved. The current principal's approval signature and the date were not affixed to the SFEF prior to the purchase. A staff member purchased items on August 19, 2022, but did not obtain prior written authorization for the purchases. (***This condition was also noted in at least the 2 previous audits as of August 31, 2017 and June 30, 2019.***)
- B. ***Non-Approved Vendor:*** There was at least **1** instance where a staff member requested reimbursement totaling \$126.25 for purchases made on from a non-approved vendor. The staff member purchased items from a local Dollar Tree, which has not been an approved vendor since 2013, and requested reimbursement for the purchases. Also, the recordkeeping staff indicated on the SFEF that the vendor was an approved vendor.
- C. ***Sales Taxes Reimbursed:*** There were at least **2** instances where sales taxes of **\$9.95** and **\$10.93** were paid on food items purchased for the students. The school purchased pizza on 2 separate occasions for the girls' basketball division championship and for student incentives where sales taxes were charged and paid by the school.
- D. ***Check Issued with Only One Signature:*** There was at least **1** instance where a check was issued with only the recordkeeping staff's signature affixed. The

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principal ordered student incentives. Check 11239 totaling \$340.56 was issued for the purchase with only the recordkeeping staff's signature affixed.

The following criteria are established in the APM:

- A. The APM Section 4.5.3, *Cash Disbursements* requires that prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for staff to indicate the amount of funds available in the relevant account prior to the principal pre-approval. SFEF and checks should be signed as final approval of payment.
- B. School purchases should only be made from PGCPS Approved/Active vendors.
- C. The APM Section 8.3 *Sales Tax* states that sales tax will not be paid or reimbursed when purchasing items for educational purposes
- D. The APM Section 4.5.3.4 (f) *Cash Disbursement – Check Writing* requires that two authorized signatures are required on all checks.

The following summarizes the causes for the various deficiencies noted:

- A. The staff member did not respond to the inquiries made regarding the purchase not being pre-approved by the principal.
- B. The principal stated that verbal approval was provided for the staff member to purchase the items. This was done because the SFEF document was not available to provide written pre-approval.
- C. The recordkeeping staff stated that the vendors were informed that the purchases should be sales tax-exempt. It was an oversight that the sales taxes were included with the payment.
- D. The recordkeeping staff did not ensure that two signatures were affixed before issuing the check.

The following are the potential effects of the non-compliance of management of funds disbursed:

- A. Failure to complete the SFEF documenting the principal's pre-approval can contribute to an insolvent status when unauthorized disbursements are made.
- B. The school risks unsatisfactory service without remedy from vendors who have not been properly approved.

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- C. Payment of sales tax is a misuse of school resources.
- D. Internal controls are compromised and the risk of fraud increases when two authorized signatures are not affixed on checks issued.

Recommendations: The following recommendations are suggested to help ensure disbursements are properly managed:

- A. The principal should remind staff that all anticipated expenses should be pre-approved and documented on the SFEF prior to purchasing .
- B. The recordkeeping staff should ensure that sales taxes are not paid when reimbursing and/or paying invoices for the school. The principal should review disbursements prior to signing to ensure compliance with the payment of sales taxes.
- C. The principal should remind staff that all school-related purchases should be made from approved vendors. Staff should contact the recordkeeping staff for inquiries of approved vendors.
- D. The principal and recordkeeping staff should ensure that all checks have the two required signatures affixed prior to distribution.

2023.03 Insolvent Principal Sponsored Activity (PSA) Account

The PSA fund account had a deficit of **(\$6,589.43)** as of September 30, 2022. The previous deficit as of the audit period ending June 30, 2019, was **(\$9,862.41)**.

The APM Section 9.6 *Principal Sponsored Activities (PSA) for Staff* indicates discretionary expenditures incurred by the principal on behalf of the school staff are grouped in the PSA accounting category. These activities must be of a professional nature that enhances the staff member's job performance. Expenditures for authorized principal-sponsored activities are restricted to funds available from the sources as outlined in the manual, which includes 100% vending commissions in the staff lounge, 25% of vending commissions from student-accessed machines up to the first \$50,000.00 and 15% of school-wide fundraising profits. As the fiduciary agent for the SAF, the principal should ensure that restricted accounts are solvent at all times.

The former principal reduced the deficit by \$3,272.98 and did not spend any funds from the PSA account since the previous audit as of June 30, 2019.

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Overspending in PSA results in insufficient funds being available to administer students' activities to the general student population. (*This condition was also noted in at least the 2 previous audits as of August 31, 2017 and June 30, 2019.*)

Recommendations: The current principal should continue to work towards the elimination of this deficit. This can be accomplished by continuing the cessation of spending from this account and transferring authorized vending proceeds and school-wide fundraisers until the deficit is completely resolved. Also, focused planning and budgeting should occur to ensure that the school's resources are used efficiently and that further deficits do not occur.

2023.04 Financial Reporting Requirements

There were at least **9** instances where the monthly reporting was either not timely performed by the recordkeeping staff or was not reviewed timely by the former and current principals. There were 7 instances of non-compliance during the former principal's tenure. The delinquency ranged from **1** to **26** days. There were 2 instances of noncompliance under the current principal's tenure. The delinquency ranged from **2** to **16** days.

The APM section *5.1.2 Monthly Reconciliation and Financial Reporting* states that the bookkeeper is required to complete the reconciliation within 7 days after receiving the statement from the bank. All financial reports should be completed by the 15th of each month and submitted to the principal for review and approval.

The former and current principals stated that they signed the financial reporting documents when they were provided by the recordkeeping staff. The recordkeeping staff stated that the current principal was informed of the financial reporting requirements. There were a variety of reported conditions that were contributory to the reported delinquencies.

The principal's fiscal responsibility is compromised when monthly reporting is not available and/or reviewed timely. (*This condition was also noted in the previous audit as of June 30, 2019.*)

Recommendations: The principal and recordkeeping staff should ensure that monthly financial reporting is accomplished in accordance with scheduled requirements included in the APM (bank reconciliation within 7 days after receiving the statement from the bank and completion of financial reports by the 15th of each month). The principal and recordkeeping staff should meet monthly to review and approve the financial reports. The recordkeeping staff should ensure the financial reporting is accurate for the principal to make fiscally responsible decisions for the school.

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STATUS OF PRIOR AUDIT FINDINGS:

The previous audit report for Stephen Decatur Middle School was issued for the period ended June 30, 2019. The current principal began July 1, 2022, and was not on staff during the previous audit. The recordkeeping staff began November 18, 2019, and was not on staff during the previous audit. There were **12** findings noted as a result of the previous audit. There are **4** findings that still exist and all are summarized below:

- **Funds not Deposited** – Controls appear to be working.
- **Insolvency Report Not Properly Completed** – Controls appear to be working.
- **Shortcomings in T-Shirt Fundraiser** – Controls appear to be working.
- **Mismanagement of Bank Reconciliations** – Condition still exists. **See Finding 2023.04** regarding *Financial Reporting Requirements*.
- **Mismanagement of Funds Received** – Condition still exists. **See Finding 2023.01** regarding *Mismanagement of Funds Received: Delinquent Deposits*.
- **Mismanagement of Disbursements** – Condition still exists. **See Finding 2023.02** regarding *Mismanagement of Disbursements: Lack of Proper Pre-Approval*.
- **Insolvent Principal Sponsored Activities Account (PSA)** – Condition still exists. **See Finding 2023.03** regarding *Insolvent Principal Sponsored Activity (PSA) Account*.
- **Year-End Monetary Transmittal Form Envelope Procedures Not Followed** – Controls appear to be working.
- **Fundraiser Forms** – Controls appear to be working.
- **Voided Checks Not Properly Defaced**– Controls appear to be working.
- **Club Budgets Not Developed** – Controls appear to be working.
- **Failure to Maintain a Current Vending Contract** – Controls appear to be working.

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ACKNOWLEDGEMENT

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

**Prince George's County Public Schools
Internal Audit Department
School/Office: Stephen Decatur MS
Response Date January 06, 2023**

	Findings	Recommendations	Concur Non- Concur Partially Concur	Action Plan	Corrective Action Date	Status Implemented Partially Implemented Not Implemented
1.	<u>2023.01 Mismanagement of Funds Received</u>	<p>The following recommendations are suggested to help ensure collections are properly managed:</p> <p>A. Staff members must be held accountable for remitting funds collected to the recordkeeping staff on a daily basis and verifying the source of funds to the MTF. The recordkeeping staff should inform the principal of staff who are non-compliant regarding remitting funds timely.</p> <p>B. The principal should ensure that the recordkeeping staff does not have access to the end-of-year MTFs. The end-of-year MTFs should be stored in a location that is inaccessible to the recordkeeping staff.</p>	Concur	<ol style="list-style-type: none"> 1. Provide additional support for the bookkeeper to clearly understand the process will contact Katrina Greene to support 2. Identify staff members who will be responsible for collecting money for school 3. Designate administrator to do end of year MTF reconciliation process 4. Before disbursing MTF form bookkeeper will remind staff member of MTF requirements and will log each assigned MTF 	<p>February 1, 2023</p> <p>On-going</p>	<p>Not Implemented</p> <p>Implemented</p> <p>Not Implemented</p> <p>Implemented</p>

Principal Signature _____

Date _____

		C. The principal should designate someone other than the recordkeeping staff to collect funds from parents and/or students when they arrive to the office, complete the MTF and remit the funds to the recordkeeping staff. The recordkeeping staff should not accept funds without a MTF and documentation present.				
2.	<u>2023.02</u> <u>Mismanagement</u> <u>of Disbursements</u>	<p>The following recommendations are suggested to help ensure disbursements are properly managed:</p> <p>A. The principal should remind staff that all anticipated expenses should be pre-approved and documented on the SFEF prior to purchasing.</p> <p>B. The recordkeeping staff should ensure that sales taxes are not paid when reimbursing and/or paying invoices for the school. The principal should review disbursements prior to signing to ensure compliance with the payment of sales taxes.</p> <p>C. The principal should remind staff that all school-related purchases should be made from approved vendors. Staff should contact the recordkeeping staff for inquiries of approved vendors.</p>	Concur	<ol style="list-style-type: none"> 1. Provide a training for the teachers to understand the pre-approval process with a sign-in sheet. 2. Quarterly reminders regarding the reimbursement and approved vendors process via newsletter 3. Principal will thoroughly review checks to ensure two signature are provided 4. The bookkeeper will ensure the attachments of all necessary documentation (receipts, invoices, etc.) before presenting to the principal for signature. 5. The bookkeeper will provide the SFEF request to he principal to sign before any disbursements 	<p>February 1, 2023</p> <p>Quarterly</p> <p>On-going</p>	<p>Partially Implemented</p> <p>Not Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

Principal Signature _____

Date _____

		D. The principal and recordkeeping staff should ensure that all checks have the two required signatures affixed prior to distribution.				
3.	<u>2023.03 Insolvent Principal Sponsored Activity (PSA) Account</u>	The current principal should continue to work towards the elimination of this deficit. This can be accomplished by continuing the cessation of spending from this account and transferring authorized vending proceeds and school-wide fundraisers until the deficit is completely resolved. Also, focused planning and budgeting should occur to ensure that the school's resources are used efficiently and that further deficits do not occur.	Concur	1. The principal will not spend from this account. 2. The principal will work towards reducing to deficit based on vending proceeds and school-wide fundraisers.	On-going	Implemented Not Implemented
4.	<u>2023.04 Financial Reporting Requirements</u>	The principal and recordkeeping staff should ensure that monthly financial reporting is accomplished in accordance with scheduled requirements included in the APM (bank reconciliation within 7 days after receiving the statement from the bank and completion of financial reports by the 15th of each month). The principal and recordkeeping staff should meet monthly to review and approve the financial reports. The recordkeeping staff should ensure the financial reporting is accurate for the principal to make fiscally responsible decisions for the school.	Concur	1. Bi-weekly meetings will be established between principal and bookkeeper prior to the 15th of each month.	Monthly	Implemented

Principal Signature _____

Date _____