



September 11, 2019

MEMORANDUM

To: Janice Briscoe, Ed D., Instructional Director
Cluster 7

Maha Fadli, Principal
Kenmoor Middle School

From: Michele Winston, CPA, Director
Internal Audit

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

An audit was completed on the financial records of **Kenmoor Middle School** for the period July 1, 2016 through June 30, 2019. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Fund (APM) and Board of Education policies and procedures. The exceptions noted are included in the attached report.

As principal of the school, you will be responsible for preparing an action plan by **October 11, 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. Please forward this template as a Microsoft Word document. 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.

Enclosure

cc: Alvin Thornton, Ph. D, Chairman, Board of Education
Monica Goldson, Ed. D, Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Helen Coley, Ed. D, Chief, School Support and Leadership
Michael Herbstman, Chief Financial Officer
James Dougherty, Director, Financial Services
David Curry Jr., Ed. D, Associate Superintendent of Middle Schools
Suzann King, Esq., Executive Director, Board of Education
Joeday Newsom, Esq., Ethics Compliance Officer
Theodore Dzodzomenyo, Internal Auditor II

Internal Audit Report

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Kenmoor Middle School for the period July 1, 2016 through June 30, 2019. Kenmoor Middle School's Principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

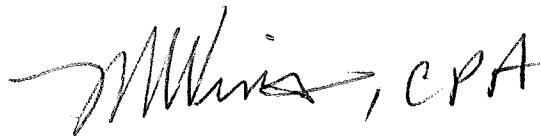
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we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

Our examination disclosed the following:

- *Mismanagement of Funds Received*
- *Mismanagement of Disbursements*
- *Financial Reporting*
- *Administration of Voided Checks*
- *Inappropriate Account Classifications and*
- *Year-End Monetary Transmittal Form Envelope Submission Procedures Not Followed*

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, except for the deviation from the criteria described in the preceding paragraph, the APM referred to above, was 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 on the student activity funds (SAF) for Kenmoor Middle School for the period July 1, 2016 through June 30, 2019. The audit was conducted as part of the audit plan for the year.

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 to determine whether the school was in compliance with the policies and procedures of the Accounting Procedures Manual for School Activity Funds and the Board of Education (BOE). It is important to recognize that, while the audit report focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

SCOPE

The audit was based on our review of all bank statements, financial reports, cancelled checks and all available Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2016 through June 30, 2019. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2020.01: Mismanagement of Funds Received

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

- A. ***Delinquent Deposits-*** There were **19** instances where funds received were held between **1 to 53** days before they were deposited. In most of the noted instances, the staff members collected the funds over a period of time before remittance to the recordkeeping staff.
- B. ***Inadequate Documentation of Deposits-*** There were **2** instances where funds received lacked adequate documentation to substantiate the deposits. The following pertinent documentation was not provided to substantiate the deposits: ticket report for basketball games and 2 days of Candy Grams and Chocolate Bars fundraisers.
- C. ***Failure to Use Deposit Slips-*** There were **10** instances where the recordkeeping staff did not complete and use duplicate deposit slips noting the amount of coins, currency and checks. Instead, generic deposit slips from the financial institution were used.

The APM provides the following guidelines regarding the administration of funds received:

- A. The Accounting Procedures Manual (APM), Section 4.5.2.2, *Cash Receipts, Procedures* states that, bookkeepers must make deposits of all funds received at least every other day. However, no more than \$250 should be kept in the building overnight. In addition, staff members should never hold funds overnight.
- B. According to the APM, Section 4.5.2.2 (1) *Cash Receipts, Procedures* states that, 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.

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- C. The bookkeeper is required to complete a bank deposit slip in 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.

Staff members collected the funds over a period before remitting to the recordkeeping staff. The school has duplicate itemized deposit tickets but recordkeeping staff thought they should be in triplicates. In order to maintain one copy in the booklet, she leaves one in the book while she takes one to the bank. The bank kept the itemized therefore, a validated itemized copy was not available for the financial records. Also, the athletic director did not include the mandatory ticket report with the MTF.

Delinquent deposits constitute non-compliance with BOE policies and procedures and increase risk of financial loss and fraud. Also, funds received are not immediately available for students' use when they are deposited late. Inadequate supporting documentation destroys the audit trail, results in the compromise of audit evidence and reduces the assurance that, receipts were recorded appropriately and in accordance with the prescribed collection policy. Also, failure to use deposit slips destroys the ability to determine if the funds were deposited in the same form that they were collected.

Recommendation: The principal and recordkeeping staff should perform the following to improve the administration of funds received:

- A. The recordkeeping staff and staff members must be reminded through documented communication about the specific requirements for deposits as noted in the APM. The principal should also provide oversight to ensure that bank deposits are being made promptly.
- B. Staff members must be reminded through documented communication that, adequate supporting documentation must accompany funds remitted to the financial secretary. Such documentation must include a mandatory ticket report for funds collected from athletic ticket sales and inventory report, when items for fundraisers are sold.
- C. The recordkeeping staff must take duplicate deposit tickets to the bank so that a validated copy is available for the financial records.

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2020.02: Mismanagement of Disbursements

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

- A. ***Inadequate Principal Approval of Disbursements***- There were **16** instances where staff members did not obtain the principal's authorization prior to the purchase of items. In some instances the date of the principal's approval was not documented.
- B. ***Inadequate Documentation of Disbursements*** - There were **4** instances where receipts of the purchase was either not attached or the receipts provided did not agree with the amounts of the checks.

The APM provides the following guidelines regarding the administration of disbursements:

- A. Section 4.5.3.1, "*Pre-Approval by the Principal*" states that, prior to ordering or purchasing of goods or services; a School Funds Expenditure Form (SFEF) must be completed and signed by the principal. Schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete this form. The employee can be held personally liable for the obligation, if this procedure is not followed.
- B. 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 sale, etc.

Verbal approvals were routinely provided by the principal for staff members to make purchases. In some instances, the principal did not affix the dates of approval on the SFEFs. Some instances of mismanagement occurred prior to the recordkeeping staff's tenure; as such, a reason was not provided.

Inadequate approval of expenditures and inadequate support for expenditures can financially inappropriately obligate the school, resulting in insolvency or potentially lead to incorrect payments and or fraud.

Recommendation: The principal and record keeping staff should perform the following to improve the disbursement of funds:

- A. All staff members must be reminded through written communication that, the principal's preapproval must be sought prior to obligating the school financially. Also, the principal must remember to affix the date that the approval for expenditures is granted.

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- B. The principal and recordkeeping staff must ensure that, documentation such as invoices and receipts are included to support disbursements. The receipts must be verified and must agree with the check amount prior to the checks being signed.

2020.03: Financial Reporting

The following noncompliance relative to financial reporting were noted:

- A. There were 4 instances where monthly bank reconciliations were not completed timely by the recordkeeping staff.
- B. There was no evidence that the principal reviewed and initialed the school's financial reports, including the bank statement on several occasions. There was no formal delegation of this authority by the principal, as required by the APM.

The APM provides the following guidelines relative to financial reporting:

- A. According to Section 4.2.2, *Bank Account Procedures*, the principal should receive the bank statement unopened. After reviewing the statement and the cancelled checks, the principal should sign the bank statement and pass it to the bookkeeper. The bank account must be reconciled within 7 days from receipt of the bank statement.
- B. Also, Section 5.1.2 states, the monthly financial reporting process is required to be completed by the 15th day of each month and presented to the principal for review.

Reportedly, mail delivery is sometimes sporadic resulting in bank statements being received late. In addition, there were months where the recordkeeping staff was absent due to illness. The principal was not aware of this policy prior to the current recordkeeping staff assuming her tenure at the school.

Failure to secure original bank statements and indicate review by initialing does not conform to BOE policies and increases the risk of loss and fraud. Delinquent reporting impacts the timeliness and reliability of financial information used in the fiscal decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Recommendation: The principal and bookkeeper should perform the following steps to ensure that the financial reporting requirements are adhered to:

- A. Bank reconciliations should be completed within 7 days of receiving the statement from the bank and all financial reports should be presented to the

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principal for review by the 15th day of each month. The principal should hold the recordkeeping staff accountable for timely report submission. Thorough review of the monthly financial reports should be performed as evidenced by a signature and the date of review.

- B. The principal should ensure to secure the original bank statement, append his signature or initial and date all bank statements when they are received by the school. This practice must be performed monthly.

2020.04: Administration of Voided Checks

There were **15** instances where the signature portion of voided checks was not removed and destroyed.

The APM Section 4.5.3.2, *Summary of Check Disbursement Procedures*, voided checks must be defaced, but filed in check number order with cancelled check images.

The noncompliance occurred during the tenure of a previous recordkeeping staff who failed to follow the process.

Inappropriate administration of the void check process exposes the school to fraud, waste, and abuse of its resources. Failure to properly void checks could result in unauthorized check use and negotiation.

Recommendation: The principal and recordkeeping staff should review the APM to become familiar with the BOE policies and procedures and requirements pertaining to voiding checks and ensure that the policies are followed.

2020.05: Inappropriate Account Classifications

There were **24** instances where disbursements to vendors were processed using the *Reimbursements Vendor* option in SFO.

The APM Section 4.5.3.3 *Use of Board Approved Vendors*, requires all vendor checks to be written to an Approved/Active vendor in *SchoolFundsOnline*. The only exceptions are for staff reimbursements and parent refunds. For checks reimbursing staff, the *Reimbursement Vendor* option is required and for checks refunding a parent, the *Refund Vendor* option is required. The *Reimbursement Or Refund Vendor* options are prohibited from being used to pay vendors in *SFO*.

The non-compliance occurred during the tenure of a previous recordkeeping staff who failed to follow the process.

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The use of “Reimbursement” to pay vendors circumvents the control in SFO, which safeguards against payments to unapproved vendors.

Recommendation: The recordkeeping staff should review the APM to become familiar with the BOE policies and procedures and requirements pertaining to appropriate way to record vendor payments in SFO. The principal must hold the recordkeeping staff accountable for compliance.

2020.06: Year-End Monetary Transmittal Form Envelope Submission Process Not Followed

There was a total of **5** staff members that did not submit MTF envelopes containing **30** and **19** MTF remittances at the end of FY 2019 and FY 2018 respectively.

According to the APM, it is the responsibility of staff members to maintain and submit all pink and yellow remittance copies of MTFs generated during the year to the principal's designated administrator at year-end. The remittance copies are required to be returned in envelopes that are sealed and signed across the seal.

There has been high staff member turnover at the school. Also, the principal did not ensure that all staff members followed the procedures regarding the year-end MTF envelope submission. There has also been a high turnover of recordkeeping staff at the school which may have contributed to this non-compliance.

The ineffective year-end MTF envelope submission process constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. The audit trail for determining that all funds collected were subsequently remitted for deposit was compromised.

Recommendation: The principal must ensure that, the year-end MTF envelope submission process is added to the checklist for end of the school year procedures at the school. Each staff member must be provided with a copy of the “*Receiptee History Report*” prior to the last day of school to allow adequate time to locate and submit MTF remittance copies. The principal must identify a staff member (other than the recordkeeping staff) that will be responsible for ensuring that, the year-end MTF envelopes are collected and properly stored.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Kenmoor Middle School was issued for the period ended March 31, 2012. During that period, the current principal was in her current position but the recordkeeping staff was not. There were **20** reported findings in the previous audit of which **3** are repeated in this current report. The following findings were noted as a result of that audit and the current status is indicated below.

- **Lack of Segregation of Duties** - Condition was not noted during this audit
- **Petty Cash Diversion** - Condition was not noted during this audit
- **Delinquent Deposit of Funds** - Condition still exists. See Finding 2020.01 regarding *Mismanagement of Funds Received*.
- **Failure to Access the School's Safe** - Condition was not noted during this audit
- **Failure to Accurately Complete and/or Retain Monetary Transmittal Forms** - Condition was not noted during this audit
- **Principal Sponsored Activity Account Deficit (PSA)** - Condition was not noted during this audit
- **Incomplete and/or Inadequate Supporting Documentation for Disbursements**- Condition still exists - See Finding 2020.02 regarding *Mismanagement of Disbursements*.
- **Checks Issued with one Signature and Missing Cancelled Checks** - Condition was not noted during this audit
- **Failure to Pay for Services Rendered through the BOE Oracle System** - Condition was not noted during this audit
- **Failure to Ensure Vendors were added to the Oracle Financial System** - Condition was not noted during this audit
- **Contracts Entered into by Staff other than the Principal** - Condition was not noted during this audit

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- **Transactions Incorrectly Posted** - Condition still exists- See Finding 2020.05 regarding *Inappropriate Account Classification*.
- **Sales Tax not Collected and/or Paid to the State of Maryland**- Condition was not noted during this audit
- **Failure to Utilize the Sales Tax Exempt Certificate**- Condition was not noted during this audit
- **Gift Card Purchased**- Condition was not noted during this audit
- **BJ's Warehouse Club Membership Card**- Condition was not noted during this audit
- **Non-Sufficient Funds Fees Assessed**- Condition was not noted during this audit
- **Property Inventory Listing not Updated for Purchases**- Condition was not noted during this audit
- **Failure to Complete Fundraiser Completion Reports and Annual Fundraising Summary Reports**- Condition was not noted during this audit
- **Prior Audit Findings/Management Oversight**- Condition was not noted during this audit

ACKNOWLEDGEMENT

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