



October 6, 2017

**MEMORANDUM**

To: Ed Ryans, Ed. D., Instructional Director  
Cluster 15

Melinda Lee, Principal  
Laurel Elementary School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for June 1, 2013 through August 31, 2017

An audit of the financial records of **Laurel Elementary School** was completed for the period June 1, 2013 to August 31, 2017. The audit results indicate that the school is not in compliance with BOE policies and procedures and that detailed and documented procedures are necessary to improve internal controls and adequately protect the school's assets. The report identifies missing funds in the amount of **\$11,491.35**.

As the principal of the school, you will be responsible for preparing an action plan within **15** 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, Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.*

Enc.

cc: Segun Eubanks, Ed. D., Board Chair  
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools  
Monique Whittington-Davis, Ed. D., Deputy Superintendent  
Carolyn Boston, Board Vice Chair, Board of Education  
David Murray, Board Member, District I  
Raymond Brown, Chief Financial Officer  
Melissa McGuire, Associate Superintendent, Area III  
Erica Berry, Esq., Executive Director, Board of Education  
Derrick Martin, Internal Auditor II  
Lewis Robinson, Director, Employee and Labor Relations

# Internal Audit Report

## Laurel Elementary School Student Activity Funds

For the Period Ended August 31, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Laurel Elementary School for the period June 1, 2013 to August 31, 2017. Laurel Elementary School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

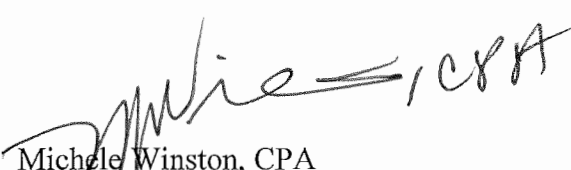
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following findings:

- *Missing Funds of \$11,491.35,*
- *Mismanagement of Disbursements,*
- *Mismanagement of Funds Received,*
- *Restricted Account Deficits*
- *Fundraiser Forms,*
- *Record Retention*
- *Drop Safe Not on Premises, and*
- *Management Oversight*

Individually or in 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).

Because of the significance of the matters as discussed in the preceding paragraph, we do not express an opinion on the financial statements of Laurel Elementary School for the audit period ended August 31, 2017.

  
Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit of student activity funds (SAF) for Laurel Elementary School for the period June 1, 2013 to August 31, 2017. The audit was predicated upon an email from the principal of Laurel Elementary School regarding the school's bank account having a very low balance.

The audit identified instances where funds totaling **\$11,491.35** were not deposited into the school's bank account. The audit also indicated that the school's financial records and procedures require **significant improvement** to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures. The audit revealed that internal controls over the financial reporting process were ineffective. Reconciliations were not prepared monthly by the bookkeeper. Consequently, financial reports were not reviewed by the principal as required.

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

*This report is intended solely for information and use of the Board Chair, Chief Executive Officer and other parties specifically stated in the accompanying transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.*

**OBJECTIVES**

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school was in compliance with the policies and procedures of the 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 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 the review of selected bank statements, financial reports, available cancelled checks, voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period June 1, 2013 to August 31, 2017. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period. Due to the dysfunctional state of the accounting records, the audit was limited to available financial records that had been retained for the audit period (*See Finding 2018.06 Record Retention.*)

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**FINDINGS AND RECOMMENDATIONS**

**2018.01 Missing Funds**

The bookkeeper did not follow procedures for administering SAF at Laurel Elementary School. MTFs were undocumented or inadequately documented and SAF remitted to the bookkeeper were not appropriately deposited with the financial institution. As a result funds totaling **\$11,491.35** could not be accounted for (missing funds - **\$12,019.32** less reimbursements out of cash - **\$527.97**).

- A. There were **6 MTFs** including funds totaling **\$1,344.50** that were signed by the bookkeeper; however, there was no evidence that the funds collected were deposited with the bank.

<i>Receipt Date</i>	<i>MTF Number</i>	<i>Amount</i>
9/19/2016	244497	\$112.00
3/3/2016	298101	\$187.50
5/19/2017	298195	\$345.00
1/24/2017	298197	\$435.00
10/25/2016	298198	\$255.00
4/5/2017	298143	\$10.00
	<b>Total</b>	<b>\$1,344.50</b>

- B. There were **9 MTFs** including funds totaling **\$3,169.78** that were not signed, accounted for in the accounting system, or deposited in the bank. The bookkeeper acknowledged via email that she received the identified funds.

<i>Receipt Date</i>	<i>MTF Number</i>	<i>Amount</i>
6/13/2017	298195	\$203.72
6/13/2017	298194	\$157.06
4/24/2017	298196	\$200.00
3/15/2017	298197	\$294.00
Not determined	244447	\$352.00
Not determined	244445	\$596.00
Not determined	244443	\$336.00
Not determined	244414	\$204.00
Not determined	244419	\$827.00
	<b>Total</b>	<b>\$3,169.78</b>

- C. There were **9 MTFs** including funds totaling **\$3,184.42** in cash collections that could not be identified as deposited with the financial institution or recorded in

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SFO. The MTF numbers were used to record disbursement transactions in SFO. These MTFs were found locked in the bookkeeper's desk drawer.

<i>Receipt Date</i>	<i>MTF Number</i>	<i>Amount</i>
2/7/2017	298143	\$136.00
2/24/2014	298144	\$112.50
2/24/2017	298145	\$175.50
10/30/2015	244483	\$595.42
12/17/2015	244488	\$690.00
2/17/2016	244491	\$800.00
4/18/2016	298110	\$240.00
5/18/2016	298113	\$264.00
5/11/2016	298118	\$171.00
	<b>Total</b>	<b>\$3,184.42</b>

- D. The school held a Scholastic book fair on 10/24/2016 in which the total cash sales excluding tax was **\$3,825.62**; Internal Audit could not locate the corresponding MTF or a deposit slip evidencing that these funds were deposited.
- E. Laurel Elementary School participated in an InterAct Story Theatre fieldtrip on September 15, 2016 as part of the school's Art Integration program. The cost to participate in the fieldtrip was \$1.00 per student. The principal stated the school had 604 students and an approximate participation rate of 90%. Funds were reportedly remitted to the bookkeeper; however, there is no evidence that the collection was documented on a MTF, recorded in SFO or deposited with the bank. The school received vendor invoice # INV-1491 for **\$495.00** which remains outstanding.
- F. Internal Audit was able to verify via interviews with staff members that the bookkeeper made cash reimbursements to staff totaling **\$527.97**. (*Refer to Appendix B.*)

The following requirements have been established relative to administration of SAF:

- A. Board Policy 0109, *Fraud Waste and Abuse*, strictly prohibits all conduct of fraud, including theft, misappropriation or removal of PGCPS' resources.
- B. According to the APM, Section 4.5.2.2, *Preparing Bank Deposits*, the bookkeeper is responsible for counting cash, verifying the total on supporting remittance documentation, and ensuring agreement with the MTF and that the actual funds are remitted. The Bookkeeper is required to complete a bank deposit slip in

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duplicate, whether manually or in SFO, noting the amount of coins, currency and checks. All checks must be individually listed on the deposit slip with identifying information (e.g., last name and/or check number) to assist in tracing any item in the deposit that may be returned by the bank. The items listed on the deposit slip should be totaled on a calculator and the calculator tape saved as supporting documentation. Both the original and duplicate deposit slip should be taken to the bank to allow the duplicate to be validated. The validated copy is filed at the school with the MTF that supports the deposit.

- C. APM Section 3.2, *Ownership, Authority and Responsibility* states that the bookkeeper is responsible for accurately recording and reporting the school's financial transactions.
- D. APM Section 4.5.3.1, *Pre-Approval by the Principal*, require payment of all bills, invoices and reimbursements to staff members that are funded from SAF to be made with a school check drawn from the school's checking account. Payments of expenditure using cash collected for the SAF is prohibited.

The bookkeeper confessed to having personal problems which incentivized her to remove SAF for her personal benefit. The bookkeeper did not deposit all funds remitted. Accurate record of funds collected was not documented on the respective MTFs or recorded in the school's accounting system. The principal did not provide adequate oversight relative to administration of SAF which allowed the bookkeeper the opportunity to defraud the school and its SAF. BOE policies and procedures were not followed as established in the APM.

Failure to administer SAF in accordance with the requirements of the APM and using said funds for personal benefit is considered fraud, waste and abuse of PGCPS resources. As a result funds totaling **\$11,491.35** is not currently available to benefit the student body as intended and outstanding invoices exist for which funds are not available to cover expenditures. In addition, financial statements are inaccurate due to unrecorded and inaccurately recorded collections.

**Recommendation:** The following is recommended to address the finding of missing funds:

1. Policies and procedures must be immediately implemented to ensure that the principal is consistently monitoring SAF.
2. The bookkeeper is responsible for full restitution of SAF removed from the school in the amount of **\$11,491.35**. The principal should provide Internal Audit a copy of the MTF and deposit slip evidencing payment of these funds.



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3. Employee and Labor Relations should take appropriate disciplinary action regarding the bookkeeper.

**2018.02: Mismanagement of Disbursements**

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

- A. ***Expenditures Made without Complete Documentation:*** There were 7 instances where School Funds Expenditure Forms (SFEFs) were not properly completed. Fields such as estimated cost, purpose of expenditure, funds available and principal's approval were left blank.
- B. ***Insufficient Signature:*** There were 2 instances where canceled checks examined did not have 2 authorized signers. Checks only included the signature of the principal.
- C. ***Delinquent Payments:*** There were 2 instances where payments were not remitted to the vendor in a timely manner. Invoices were held 30 and 150 days before payments were issued. There were also 5 unpaid invoices that totaled **\$5,987.72** that were unpaid and are still outstanding.

The following requirements are provided within the APM for disbursements to be appropriately administered:

- A. Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services; a SFEF must be fully completed and signed by the principal.
- B. Section 4.5.3.1, *Check Writing*, states two authorized signatures are required on all checks. In accordance with AP 4180, *School Bank Accounts*, the two check signers should be the principal and the bookkeeper. The third signer must be a vice-principal or school administrator.
- C. Section 4.5.3.1, *Inclusion of Supporting Documentation*, states invoices should be paid within 30 days of receipt. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.

Contributory factors in the mismanagement of disbursements are as follows:

The principal did not provide effective oversight to identify weakness in the school's control environment.

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Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and to staff members. The APM states the practice of approving check requests without assurance from the bookkeeper that the funds are available in a particular account can lead to several insolvent restricted accounts. There were **15** insolvent accounts that totaled **\$17,571.18** (*See Finding 2018.04 regarding Restricted Account Deficit.*) Delinquent payments also increase financial risk to the school due to potential late fees or damaged relationships with vendors.

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

- A. The principal should request training from the Accounting and Financial Reporting Office for all school staff and administration relative to the SAF cash disbursement process.
- B. Emphasis must be placed on management oversight over the disbursement of SAF including ensuring that checks are reviewed and signed by two authorized signatories.
- C. The principal should specifically focus on adequate completion of SFEEs for adequate and timely approval of expenditures. The bookkeeper and principal should ensure that SFEEs are supported with appropriate supporting documentation.
- D. The principal should provide management oversight and require that invoices are paid within 30 days or by the due date on the invoice.
- E. The principal must contact Business Operations to request assistance for payments of outstanding invoices.

**2018.03 Mismanagement of Funds Received**

The following exceptions pertaining to the mismanagement of receipts were identified:

- A. ***Inadequate Supporting Documentation*** – There were **9** instances where MTF remittance information was not sufficient to substantiate collection and deposit amounts. The bookkeeper also processed blank MTFs. For example, amounts were processed in the accounting system associated with a MTF number, but the MTF document was blank. Also section 1 of MTFs was not always completed and MTFs were not always signed by the bookkeeper.

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- B. ***Inadequate Maintenance of Monetary Transmittal Form Log*** – The bookkeeper did not keep an updated MTF Log. Fields such as teacher’s name and MTF pick up and return dates in the MTF log were left blank.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures*, includes the following:

- A. The MTF must be completed and filled out with information pertaining to who collected the money, when it was collected, from whom it was collected, the reason for collecting, and the amount and form of the collection. The person collecting funds is responsible for filling in all required information, including signing and dating the form. The exact make-up of the funds and the total amount being remitted to the Bookkeeper must be itemized on the MTF and the grand total on the MTF must agree with the total on the Student Remittance Report. Sections 1 and 2 of the MTF must agree.
- B. A MTF log is required to be maintained by the bookkeeper to include a numerical list of the MTF’s, the name of the individual and dates the forms were issued, the date returned to the bookkeeper, and the total amount of the MTF are required to be completed.

The bookkeeper failed to develop adequate internal controls over the collection process. Furthermore, the principal did not provide effective oversight to identify weaknesses in the school’s control environment.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. For example, the lack of completion of MTFs and deposit slips has resulted in the school’s SAF being at risk. The identified funds that are no longer available to provide benefit to students is **\$11,491.35**(See *Finding 2018.01 regarding Missing Funds*). The overall lack of documentation surrounding the cash receipt process has resulted in the potential that an increased amount of funds not deposited may have existed.

**Recommendation:** The Principal should ensure that oversight is provided to the bookkeeping process. Further, improvement in internal controls is needed by documenting procedures that outline documentation required to substantiate funds collected including completed MTFs and substantiating documentation. These procedures should also include the use of an MTF log. Staff should be held accountable for compliance.

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**2018.04 Restricted Account Deficits**

The following restricted accounts contained deficits which aggregated to **(\$17,571.80)** as of August 31, 2017.

<u>Account #</u>	<u>Account Description</u>	<u>Amount</u>
309.00	School Patrol	(\$155.80)
310.00	Class Account	(\$25.27)
310.60	6 <sup>th</sup> Grade Activities	(\$1,183.75)
402.00	Bookfair-Restricted	(\$2,177.42)
420.00	Field Trips	(\$4,614.21)
450.20	PSA – Food	(\$460.05)
450.30	PSA Staff Appreciation	(\$275.61)
460.00	Sales Tax	(\$148.33)
472.00	Sports Uniforms	(\$543.51)
480.00	Yearbooks	(\$4,418.37)
505.00	Agenda Books	(\$1,474.98)
508.00	Scholastic News	(\$718.72)
511.00	Time for Kids	(\$142.74)
512.00	Weekly Reader	(\$367.83)
565.00	Materials of Instruction	(\$865.21)
	<b>Total</b>	<b>(\$17,571.80)</b>

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

The insolvent restricted accounts were caused by the bookkeeper’s acknowledged fraudulent activity and the principal’s lack of oversight. The “*available funds*” section of the SFEF was not completed prior to initiation of disbursements. Also, the principal did not pre-approve expenditures.

SAF is not used efficiently when overspending occurs in restricted accounts. Students did not receive maximum benefit from funds that should have been made available to them. The school does not have sufficient funds in its checking account to pay outstanding invoices.

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**Recommendation:** The principal should contact the office of Business Operations to request assistance in resolving the deficits. The principal should also discontinue principal sponsored activity spending until the deficits are fully resolved.

**2018.05: Fundraiser Forms**

The school held several fundraisers during the audit period. However, Fundraiser Request and Authorization Forms, Fundraiser Completion Forms and annual reports summarizing fundraising activities were not completed.

Administrative Procedure 5135.1, *Fund Raising* 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.

Fundraiser sponsors and the principal did not adhere to BOE policies and procedures as established relative to completion of fundraiser reports.

It is difficult to determine whether the fundraisers conducted by the school yielded any financial benefit or loss. Financial records are not complete and information may not be available to make informed decisions on continuing fundraising activities in the future. Since the principal is the fiduciary agent for the school, she is responsible for approving all fundraiser requests.

**Recommendation:** The bookkeeper should generate reports of all fundraising activities to facilitate completion of an annual report summarizing fundraising activities for the period at the end of each school year. An adequate filing system must be implemented to facilitate the retrieval the reports upon request of Internal Audit or anyone with reviewing authority.

**2018.06 Record Retention**

Internal audit was unable to locate year-end MTF envelopes for FY 2017 and FY 2016. Also, **21** voided checks could not be located for the audit period. There were also, **6** instances where documentation to substantiate disbursements processed in FY 2016 were not located and **10** instances where cancelled checks requested were not provided.

APM Section 6 (12), *Record Retention*, requires all SAF records be maintained for a period of **7** years and or until audited, including the fiscal year. This includes School Funds Expenditure Forms. In addition, records must be maintained in an organized fashion to ensure accurate accountability of financial transactions.

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The principal did not provide oversight over the records management process at Laurel Elementary School. The bookkeeper took advantage of the principal's failure to monitor the school's SAF; discarded and disorganized SAF records to conceal fraudulent activities.

Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

**Recommendation:** The principal must ensure that financial records are retained for the stipulated period of 7 years and in an organized manner. The principal should oversee the process for ensuring school records are properly maintained and secured. The bookkeeper should be held accountable for compliance.

**2018.07: Drop Safe Not on Premises**

A secure working drop-safe for keeping SAF awaiting deposit has not been obtained. Funds collected from staff are maintained in an area where staff members cannot securely drop funds when the bookkeeper is unavailable.

The APM, Section 4.5.2.2, *Guidelines for Bank Deposits*, depository (drop) safes are required for every school and only the principal and bookkeeper can access the contents. The safe should be bolted to the floor and in a location accessible to staff which will facilitate remitting funds even if the bookkeeper is unavailable. A log should be maintained where staff members record their name and the date of the "drop."

The Principal and bookkeeper were unaware of the specific requirements regarding depository safes.

Internal controls regarding the collection of funds was compromised which increased the potential for loss of assets. The bookkeeper and school staff did not follow BOE policies and procedures as established in the APM.

**Recommendation:** The principal and administrative staff should familiarize themselves with the requirements for safekeeping of cash on hand. The principal should immediately purchase a drop safe to ensure compliance with the APM. The principal should establish cash collection controls to ensure that a log is effectively maintained to record the date, time, individual and the amount of funds dropped into the safe.

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**2018.08 Management Oversight**

The principal did not exercise proper oversight in the administration of the student activity funds during the current audit period.

The APM, Section 3.2.1, *Principals*, states that the principal is the fiduciary agent for SAF. As such, responsibility for accounting, safeguarding and managing the SAF, in accordance with PGCPs policies and procedures, rest solely with the principal.

The principal has not provided adequate attention to the school's checking account to establish and implement financial controls. The principal trusted the bookkeeper because of her 13 year tenure with the school.

Significant financial risk currently exists at Laurel Elementary School in the absence of effective management oversight. During the audit, **\$11,491.35** in missing funds was identified. (*See finding 2018.01 Missing Funds*)

**Recommendation:** The principal should carefully review the policies and procedures as defined in the APM and develop internal controls to ensure compliance. She should be consistently involved in the daily operations as it related to the administration of the school's resources. Improvement of the internal control environment should be emphasized by focusing on these **5** basic principles:

- Clearly Defined Lines of Authority and Responsibility;
- Segregation of Duties;
- Maintenance of Adequate Documents and Records;
- Limited Access to Assets; and
- Independent Checks on Performance.

**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Laurel Elementary School was issued for the period ended May 31, 2013. During that period, the principal and bookkeeper were in their current positions. The previous audit report had **6** reportable conditions, of which **4** are repeated in the current audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Untimely Deposits** – Controls appear to be working.

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- **Inadequate documentation for funds received** – Condition still exists. **See Finding 2018.03** regarding *Mismanagement of Funds Received*.
- **Monetary Transmittal Fund Log Not Maintained** – Condition still exists. **See Finding 2018.03** regarding *Mismanagement of Funds Received*.
- **Missing Documentation and Record Retention** – Condition still exists. **See Finding 2018.06** regarding *Record Retention*.
- **Lack of Signed Vending Machine Contract** – Controls appear to be working
- **Excessive Spending in Restricted Accounts** – Condition still exists. **See finding 2018.04** regarding *Restricted Account Deficits*.

**ACKNOWLEDGEMENT**

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