



September 30, 2019

MEMORANDUM

To: Janice Briscoe, Ed. D.
Area 2 Instructional Director

Kenneth Nance, Principal
Buck Lodge Middle School

From: Michele Winston, CPA
Director Internal Audit

Re: Financial Audit for July 1, 2016 through June 30, 2019

An audit was completed on the financial records of **Buck Lodge Middle School** for the period July 1, 2016 through June 30, 2019. The audit indicates that the school's internal controls have failed to adequately safeguard funds and procedures require significant improvements to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit report.

As principal of the school, you will be responsible for preparing an action plan by **October 30, 2019** 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, email address internal.audit@pgcps.org. A copy of your action plan should also be forwarded to Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org. Please send the **WORD** and **PDF** version of your action plan and other correspondence.

Enclosure

cc: Alvin Thornton, Ph. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, Director, Financial Services
David Curry, Ed. D., Associate Superintendent for Middle Schools
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Jeffrey Carpenter, Director, Employee Labor and Relations
Archie O'Neil, Director, Department of Security Services
Dan Reagan, Internal Auditor II

Internal Audit Report

**Buck Lodge Middle School
Student Activity Funds**

For the Period Ended June 30, 2019

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Buck Lodge Middle School for the period July 1, 2016 through June 30, 2019. Buck Lodge 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:

- *Missing Funds,*
- *Mismanagement of Funds Received,*
- *Mismanagement of Disbursements,*
- *Untimely Financial Reporting,*
- *Insolvent Principal-Sponsored Activities Account,*
- *Year-End Monetary Transmittal Form Procedures Not Followed,*
- *Fundraiser Forms,*
- *Mismanagement of Sales Tax,*
- *Club Budgets Not Developed,*
- *Grants Not Reported,*
- *Voided Checks Not Properly Defaced,*
- *Mismanagement of Membership Card, and*
- *Failure to Maintain a Current Vending Contract*

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

In our opinion, 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 June 30, 2019.



Michele Winston, CPA, Director
Internal Audit

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SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for Buck Lodge Middle School for the period July 1, 2016 through June 30, 2019. The audit was conducted as part of the department's annual audit plan.

In addition, Internal Audit conducted an investigation into missing athletic funds. The investigation was predicated upon the principal's reporting of the missing funds from May 2019. The allegation was documented as Hotline PGCPs **19-06-0011** and the results of the investigation are included in this report under Finding 2020.01.

The audit and investigation indicate that the school's internal controls have failed to adequately safeguard funds and procedures require significant improvements to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures.

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

OBJECTIVES

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school complies with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit 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 bank statements, financial reports, selected cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period July 1, 2016 through June 30, 2019. In addition, selected receipts, disbursements and supporting documentation were reviewed for the said period.

All of the Athletic Director's MTFs were reviewed as part of the investigation, and were subsequently separated from the audit universe during routine testing.

HOTLINE ALLEGATION

"Athletic Funds are missing from Buck Lodge Middle School."

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations

2020.01 Missing Funds

SAF were not administered as required resulting in the following instances of missing funds that totaled **\$2,748.17**:

A. **Athletic Funds**: Basketball gate receipts from November and December 2018 of **\$1,749.00** and concession revenue of approximately **\$50.00** were stolen from a locked locker in the school's locker room in May 2019. The funds were not recorded on a MTF.

The athletic director resigned from PGCPS at the end of the 2018-2019 school year with an outstanding reimbursement due totaling **\$1,467.08** from April and June 2019 for items purchased with his personal funds. The athletic director admitted partial responsibility with the principal and financial recordkeeping staff for the lost funds and decided not to request reimbursements of his personal funds unless the lost funds were recovered. After excluding the funds that were due to the athletic director the balance due of missing funds totaled **331.92** (\$1,749.00 +\$50.00 - \$1,467.08).

The Department of Security Services is concurrently investigating the case to potentially determine culpability for the theft of the funds.

B. **Chorus Funds**: The financial recordkeeping staff began the position at the school in October 2016. During early October 2016, Teacher A submitted **\$714.00** with MTF #299992 to the principal's secretary, who signed the MTF as the financial recordkeeping staff. The principal's secretary stated that she placed the MTF and funds in the locked vault, awaiting the new financial recordkeeping staff to deposit. However, the funds had been misplaced by the time the financial recordkeeping staff arrived.

C. **Coin Deposits**: There were **3** instances in February 2018, where coin portions of Chorus collections were not properly deposited. There is a total of **\$235.17** in coin collections missing.

MTF #	Date	Coin Amount Not Deposited
335383	2/2/18	\$ 30.00
335393	2/14/18	\$115.17
335391	2/16/18	\$ 90.00
		\$235.17

There was no evidence on deposit slips to substantiate that these funds were deposited.

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The APM Section 4.5.2, Cash Receipts, states that staff members collecting money are required to complete an MTF and submit it to the bookkeeper along with money collected. No more than \$250.00 should be kept in the building overnight. If money is kept on-hand at the school awaiting deposit, it must be kept in a locked fireproof safe, which only the principal and bookkeeper can access the contents. Staff members should never hold funds overnight.

All funds collected for student activity was not deposited for the following reasons:

- A. **Athletic Funds:** The athletic director collected the funds, completed the Mandatory Ticket Report, and reported receipts to the Office of Athletics after each game. However, he did not remit the funds to the front office promptly. The funds were kept in envelopes underneath a cash register in a locked locker. The concession funds were extraneous sales made after the season and were also stored in the locked locker.

The athletic director explained that he attempted to remit funds on multiple occasions but the financial recordkeeping staff did not have time to count the funds and directed him to return at a later date and time. The athletic director was out on extended leave during the spring of 2019 and planned to remit funds to the front office before the end of the school year.

- B. **Chorus Funds:** Ineffective controls and not having a drop safe (*See Finding 2020.02*) has resulted in the principal and principal's secretary collecting and storing funds until the financial recordkeeping staff is available. With there being a transition in financial recordkeeping staff, the principal's secretary signed the MTF as the financial recordkeeping staff, but did not complete the deposit.

The principal provided notice to Security and Accounting and Financial Reporting that the funds were missing. However, neither the Principal or financial recordkeeping staff contacted Internal Audit as instructed by Accounting and Financial Reporting and the Principal could not provide any details regarding their internal security investigation.

- C. **Coin Deposits:** The financial recordkeeping staff explained that coin deposits were made separately from currency and check deposits, and included tape slips to provide evidence of coin deposit. As a result, the financial recordkeeping staff has asked staff to place coin collections on separate MTFs from other forms of collections to make the reconciliation process easier.

Currency and coins were placed on the same MTF for MTFs #335383 and #335391. However, the deposit slips attached to the MTFs, as well as deposits recorded in SFO, only accounted for the currency amounts. No calculator tape slips were located. The financial recordkeeping staff could not recall exactly how this occurred, but stated that it is possible that coins were separated for deposit and then misplaced.

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MTF #335393 was exclusively coins and was recorded as a deposit in SFO. However, there was no evidence of deposit attached to the MTF or on the bank statements. The financial recordkeeping staff and the Accounting and Financial Reporting Office mistakenly concluded that the MTF was duplicated with another collection and had been properly deposited.

It often will take up to a month for the coin deposit to appear on the school's bank statements. In addition, insufficient designated recordkeeping time, has resulted in the financial recordkeeping staff not investigating deposits in transit on reconciliations for possible issues of lost or stolen funds.

Inappropriate administration of SAF has resulted in funds in the amount of **\$1,281.15** (\$331.98+\$714.00+\$235.17) remaining unavailable for intended students' benefit.

Recommendation: The following is recommended to address missing funds:

- A. The principal and financial recordkeeping staff should provide the remainder of the restitution for the **\$331.92** shortfall (**\$165.96** each) in athletic funds as a result of not providing an effective control environment for cash receipts (*See Findings 2020.01 and 2020.02*).
- B. The principal should immediately acquire a working drop safe to be available to safeguard funds when the financial recordkeeping staff is unavailable.
- C. The APM requirements for cash collections should be reviewed and specific internal controls should be developed and documented to address staff during the 2019-2020 school year. The internal controls should include parameters for collection and remission of athletic funds that are usually collected after school hours. Also, a match of MTFs and deposits on the bank statement should be implemented as part of the monthly review process to ensure that all funds collected were properly deposited. The principal and recordkeeping staff should also consider comparing athletic events held with financial records to determine that funds collected have been remitted.
- D. The Principal and the principal's secretary should provide the **\$714.00** (\$357.00 each) in restitution to account for the full balance of missing Chorus receipts.
- E. The financial recordkeeping staff who signed the MTFs acknowledging receipt of the **\$235.17** in coins, but failed to make and verify bank deposits should be held accountable for restitution of that amount.
- F. Employee Labor Relations Office should review each case to further evaluate employees' responsibility for restitution and to consider whether any disciplinary action, is necessary.

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2020.02 Mismanagement of Funds Received

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

- A. ***Monetary Transmittal Forms Not Supported with Deposit Slips:*** There were **4** instances where validated deposit slips were not attached to MTF packages.
- B. ***Incomplete and/or Inadequate Documentation of Funds Received:*** There were **17** instances where remittance information was not included or did not match the MTFs and/or deposit amounts. *(This condition was also noted in the previous audit as of December 31, 2013)*
- C. ***Mandatory Ticket Report:*** There were **10** instances where MTFs for athletic gate receipts were not supported by a copy of the Mandatory Ticket Report.
- D. ***Delinquent Deposits:*** There were **48** instances where deposits were not made timely following initial collection of funds. Deposits were made up to 39 days after initial collection by staff members. *(This condition was also noted in the previous audit as of December 31, 2013)*
- E. ***Accounting Errors:*** There were **19** instances where receipts were recorded in incorrect accounts in SFO. Of the 19 instances, 17 were athletic receipts placed in the general athletic account rather than the specific sport's account or sub-account. *(This condition was also noted in the previous audit as of December 31, 2013)*
- F. ***Changes on Monetary Transmittal Forms Not Properly Initialed:*** There were **7** instances where a correction on an MTF was made by the financial recordkeeping staff and not properly initialed with explanation for the change by the originator.
- G. ***Monetary Transmittal Forms Log Not Complete:*** The MTF log maintained at the school did not account for all MTFs that have been issued to staff members.
- H. ***Functional Drop Safe:*** The school has a drop-safe that has not been accessible since the previous financial recordkeeping staff left in 2016. The Principal and current financial recordkeeping staff do not know the combination code. As a result, funds have been kept overnight in potentially unsecured areas where several individuals had access, to include custodial and administrative staff.

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

- A. The bookkeeper should complete duplicate bank deposit slips. The validated copy is required to be filed at the school with the MTF that supports the deposit.

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- B. Staff members collecting money are required to complete a MTF and submit it to the Bookkeeper with the money collected. The MTF must be completed entirely with the following information. 1) who collected money; 2) when it was collected; 3) from whom it was collected; 4) the amount and form of the collection; and 5) the reason for collecting. 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. The APM, Section 7.4.2, *Sporting Events and Ticketing* states that for all sports, the athletic director, bookkeeper and principal must account for all tickets by completing the Mandatory Ticket Report.
- D. The bookkeeper must make deposits of all funds received at least every other day. However, no more than \$250.000 should be kept in the building overnight.
- E. The bookkeeper or financial secretary is responsible for accurately recording and reporting the school's financial transactions. In addition, they must make the Principal aware when either a lack of time or distractions are adversely affecting the ability to successfully complete their bookkeeping duties.
- F. If corrections are necessary, the originator of the MTF must make the correction by drawing a line through the original entry and rewriting the correct entry next to the incorrect entry. The reason for the correction must be noted on the MTF and the originator must sign the correction.
- G. A MTF log is required to be maintained by the bookkeeper to include a numerical list of the MTFs, the name of individuals and dates the forms were issued, the date returned to the Bookkeeper, and the total amount of the MTF.
- H. If money is kept on-hand at the school awaiting deposit, it must be kept in a secure location. A secure location is a locked fireproof safe, which only the principal and bookkeeper can access the contents. Drop safes are required for every school. The safe should be bolted to the floor and in a location accessible to staff which will facilitate submitting money, even if the Bookkeeper is unavailable. A log should be maintained where staff members record their name and the date of the 'drop'. The money should be sealed in an envelope with the completed, signed MTF enclosed. On the following day, the staff member dropping off money should make sure the bookkeeper has a record of the deposit. Money should never be dropped without an MTF.

The principal reported that he has not read the APM. He further stated that he has not received specific training on SAF to provide adequate oversight. As a result, he has failed to develop internal controls to adequately comply with requirements and safeguard funds. The financial recordkeeping staff stated that in most cases, teachers collect money for several days and keep

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funds in their classrooms overnight since a drop-safe is not available. MTFs are not requested from the financial recordkeeping staff until all funds have been collected, which is why the MTF log is not effectively maintained. Occasionally, when the financial recordkeeping staff is unavailable, funds are left with the principal or principal's secretary without an MTF until the staff member and financial recordkeeping staff can find a time to work together to complete it.

Further, the financial recordkeeping staff is responsible for duties in the front-office that often take priority over her bookkeeping duties. Before the 2018-2019 school year, the financial recordkeeping staff brought this issue to the principal's attention. The principal provided the financial recordkeeping staff with blocks of times on Tuesday and Thursday where she is not required to be in the front office and can focus on bookkeeping. However, frequent absences among other front office personnel prevented the financial recordkeeping staff from taking advantage of this time. The financial recordkeeping staff has noted no improvement in her ability to properly emphasize her bookkeeping duties. As a result, deposits are often made late and discrepancies between the cash amounts and MTF amounts cannot be properly handled by calling back the originator to make changes on the MTF as required. The financial recordkeeping staff stated that she does not ensure that remittance information matches the cash amount, due to the lack of time.

The financial recordkeeping staff stated that improvements have been made in the accounting for athletic receipts since it was addressed on a recent trimester report. She is now aware that receipts should be placed in their most appropriate athletic account or sub-account.

The athletic director completed the Mandatory Ticket Reports and provided them to the Office of Athletics, but was not aware that they needed to be included with cash remittance to the front office.

Ineffective internal controls over cash collections constitutes non-compliance with BOE policies and procedures and have increased the risk of lost or stolen funds. Findings 2020.01 outlines instances totaling **\$1,281.15** of missing funds identified during the audit. These losses were a direct result of the lack of deposit slips, incomplete remittance information, untimely deposits, an inaccessible drop safe, improper MTF custody, and inappropriate MTF changes. Since the audit does not include a review of all transactions, the total loss of SAF could potentially be larger.

The improper accounting for receipts also compromises the ability to effectively manage sport and club budgets.

Recommendation: The following must be implemented to ensure proper management of funds collected:

- A. The principal and financial recordkeeping staff should immediately familiarize themselves with the specific requirements for cash collections as outlined in the APM.

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The principal should develop and document specific internal controls to mirror those requirements. The internal controls should include responsibilities for staff members, the financial recordkeeping staff, and the principal. They should specifically address requirements for deposit slips, remittance information, MTF sign-outs and changes, and the timeline for remittance and timely deposit of funds. The controls should be established and training should be provided to staff immediately.

- B. The principal should re-assess resources to provide the financial recordkeeping staff adequate time to effectively manage SAF.
- C. The principal should immediately repair the current drop safe, or acquire a new drop safe, to become compliant with the APM, and to provide the school with an adequate location to safeguard funds.
- D. Once controls are established, the financial recordkeeping staff should properly maintain the MTF log to include all MTFs that have been signed out and returned.

2020.03 Mismanagement of Disbursements

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

- A. ***Inadequate Support:*** There were **7** instances, where invoices or store receipts were not available to support the amounts of the expenditure. ***(This condition was also noted in the previous audit as of December 31, 2013)***
- B. ***Lack of Proper Pre-Approval:*** There were **28** instances where the principal did not provide written pre-approval prior of the commitment of funds. The principal did not date pre-approvals approval to document appropriateness in **2** other instances. Further, in **10** instances, the financial recordkeeping staff did not indicate the amount of funds available in the relevant account on the School Funds Expenditure Form (SFEF). ***(This condition was also noted in the previous audit as of December 31, 2013)***
- C. ***Delinquent Payments:*** There were **3** instances where payments were made to vendors after the due dates indicated on the invoices.
- D. ***Unavailable Documentation:*** There were **4** instances where the checks, SFEFs, and supporting documentation were not located in the school file. , Cancelled check images could not be located in **11** other instances.
- E. ***Accounting Errors:*** There were **2** instances where checks were posted to the wrong fund account in SFO. ***(This condition was also noted in the previous audit as of December 31, 2013)***

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- F. ***Use of Unapproved Vendors:*** There were 3 instances where reimbursements were made to teachers who made purchases from unapproved vendors.

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

- A. All checks must have itemized documentation attached to the SFEF that supports the amount of the check. Examples of supporting documents are cash register receipts, invoices, bills of sales, etc. Examples of documents that are not itemized invoices or receipts include credit card receipts, statements, order confirmations, price quotes and packing slips.
- B. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for front office staff to indicate the amount of funds available in the relevant account prior to the principal providing pre-approval.
- C. Principals should review invoices and statements for past due amounts and ensure payments are made within 30 days of the invoice, or by the due date on the invoice.
- D. All checks must be written to an Approved/Active vendor in SFO. At no time should reimbursements be used to pay unapproved vendors in SFO.
- E. Images of cancelled checks must be returned with the bank statement. Once received, these images are to be maintained in a separate cancelled check file for the entire year. The bookkeeper must safeguard these images of cancelled checks, including endorsement information the back of the checks. SFEFs and supporting documentation should be filed in a three-ring binder by check number. All SAF records must be retained for a period of seven years and/or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursements authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.
- F. The APM indicates that when writing checks reimbursing staff, the selected vendor is "Reimbursement." However, at no time should "Reimbursement" be used to pay unapproved vendors in SFO.

The principal has not developed a working knowledge of the requirements for cash collections in the APM. He stated that he has not received specific training on SAF to provide adequate oversight. As a result, he has failed to develop internal controls to adequately comply with requirements for expenditures. Specifically, he has not enforced the requirement for expenditures to be pre-approved prior to the commitment of funds.

The financial recordkeeping staff has not been provided the time necessary to adequately manage the SAF processes. The financial recordkeeping staff is not always aware of invoices

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arriving at the school. Payments have been made late in situations where the financial recordkeeping staff did not receive the invoice in time.

Reportedly, the financial recordkeeping staff has not been able to be diligent to ensure support is included for all expenditures. Often, they request staff members to provide supporting documentation later, without following up when staff members are not responsive.

Finally, the recordkeeping staff has not been able to establish an organized filing system. Checks and receipts are filed out of order, in loose leaf folders, which increases the risk of misplacing documentation. There were noted instances where the financial recordkeeping staff obtained the bank statement from the bank directly without images of the cancelled checks. As a result, all cancelled check images are not maintained in the file.

The financial recordkeeping staff stated that improvements have been made in the accounting for checks since it was addressed on a recent trimester report. She is now aware that disbursements should be placed in their most appropriate athletic account or sub-account. In addition, she was made aware of the requirement that staff member reimbursements be made only for purchases from approved vendors during a recent training. She has informed staff and believes that they will be in compliance going forward.

Inadequate management of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Specifically, the lack of pre-approval process has led to insolvent accounts, since available funds are not considered when checks are written. This practice could lead to overall insolvency of the school's SAF. Currently, there are three insolvent restricted accounts.

Account	Current Balance
305.00 Class Accounts	(\$1,445.07)
410.00 Charity (outgoing)	(\$419.51)
450 Principal Sponsored Activities**	(\$2,709.60)

** See Finding 2020.05

The lack of precise support for check amounts can potentially lead to incorrect payments. Delinquent payments can lead to late fees or eroding relationships with vendors that could impact students' experiences. The use of unapproved vendors increases the fraud risk to PGCPS. The improper accounting for disbursements compromises the ability to effectively manage sport and club budgets. The ineffective filing system has compromised the audit trail necessary to ensure that SAF are being properly administered.

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Recommendation: The following must be implemented for the school's disbursement process to be in accordance with the APM:

- A. The principal and financial recordkeeping staff should immediately familiarize themselves with the specific requirements for expenditures in the APM.
- B. The principal should develop and document specific internal controls to mirror those requirements. The internal controls should include responsibilities for staff members, the financial recordkeeping staff, and the principal. They should specifically address requirements for pre-approvals, required supporting documentation, and vendor usage. The controls should be established and training to staff should be provided immediately.
- C. The principal should re-assess resources to provide the financial recordkeeping staff adequate time to effectively manage the disbursement of SAF.
- D. The financial recordkeeping staff should establish an effective filing system that maintains checks, cancelled checks, SFEFs, and supporting documentation in numerical order as a part of establishment of effective controls for record retention.

2020.04 Untimely Financial Reporting

There were 9 of 12 instances reviewed, where monthly financial reports were not completed and approved by the 15th of the following month. One reconciliation was not signed by the principal.

The APM, Section 5.2, *Financial Reporting Requirements*, states that the principal should receive and approve the package of reports, to include the bank reconciliation, by the 15th of each month.

The financial recordkeeping staff stated that due to competing priorities in the front office, she was not able to dedicate the appropriate amount of time to managing the SAF. As a result, there have been instances where reports have not been completed timely. Further the financial recordkeeping staff is a 10 month employee, and therefore was unable to complete reports during the summer months.

Reportedly, the July 2016 bank reconciliation was not signed due to the lack of financial recordkeeping staff. The bank reconciliation was prepared by Accounting and Financial Reporting in October 2016.

Untimely and unapproved bank reconciliations constitute non-compliance with BOE policies and procedures and poses increased financial risk to the school. The bank reconciliation process is the most effective internal control to ensure that funds are properly deposited and recorded

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when done timely and properly. There were several noted instances (*See Finding 2020.02 and 2020.03*), where funds were not being properly deposited and recorded.

Recommendation: The principal should re-assess resources to provide the financial recordkeeping staff adequate time to effectively manage the reconciliation of SAF on his behalf.

The principal and financial recordkeeping staff should establish and document a process for reviewing and approving bank reconciliations timely. A set meeting should be scheduled each month to review reports and discuss the status of SAF.

2020.05 Insolvent Principal-Sponsored Activities Fund Account

As of June 30, 2019, the Principal Sponsored Activities (PSA) fund account has an overall balance of (\$2,709.60). Despite notifications to suspend spending in the PSA account until it reached solvency in each trimester review from Accounting and Financial Reporting, the school spent \$200.40 in FY 2018 and \$130.27 in FY 2019 for staff items. (*This condition was also noted in the previous audit as of December 31, 2013*)

The APM, Section 9.6, PSA for Staff, states that discretionary expenditures incurred by the principal on behalf of school staff are grouped in the PSA accounting category. These activities must be of a professional nature that enhances staff members' job performance. If the PSA account has a deficit, faculty spending must be ceased until the existing PSA deficit is resolved. Expenditures for authorized Principal-sponsored activities are restricted to the funds available from the following sources:

- 100% of Vending commission from machines located in the staff lounge
- 25% of student vending commission
- 15% of school-wide fundraiser profits, including picture commissions
- Up to 25% of senior class residual funds.

The principal has not developed a working knowledge of the requirements for cash collections in the APM. He stated that he has not received specific training on SAF in order to provide adequate oversight. As a result, he was not specifically aware of the parameters of the PSA account.

Further, an effective pre-approval process has not been established to disallow expenditures in insolvent accounts (*See Finding 2020.03*).

Failure to properly manage PSA spending constitutes non-compliance with BOE policies and procedures. PSA expenditures represent funds that are no longer eligible for positive student experiences.

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Recommendation: The principal and financial recordkeeping staff should immediately familiarize themselves with the specific restrictions for PSA, and ensure that transfers and expenditures related to staff activities are properly handled in the future. Expenditures in the PSA fund account should be suspended until the account is brought to solvency.

2020.06 Year-End Monetary Transmittal Form Procedures Not Followed

The following exceptions pertaining to the year-end MTF procedures were identified:

- A. ***Missing Envelopes:*** MTF envelopes for **3** employees (1 in 2016-2017, 1 in 2017-2018, and 1 in 2018-2019) could not be located. As such, **16** MTFs, totaling **\$14,662.00** could not be verified. (*This condition was also noted in the previous audit as of December 31, 2013*)
- B. ***Improperly Sealed Envelopes:*** The **8** MTF envelopes reviewed were not properly sealed with a signature over the seal.
- C. ***Financial recordkeeping staff Access to Pink Copies:*** There were **38** instances where the financial recordkeeping staff's signature was found on the pink copy of the MTF, which compromises the staff members' initial record of collection.

The APM, Section 4.5.2.2, *Cash Receipts: General Policies*, requires the pink MTF remittance copies to be retained by the preparer. The white and yellow MTF remittance copies are submitted to the financial recordkeeping staff with remitted funds. After approving MTFs, the financial recordkeeping staff is required to return the yellow MTF remittance copies to the originator. Prior to departing the school at year-end, faculty and program managers seal envelopes containing yellow and pink remittance copies of MTFs (with their signature over the seal) and submit them to the designated administrator. The financial recordkeeping staff will print the SFO "Receiptee History" Report and submit it to the designated administrator. This alerts the administrator which MTF envelope packages to expect.

The financial recordkeeping staff was unaware of the responsibility to provide the designated end-of-year MTF envelope collector a listing of all staff members who had submitted MTFs during the year. As such, the administrator was not able to follow up on missing envelopes.

The principal and financial recordkeeping staff were not aware of the requirement for staff members to seal and sign their envelopes.

The financial recordkeeping staff signature was on the pink copies of the MTFs due to the ineffective cash control process described previously (*See Finding 2020.02*). Since MTFs were not completed until after funds were remitted to the front office, staff members were not maintaining pink copies separately.

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The ineffective year-end MTF process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The audit trail for ensuring that SAF collected were subsequently remitted and deposited was compromised.

Recommendation: The principal and financial recordkeeping staff should immediately familiarize themselves with the specific requirements for end-of-year MTF envelope submission as outlined in the APM. The principal should develop and document specific internal controls to mirror those requirements. The internal controls should include responsibilities for staff members, the financial recordkeeping staff, the designated administrator, and the principal. The principal should provide oversight to ensure envelopes are properly collected, sealed, signed and secured.

2020.07 Fundraiser Forms Not Completed

The principal and financial recordkeeping staff have established a process to ensure fundraisers are properly authorized. However, Fundraiser Completion Reports were not completed during FY 2019. In addition, Annual Fundraising Summaries had not been completed during the audit period.

The APM, Section 7.2.2, *Fundraising Procedures*, states that club fundraisers must be formally approved by the principal using a Fundraiser Authorization Form. At the conclusion of all fundraisers, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, the principal or a designee should prepare an annual report summarizing all fundraising activities concluded during the year. The data in this annual 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.

The financial recordkeeping staff explained that fundraiser sponsors are provided Fundraiser Completion Reports after their fundraisers are approved on the Fundraiser Authorization Form. However, she does not have adequate time to effectively manage the SAF processes (*See Finding 2020.02*), and she has not followed up when Completion Reports were not completed and returned.

The principal and financial recordkeeping staff were unaware of the requirement for annual fundraising summaries.

Failure to complete the required fundraiser forms constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. 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.

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Recommendation: The principal and financial recordkeeping staff should document and develop internal controls for fundraising. The controls should include specific responsibilities for the staff, financial recordkeeping staff and principal. Training for staff should be provided before the 2019-2020 school year. Fundraising sponsors should be held accountable for compliance.

2020.08 Mismanagement of Sales Tax

Sales Tax was not properly accounted for on **8** receipts totaling \$3,826.25 for yearbook sales. As a result, **\$216.58** of these receipts should have been accounted for in the Sales Tax account in SFO to be remitted properly to the State of Maryland. *(This condition was also noted in the previous audit as of December 31, 2013)*

The school also paid \$189.06 of sales tax through reimbursement to a staff member for movie tickets and concessions despite the school having a tax exemption.

The APM, Section 8.0, *Sales Tax*, states that when a school engages in the resale of items, collections and remittance of sales tax must be conducted for activities not related to fundraising. It also states that purchases made by schools are tax exempt if used in the conduct of school business. Sales tax will not be reimbursed if paid when purchasing items for education purposes.

The financial recordkeeping staff stated that she is aware of the parameters for sales tax collections and has accounted for it correctly in most cases. However, due to competing priorities, she has not been able to provide adequate attention to managing the School Activity Funds *(See Finding 2020.02)*. As a result, there were some taxable receipts that she failed to properly account for sales tax as required.

The vendor for movie tickets and concessions was not board-approved . Further, the payment was not properly pre-approved. Due to the lack of adequate planning, the staff member did not utilize the school's tax exemption when making the purchase. *(See Finding 2020.03)*.

Failure to account for sales tax on resale items constitutes non-compliance with BOE policies and State Law. Sales tax in the amount of **\$216.58** has not been properly remitted to the State of Maryland. The school also unnecessarily paid **\$189.06** of sales tax through a reimbursement request. These funds represent funds no longer available for intended student benefit.

Recommendation: The principal should provide the financial recordkeeping staff with ample time to provide adequate oversight to the SAF, including accounting for sales tax. The financial recordkeeping staff should remain diligent in ensuring that non-fundraiser sales of items are accounted for properly. The Principal should provide oversight as part of the monthly financial reporting process. Funds in the amount of \$216.58 should be transferred to the sales tax account to be remitted to the State of Maryland.

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Further, the sales tax exemption should be used whenever possible, and sales tax should not be reimbursed if reported on a staff members' reimbursement request.

2020.09 Club Budgets Not Developed

The school has multiple sports clubs that collect funds and make expenditures using SAF. The school's clubs have not developed and submitted annual budgets to the financial recordkeeping staff.

The APM Section 7.3, *Class and Club Accounts*, states that a copy of annual budgets for all school clubs should be provided to the school's bookkeeper.

The principal and financial recordkeeping staff were unaware of the requirement for club budgets.

Failure to perform club and class budgeting constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases the coordination between club sponsors and the school administration relative to planning and executing necessary payments. A budgeting process will decrease the risk of insolvent accounts (*See Finding 2020.03*).

Recommendation: The principal and financial recordkeeping staff should develop a budget template for club sponsors to use during the 2019-2020 school year to reduce insolvency in fund accounts and improve coordination of payments for clubs and class activities. The principal and financial recordkeeping staff should seek guidance from the Accounting and Financial Reporting Office if needed.

2020.10 Grants Not Properly Reported

There were **3** grants reviewed during the audit period totaling **\$6,500** that were not properly reported to the Grants Financial Management Office (GFMO).

The APM, Section 9.3, *Accounting for Grants and Donations*, states that all grants made directly to schools, irrespective of amount should be reported to the GFMO on a *School Grant Reporting Form*. The completed form and attachments should be electronically transmitted to the GFMO within 5 days of the grant award.

The principal and financial recordkeeping staff were not aware of the requirement to report grants to the GFMO. GFMO reviews all grants to determine whether they meet the criteria to be managed at the school level. Schools are also allowed to keep a record of all grant funds received. Failure at the school level to report grants to GFMO compromises both of these efforts.

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Recommendation: The principal and financial recordkeeping staff should ensure that all grants are properly reported. Staff should be advised to notify the financial recordkeeping staff of any grant applications so that efforts to complete the *School Grant Reporting Form* can be properly accomplished.

2020.11 Voided Checks Not Properly Defaced

There were **22** instances, where voided checks were not properly defaced by removal of the signature line. There were also **5** voided checks could not be located for review during the audit. *(This condition was also noted in the previous audit as of December 31, 2013)*

The APM, Section 4.5.3, *Cash Disbursements*, states that voided checks must be defaced and filed in check number order with cancelled check images.

The principal and financial recordkeeping staff were not aware of the requirement for defacing voided checks. The financial recordkeeping staff attempted to file all voided checks, but the school's checks were not filed in check number sequence, which has resulted in missing documentation. Failure to properly deface and file voided checks represents non-compliance with Board policies and procedures and increases the risk of check fraud for the school.

Recommendation: The financial recordkeeping staff should deface all voided checks and ensure that they are filed in numerical order in the check file during the check voiding process.

2020.12 Mismanagement of Warehouse Membership Card

The school's Costco Membership card includes the name of the principal's secretary. *(This condition was also noted in the previous audit as of December 31, 2013)*

The APM, Section 6.6, *Credit Cards, Lines of Credit and Membership Cards*, states that club membership cards, if deemed necessary by the principal, shall be limited to one in the name of the school and one in the principal's name. These membership cards are for school business only and should be kept in the school's safe until needed. At no time shall a spouse or friend be added to a card nor should the card be used as a personal card.

The principal was unaware of the requirement for club membership cards to be limited to the school and principal's name. The inclusion of the principal's secretary's name on the Costco membership card constitutes non-compliance with Board policies and procedures and increases risk of staff receiving the undue benefit of sales tax exemption for personal purchases.

Recommendation: The principal should immediately replace the current Costco card with a card with just the school and principal's name on it.

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2020.13 Failure to Maintain a Current Vending Contract

The school has a faculty vending machine for snack and sodas. However, there is no active contract with their vendor stipulating vending terms for the vending machine services.

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 principal and financial recordkeeping staff were not aware of the requirement for annual vending contracts. A new vendor was verbally contracted for the 2018-2019 school year, but the school did not have a contract with the previous vendor either.

Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of active contract prevents the school from having any recourse if there are issues with service or commissions. The financial recordkeeping staff stated that they did have issues with commissions with their previous vendor.

Recommendation: The current financial recordkeeping staff 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 be renewed annually. In the event that a current vending contract cannot be obtained, Purchasing and Supply Services should be contacted for assistance in finding a replacement.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for **Buck Lodge Middle School** was issued for the period ending **December 31, 2013**. The Principal began in July 2014 and financial recordkeeping staff began in October 2016. There were **6** findings reported in the prior audit and all are repeated. 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 2020.02 regarding *Mismanagement of Funds Received*
- **Issuance of Checks** – Condition still exists. See Finding 2020.11 regarding *Voided Checks Not Properly Defaced*.
- **Transactions Incorrectly Posted** – Condition still exists. See Finding 2020.02 and 2020.03 regarding *Mismanagement of Funds Received and Mismanagement of Disbursements*.

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- **Mismanagement of Disbursements** – Condition still exists. See Finding 2020.03 regarding *Mismanagement of Disbursements*.
- **Wholesale Club Membership** – Condition still exists. See Finding 2020.12 regarding *Mismanagement of Membership Card*.
- **Principal Sponsored Activities Fund Overspending** – Condition still exists. See Finding 2020.05 regarding *Insolvent Principal Sponsored Activities Fund Account*.

ACKNOWLEDGEMENT

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