



February 28, 2018

**MEMORANDUM**

To: David Curry, Instructional Director  
Cluster 2

Rhonda Simley, Principal  
William Wirt Middle School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for Period August 1, 2015 to September 30, 2017

An audit was completed on the financial records of **William Wirt Middle School** for the period August 1, 2015 to September 30, 2017. The audit results indicate that the school's internal controls require improvement to ensure compliance with board policies. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within **30** days, indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual for School Activity Funds. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. Please note that you are required to provide your action plan using the attached Microsoft Word template and any other correspondence to the Internal Audit Office, Attention: Jerry Chandler, Business Analyst, email address: [jerry.chandler@pgcps.org](mailto:jerry.chandler@pgcps.org). A copy of your action plan should also be forwarded to Deborah Smalls, Business Operations Technician, email address: [Deborah.smalls@pgcps.org](mailto:Deborah.smalls@pgcps.org).

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

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair  
Kevin M. Maxwell, Ph. D, Chief Executive Officer  
Carolyn Boston, Vice Chair, Board of Education  
Monique Whittington Davis, Ed. D., Deputy Superintendent  
John Pfister, Chief Financial Officer  
Denise Greene, Ed. D, Associate Superintendent, Area I  
Erica Berry Wilson, Esq., Executive Director, Board of Education  
Lupi Quinteros-Grady, Board Member, District II  
J. Michael Dougherty, Director, Financial Services  
Daniel Reagan, Internal Auditor II

**Prince George's County Public Schools**

**Internal Audit Department | Michele Winston, CPA, Director**

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# Internal Audit Report

## William Wirt Middle School Student Activity Funds

For the Period Ended September 30, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of William Wirt Middle School for the period August 1, 2015 to September 30, 2017. William Wirt Middle 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;*
- *Voided Checks Not Properly Administered;*
- *Fundraiser Forms Not Completed;*
- *Inadequate Approvals of Transfers;*
- *Budgeting for Clubs and Organizations; and*
- *Failure to Maintain a Current Vending Contract.*

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).

In our opinion, except for the deviation 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 September 30, 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 William Wirt Middle School for the period August 1, 2015 through September 30, 2017. 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.

*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 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, available cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period August 1, 2015 to September 30, 2017. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period. Receipts from August 1, 2015 to June 30, 2016 were not included in this review as a result of them being addressed in the William Wirt Middle School Field Trip Financial Administration Investigation report dated November 14, 2016; however, collections from July 1, 2016 through September 30, 2017 were examined during this audit.

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**FINDINGS AND RECOMMENDATIONS**

The audit resulted in the following findings and recommendations:

**2018.01 Mismanagement of Funds Received**

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

- A. ***Delinquent Deposits:*** There were 12 instances where deposits were made between 1 and 17 days after collection. Some deposits in excess of the \$250.00 daily limit were held overnight.
- B. ***Inadequate Supporting Documentation:*** There were 5 instances where remittance information was not sufficient to substantiate the collection and deposit amount. Detailed reports of students who paid for field trips were not retained.
- C. ***Deposits Not Posted Promptly:*** Deposits were posted during the monthly reconciliation process instead of when funds were collected.
- D. ***Checks Not Immediately Endorsed:*** A stamp containing the school's name and bank account number was not used to endorse all checks as "For Deposit Only" as required.

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

- A. SAF received are required to be deposited at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.
- B. The MTF document must be entirely completed with the following information, 1) who collected the funds, 2) date of collection; 3) source of funds collected; 4) the amount and form of the collection; and 5) the purpose for collection. If additional space is needed, a Student Remittance Report, Excel spreadsheet, class list, receipts, or ticket/report stubs, can be used as an attachment.
- C. SAF remitted are required to be counted, verified and checks should be immediately endorsed using a stamp that contains endorsement information: "For Deposit Only: School Name and Bank Account Number".
- D. The school's financial transactions are required to be accurately recorded and reported in a timely manner. The principal must be made aware when either a

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lack of time or distractions adversely affects the timely and successful financial recordkeeping.

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

- A. Competing priorities in the school front office have interfered with proper management of the bank deposit process, to include ensuring remittance information is accurate, and that deposits are made and recorded timely. As a result deposits in School Funds Online (SFO) are not posted until monthly bank reconciliation is performed.
- B. Staff members do not always follow procedures to remit funds daily when there is a multi-day collection effort for a field trip or fundraiser or with the required supporting documentation.
- C. Reportedly, the endorsement stamp had been misplaced during the audit period but was found during the audit and school staff was unaware of the requirement to immediately endorse checks with the school's stamp.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely deposits and recording of these deposits can result in lost or unavailable funds and inaccurate financial statements. Insufficient remittance information compromises the audit trail and can prevent accurate refunds, if needed. Checks received that are not immediately endorsed as "For Deposit Only" also increases the risk of check fraud. *(This finding was noted during the previous audit period ended July 31, 2015.)*

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

- A. Appropriate time management must be established to ensure that deposits are made and recorded timely. The principal should consider providing designated time daily for performance of financial recordkeeping including receipt of funds, making deposits and preparing financial reports.
- B. The principal should provide training to staff to ensure that all funds collected are remitted daily as required by the APM. Staff should be held accountable for compliance.

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- C. The endorsement stamp must be kept in a secure location. This stamp must be used to endorse all checks received for deposit.

**2018.02 Mismanagement of Disbursements**

The following exceptions pertaining to the management of disbursements were identified:

- A. ***Inadequate Pre-Approvals:*** The audit identified **15** disbursement transactions that included **43** departures from the required approval process:
- a. There were **4** instances where purchases were made prior to requests for approval.
  - b. There were **13** instances where pre-approval signatures were not dated.
  - c. There were **15** instances where the bookkeeper did not indicate the amount of funds available in the relevant fund accounts on SFEFs.
  - d. There were **11** instances where the pre-approval and/or the approval line on School Funds Expenditure Forms (SFEF) were signed by an assistant principal instead of the principal. The principal did not provide written delegation of authority to the assistant principal.
- B. ***Incorrect Posting of Transactions:*** There were **5** instances where expenditures were posted incorrectly in SFO.
- C. ***Missing Items:*** There were **13** cancelled check images and **2** SFEFs that could not be located.
- D. ***Third Check Signer:*** The school does not have three authorized check signers for the checking account.

The APM, Section 4.5.3, *Cash Disbursements*, includes the following provisions:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for recording the amount of funds available in the relevant account prior to the principal providing pre-approval.

If a principal's extended absence is anticipated, the pre-approval function may be delegated to a vice-principal. To do so, the principal must sign a written statement delegating the authority to a specifically named individual for a specific timeframe during the period of absence.



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- B. The APM requires accurate recording and reporting of school financial transactions. Section 4.3.2, *Fund Account Procedures*, requires transactions to be recorded in the most specific account relating to the activity.
- C. Cancelled checks images are required to be maintained in a separate cancelled check file upon receipt with the bank statement. Section 6.12, *Record Retention*, states that all SAF records must be retained for a period of seven years. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, etc.
- D. There must be at least 3 authorized signers on the checking account (principal, bookkeeper and another administrator). The principal and bookkeeper should be primary signers on the account. The third signer should be an administrator.

Contributory factors in the mismanagement of cash disbursements are as follows:

- A. Effective controls have not been established to ensure that expenditures are properly pre-approved by the principal. The school is currently using an outdated version of the SFEF template, which has made the requirements to provide funds available and date of principal signatures unclear to users. Further, SFEFs have been provided to the assistant principal when the principal is not available. The assistant principal was unaware that all SFEFs must be signed by the principal.
- B. There was failure to record journal entry transfers within sub-accounts and within unrestricted accounts when attempting to move funds to appropriate accounts for disbursements. For example, sports equipment purchases were posted directly to fundraising accounts, rather than the available funds being transferred from the fundraising account to the sports equipment account for the amount of disbursements.
- C. Documents filing methods did not support ensuring that all records were properly maintained for review.
- D. The principal was not aware of the requirement to have a third check signer on the school's bank account.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Specifically, schools and their SAF can be held liable for financial obligations made by staff if completion of the SFEF is not performed as required and pre-approval is not obtained by the principal. Further, failure to complete the SFEF can lead to insolvent accounts when the principal is not made aware of all disbursements being made by the school. Improper classification

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of expenditures can result in incorrect financial statements which are necessary for fiscal decision making. Missing SFEFs and cancelled check images compromises the audit trail needed to substantiate that SAF are expended as intended. The lack of a third check signer increases the chance of check fraud and can delay the ability to write checks in the principal's absence. *(This finding was noted during the previous audit period ended July 31 2015.)*

**Recommendation:** The following is recommended for the principal and bookkeeper to properly manage funds disbursed:

- A. Specific procedures regarding the pre-approval and approval of disbursements should be documented and shared with staff. These procedures should be aligned with the requirements outline in the APM. Staff should be required to use the most current version of the SFEF template. Training should be provided to staff, with subsequent enforcement of the procedures.
- B. The journal entry transfer process should be used to facilitate accurate financial reporting.
- C. The filing system should be improved to ensure all cancelled check images and SFEFs are maintained in an orderly fashion and are made available for review upon request.
- D. Treasury Operations should be contacted to have a third authorized check signer added to the school's checking account.

**2018.03 Voided Checks Not Properly Administered**

The following exceptions pertaining to the management of voided checks were identified:

- A. There were **16** instances where voided checks were not properly approved by the principal.
- B. There were **6** instances where the voided check was not properly defaced with the signature line removed.
- C. There were **7** instances where the voided check could not be located in the school's files to determine appropriate disposition.

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- D. There were 5 instances where voided checks were not properly recorded in SFO. In one of these instances, the voided check was still listed as an outstanding check on the September 2017 bank reconciliation.

The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and unable to be used, the physical check must still be accounted for. The word "VOID" is written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer to keep the empty transaction in the system. A SFEF or Void Check Proof Sheet should also be completed for the principal's approval.

Staff was not aware of the specific requirements for voiding checks. In particular, staff was not aware that voided checks required principal approval and that signature lines needed to be removed. The ineffective process for voiding checks constitutes non-compliance with BOE policies and procedures. The lack of principal approval and failure to deface and maintain the checks increases the risk of check fraud.

**Recommendation:** The principal should become familiar with the requirements for voiding checks as outlined in the APM and demonstrate compliance by requiring appropriate approval, recording, and maintaining voided checks in an organized manner. Staff should be held accountable for compliance.

Outstanding checks should be closely reviewed during the bank reconciliation process to ensure that stale and voided checks are properly recorded.

#### **2018.04 Fundraiser Forms Not Completed**

Fundraiser forms were not always completed during the audit period. Authorization Forms for 8 fundraisers and Completion Reports for 14 fundraisers were not completed. Further, annual fundraising reports were not prepared. Where Fundraiser Request and Authorization Forms were completed, there was no established procedure to ensure that Completion Reports were completed by fundraising sponsors.

The APM, Section 7.2.2, *Fundraising Procedures*, states that fundraisers must be formally approved by the principal using a Fundraiser Request and Authorization Form. At the conclusion of a fundraising event, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, the principal should prepare an annual report summarizing all fundraising activities concluded during the year. The data in this report should be available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

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The principal and bookkeeper were aware of the requirements for fundraiser forms, but did not set up effective controls to ensure that forms were being completed. Staff members were often allowed to conduct fundraisers prior to approval or without completion of the Fundraiser Request and Authorization Form.

Annual fundraising reports cannot readily be completed by the principal without Completion Reports available. Failure to complete required fundraiser forms constitutes non-compliance with BOE policies and procedures. In addition, it decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, Fundraiser Completion Reports bolster the budgeting process which can ensure optimal performance by each fundraiser. *(This finding was noted during the previous audit period ended July 31, 2015.)*

**Recommendation:** The principal should develop and document specific procedures for staff members that are organizing and conducting fundraisers. Staff should be required to complete Fundraiser Request and Authorization Forms and obtain the principal's approval for all non-school-wide fundraisers. Staff should also be held accountable for Fundraiser Completion Reports for all fundraising activities. The fundraising process should be managed by assigning responsibility for distribution of relevant fundraiser forms, and the principal should enforce controls by holding staff members accountable. The principal should also compile or instruct preparation of annual fundraising summary reports as required by the APM.

**2018.05 Inadequate Approvals of Transfers**

There were 3 instances where funds were transferred from the PY Carryover account without documented approval from the Office of Business Operations.

The APM, Section 4.5.4, *Transfer of Funds*, states that in order to use Prior-Year Carryover funds, the principal must send a request to the Office of Business Operations detailing the items to be purchased, purpose and the amount of the request. Only upon written approval should funds be transferred from the PY Carryover account.

Reportedly, verbal approval was obtained from the Accounting and Financial Reporting Office for the 3 transfers from the SAF. An Accounting and Financial Reporting Office staff recalled giving verbal approval for 2 of the 3 transfers. However, no written approval was provided by Accounting and Financial Reporting Office or sought for any of the transfers.

Failure to obtain approval for transfers constitutes non-compliance with BOE policies and procedures. Funds transferred from PY Carryover without BOE approval can lead to

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overall insolvency for the school. The lack of documented approval compromises the audit trail.

**Recommendation:** The Accounting and Financial Reporting Office should ensure that all approvals for PY Carryover transfers are documented to create an audit trail for authorized use of student activity funds.

The principal should ensure that all PY Carryover transfers at William Wirt Middle School are approved in writing by Accounting and Financial Reporting Office and maintain those approvals on file to be made available when requested for review.

**2018.06 Lack of Budgeting for Clubs & Organizations**

School clubs and organizations have not developed and submitted annual budgets. The school has several clubs that conduct financial activity, to include the SGA, Creative Arts, Basketball, and Newspaper Clubs.

The APM, Section 7.3, *Class and Club Accounts*, states that principals and teachers need to work closely with students in planning finances (budgeting) for clubs and organizations. School clubs shall have as much autonomy as possible in spending funds as permitted by Board regulations. However, funds shall not be used without majority consent of the students involved. A copy of annual budgets must be provided to the school's bookkeeper.

Failure to develop and submit annual club budgets constitutes non-compliance with BOE policies and procedures. Further, the lack of budgeting can lead to insolvent accounts or substandard experience for students in extracurricular activities. Often, club sponsors are not prepared to cover financial obligations of end of year expenditures due to the lack of budgeting and funds generated during the year.

**Recommendation:** The principal should develop and document procedures for club sponsors to develop and submit annual budgets. The budgeting process should include increased communication between the sponsors, bookkeeper and principal so that club activities can be effectively planned and executed.

**2018.07 Failure to Maintain a Current Vending Contract**

The school has not renewed the contract with their vendor for vending machines to ensure that it remains active. The last contract expired July 31, 2017. The contract on file was not properly executed. There is no evidence that the vendor or the principal signed the contract.

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The APM, Section 9.8, *Vending Machine Sales*, states that all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency these commissions are remitted. The contract term cannot exceed one year.

The bookkeeper was not aware of the requirement for annual vending contracts. Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of a current contract prevents the school from having any recourse if there are issues with vending service or commissions.

**Recommendation:** The principal should contact the vendor and obtain a signed contract for the vending machine operations. The contract should stipulate the frequency and percentage of commissions. The contract should also be renewed annually. The principal may also consult with the Purchasing and Supply Services to identify a PGCPSS approved vendor for vending services.

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

The previous audit report for **William Wirt Middle School** was issued for the period ended **July 31, 2015**. The principal's tenure began in July 2016. The following findings were noted as a result of the last audit and the current status is indicated below:

- **Mismanagement of Funds Received** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** – Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Disbursements*.
- **Fundraiser Forms Not Completed** – Condition still exists. See **Finding 2018.04** regarding *Fundraiser Forms Not Completed*.
- **Year-End Monetary Transmittal Form Procedures Not Followed** – Controls appear to be working.

#### **ACKNOWLEDGEMENT**

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