



December 8, 2017

MEMORANDUM

To: Brian Baudoin, Instructional Director
Cluster 7

Martha Kristy, Principal
Maya Angelou French Immersion School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for Period July 1, 2014 through October 31, 2017

An audit was completed on of the financial records of **Maya Angelou French Immersion School** was completed for the period July 1, 2014 through October 31, 2017. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within **30** days, indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your action plan using the attached Microsoft word template. Please send a PDF and word version of your action plan and any other correspondence to the Internal Audit Office, Attention: Jerry Chandler, Business Analyst, email address: 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.

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

Enclosure

cc: Segun Eubanks, Ed. D, Board Chair
Kevin M. Maxwell, Ph.D., Chief Executive Officer of Schools
Monique Whittington Davis, Ed. D, Deputy Superintendent
Carolyn Boston, Vice Chair, Board of Education
Edward Burroughs, Board Member, District 8
J. Michael Dougherty, Director, Financial Services
Helen Coley, Associate Superintendent, Area II
Erica Berry Wilson, Esq., Executive Director, Board of Education
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Internal Audit Report

Maya Angelou French Immersion School Student Activity Funds

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Internal Auditor's Report

We have examined the Student Activity Funds of Maya Angelou French Immersion for the period July 1, 2014 through October 31, 2017. Maya Angelou French Immersion'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,*
- *Administration of Voided Checks,*
- *Financial Reporting,*
- *Fundraiser Forms,*
- *Record Retention,*
- *Administration of Vending Contracts, and*

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 deviations 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 October 31, 2017.



Michele Winston, CPA,
Director Internal Audit

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SUMMARY

The Internal Audit department completed an audit of the student activity funds (SAF) of Maya Angelou French Immersion for the period July 1, 2014 through October 31, 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, cancelled checks and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2014 through October 31, 2017. 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:

2018.01: Mismanagement of Funds Received

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

- A. ***Delinquent Deposits*** - There were **9** instances where funds were not deposited timely. Amounts in excess of \$250.00 were held up to **52** days pending deposits.
- B. ***Inadequate Documentation of Funds Received*** - There were **9** instances where the bookkeeper accepted MTFs that were inadequately documented. Supporting documentation did not agree to MTF amounts remitted and school staff omitted remittance data in section 2 of the MTF.
- C. ***Year-End Monetary Transmittal Form Envelopes*** - The year-end MTF submission process was not operating as required by the procedures outlined in the APM. There were **7** instances where staff members did not remit the pink or yellow MTF remittance copies. The year-end MTF envelopes were maintained in a location accessible to the bookkeeper.
- D. ***Incomplete Monetary Transmittal Form Log*** - The MTF log was not maintained during the audit period according to the standards of the APM. All fields were not consistently completed. In one instance an entire field was left blank. In other instances, sign out and return dates and amounts remitted were not included on the MTF log.
- E. ***Sales Tax*** - The school did not segregate sales tax for the sale of sketchbooks, cheer uniforms, snacks and concessions.

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

- A. All funds collected are required to be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely deposit of these funds, at least every other day.
- B. Staff members collecting funds are required to complete MTFs entirely and submit to the bookkeeper along with funds collected. The following information

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must be included, 1) Who collected funds; 2) the date of collection; 3) from whom funds were collected; 4) the amount and form of the collection; and 5) the purpose of funds collected. If additional space is needed a Student Remittance Report, Excel spreadsheet, class list, or ticket/report stubs, can be used as attachments.

- C. Prior to departing the school at year-end, staff and program managers are required to submit the pink and yellow MTF remittance copies in sealed envelopes (with their signature over the seal) to the designated administrator.
- D. The bookkeeper is responsible for accounting for all MTFs issued to the school on a MTF log. This log should include a numerical list of the MTFs, the name of requester and dates the forms were issued, the date returned to the bookkeeper and the total amount of the MTF.
- E. Unless specifically excluded or exempt from Maryland tax, all sales are subject to a 6% tax. A restricted account (460.00) exists in *SFO* to record sales tax collections and remittances. The school is required to remit the amount of sales tax collected to the State Comptroller, either monthly or quarterly depending on the State's requirements.

Contributory factors in the mismanagement of funds received were as follows:

- A. Competing priorities did not allow the bookkeeper to deposit funds in the bank daily. Staff members remitted funds totaling or in excess of \$250.00 at the end of the day, not providing the bookkeeper sufficient time to process the funds prior to her departure. Funds were held by the bookfair sponsor to obtain a change fund.
- B. Some staff members are still unclear on the appropriate completion of MTFs. MTFs were processed by the bookkeeper omitting required information.
- C. The school administrators were unaware that year-end MTF envelopes should be maintained in a location that is not accessible to the bookkeeper. Envelopes were remitted to the principal sealed and she was unable to ensure all required MTFs were contained in the envelope.
- D. The incomplete MTF log was an oversight by the bookkeeper.
- E. The bookkeeper failed to identify sales taxable items when processing receipts in *SFO*.

The audit trail for reviewing collection was compromised. As a result, internal controls for ensuring all SAFs collected were subsequently deposited was weakened and the

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potential for loss of assets increased. *(This condition was also noted in the previous audit as of October 31, 2010.)*

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

- A. The principal must ensure that timely deposits are prioritized. The principal may accomplish this by ensuring new staff are reminded that holding funds is prohibited and establishing a deadline for submission of funds to the bookkeeper by staff. The deadline established should allow the bookkeeper sufficient time to process all funds prior to the bank closing. Staff should be encouraged to collect funds in the morning to ensure submission deadline is met. A check should be advanced to the bookfair sponsor to establish a change fund.
- B. The principal and bookkeeper should re-train school staff on how to properly complete and adequately support MTFs submitted to the bookkeeper. The bookkeeper should closely review MTF packages to ensure accuracy and completeness prior to acceptance and approval. Staff members and the bookkeeper should be held accountable for compliance.
- C. The principal must hold staff accountable for returning MTF remittance copies as part of the year-end check-out process. The administrator overseeing this process should ensure all MTFs issued to staff have been inserted prior to sealing and signing the envelope during the year-end check-out process. The principal must identify a location in the building where the bookkeeper has restricted access to secure year end MTF envelopes.
- D. Staff must be required to complete the MTF log for each MTF signed out. The bookkeeper should periodically review the log to ensure it is completed entirely.
- E. The bookkeeper must properly identify sales taxable items and appropriately allocate sales taxes in the established SFO account, 460.00.

2018.02: Mismanagement of Disbursements

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

- A. ***Inadequate Documentation*** - There were 6 instances where expenditures reviewed during the audit period did not include adequate documentation. The “funds available” section of the School Funds Expenditure Forms (SFEFs) was not

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completed detailing the available balance in the respective fund accounts. A credit card slip and a staff member's credit card statement was provided as support in 2 of these instances. *(This condition was also noted in the previous audit as of October 31, 2010.)*

- B. ***Inadequate Principal Approval*** – There were 18 instances where SFEFs reviewed during the audit period were not adequately approved by the principal. Staff made purchases prior to the principal's approval and SFEFs reviewed did not contain the date of the principal's approval. A signature stamp was used in lieu of the principal's original signature. *(This condition was also noted in the previous audit as of October 31, 2010.)*
- C. ***Sales Taxes Paid*** - There were 6 instances where sales taxes were paid for expenditures incurred on behalf of the school.
- D. ***Delinquent Payments*** – There were 2 instances where vendor payments were not made timely.

The APM provides the following guidelines relative to the administration of cash disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed, signed and dated (approved) by the principal. The bookkeeper is required to determine if funds are available, initial, date and record the amount available on the SFEF. Expenditures of SAF are required to be supported by itemized receipts or invoices.
- B. Purchases made by schools and PGCPs are sales tax-exempt, if used in the conduct of school business. After the principal approves a purchase, a copy of the sales tax exempt certificate is required to be provided to staff for presentation to the vendor when making school purchases.
- C. All vendor invoices should be paid within 30 days or by the due date.

Some of the contributory factors for mismanagement of disbursements are:

- A. The bookkeeper and staff failed to print invoices that were emailed and attach them to the respective SFEF in instances where insufficient or no supporting documentation was attached to SFEFs. Staff made school purchases and failed to obtain a receipt copy or misplaced their receipt.

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- B. According to the bookkeeper, the former bookkeeper included a signature on the total “funds available” line in section 1 of the SFEF in lieu of an amount. She continued the practice of the former bookkeeper by providing a signature on the funds available line.

Verbal approvals are usually given to staff by the principal prior to completion of SFEFs. During this discussion, the principal reportedly did not remind staff to obtain the sales tax exemption certificate. The principal hastily approved SFEFs and did not include dates as evidence of pre/post approval.

- C. The vendor invoice for cheerleading uniforms was held until sufficient funds were remitted from students to cover the invoice balance. Inconsistent information pertaining to staff responsible for invoice payment was provided i.e. BOE or school. A determination was reached after the payment due date lapsed.

Lack of adequate documentation reduces assurance that purchases were made in accordance with BOE policy and procedures. The risk of insolvency is present when the appropriate approval is not obtained prior to purchase. Funds are expended unnecessarily when sales taxes are paid on exempt school purchases.

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

- A. The bookkeeper should ensure receipts and invoices are used to substantiate expenditures. Checks should not be issued prior to the review of itemized supporting documentation.
- B. The bookkeeper must review the status of impacted accounts noted on the SFEF within SFO to ensure solvency and make certain the “funds available” section has been completed with the appropriate amount. The principal must ensure this section is completed to facilitate an informed fiscal decision. Use of the principal’s signature stamp for administration of SAF must be discontinued immediately.
- C. Where a verbal approval is granted, the principal should ensure that staff members are reminded to follow-up with a SFEF for documented approval and obtain the sales tax exempt certificate for all school purchases.
- D. The bookkeeper should consider advance orders to ensure sufficient funds are maintained prior to uniform purchases. Adequate and consistent follow up should be performed with the BOE regarding school invoices to avoid delinquency.

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2018.03 Administration of Voided Checks

The audit revealed the following exceptions related to administration of voided checks:

- A. *Void Check Proof Sheets (VCPS)* - There were **14** instances where Void Check Proof Sheets were not approved by the principal.
- B. *Voided Checks Not Mutilated* - There were **3** instances where the signature lines were not removed from voided checks.
- C. *Voided Checks Not Entered in the Accounting System* - There were **5** instances where voided checks were not entered in the accounting system.

The 2008 School Accounting Manual Section 4.5.3 on *Cash Disbursements, Voiding Checks*, provides the following guidelines regarding the administration of checks, “when voiding a check, the physical check must still be accounted for. The word “VOID” is required to be 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. A SFEP or VCPS should also be completed and approved by the principal, noting the check was voided.”

Voided checks that did not have the signature line removed was an oversight by the bookkeeper. The bookkeeper was not aware that the VCPS was required to be approved by the principal and all voided checks were to be entered into SFO.

The principal and bookkeeper did not follow the policies and procedures specified by the BOE regarding administration of checks. Inappropriate administration of checks 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 bookkeeper should review the APM to familiarize herself with the procedures regarding voided checks. The bookkeeper should ensure that the signature line is removed from all voided checks and that each voided check is approved and entered into the accounting system. The principal must perform period review of disbursement records and hold the bookkeeper accountable for compliance.

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2018.04 Financial Reporting

The following exceptions relative to financial reporting were noted:

- A. ***Untimely Financial Reports*** - There were **11** instances during the audit period where monthly financial reports were not completed timely by the bookkeeper. ***(This condition was also noted in the previous audit as of October 31, 2010.)***
- B. ***Insolvency Report Not Properly Completed*** - The bookkeeper did not accurately complete the *Insolvency Report* during the audit period. Unpaid bills were consistently indicated as \$0, without the corresponding Unpaid Bills Spreadsheet.
- C. ***Unauthorized Transfers*** - Transfers totaling **\$619,411.77** were made during the audit period without approval from the principal or by the Accounting and Financial Reporting Office (AFRO). There was one erroneous transfer made for **\$560,517.22**. The Journal Entry Proof Sheet details the transfer was made due to “wrong allocation.”

The APM provides the following guidance pertaining to financial reporting of SAF:

- A. The principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the bookkeeper for reconciliation. The reconciliation should be completed by the bookkeeper within **7** days of receiving the statement from the bank. The monthly financial reporting process is required to be completed by the 15th day of the subsequent month and presented to the principal for review.
- B. Section 5.2, *Financial Reporting Requirements*, states that the Insolvency Report should be completed monthly and requires the bookkeeper to record data to calculate the school’s solvency. The bookkeeper must manually calculate the value of unpaid bills that existed as of the end of each reporting period for both restricted and unrestricted funds to complete the report.
- C. Section 4.5.4.2 *Transfers Between Restricted and Unrestricted/Net Accounts* states, “Transfers between restricted accounts are only authorized if reviewed and approved by the principal.” Section 4.5.4, *Transfer of Funds*, states that in order to use Prior-Year Carryover funds, the principal must forward a request to the Director of Business Operations (currently Director Financial Services) 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.

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Some of the contributory factors for noncompliance with financial reporting requirements were as follows:

- A. Financial reports were prepared late due to competing priorities. The bookkeeper was under the impression that since all bills were paid upon receipt of invoices, the Unpaid Bills Spreadsheet was not required.
- B. Neither the principal nor the bookkeeper was aware that they needed to retain the Fund Transfer Journal Entry Proof Sheet and ensure it contained the principal's approval. According to the bookkeeper another PGCPS employee made these unauthorized transfers while providing SFO assistance to the school.

Financial reporting noncompliance may have the following consequences:

- A. Untimely financial reporting and inaccurate transaction details impacts the timeliness and reliability of information used in the decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted with tardy reporting.
- B. Failure to complete the Unpaid Bills Spreadsheet can affect the school's solvency calculation on a monthly basis. In addition, the principal and bookkeeper may be less aware of open invoices which can lead to untimely payments and or interest and penalties.
- C. Funds transferred from unrestricted to restricted accounts without the principal's and AFRO's approval can lead to misuse of school funds.

Recommendation: The following is recommended to ensure reporting requirements are adhered to:

- A. The bookkeeper must ensure that financial reports are completed by the 15th day of the subsequent month and that all transactions are accurately entered in the SFO financial system. The principal should hold the bookkeeper accountable for timely report submission and ensure that the monthly financial reports are thoroughly reviewed as evidenced by signature. The principal and bookkeeper should use the school's online banking option to initiate the reconciliation process.
- B. The principal and bookkeeper should collaboratively review open invoices during the monthly financial reporting process to ensure the Unpaid Bills Spreadsheet is completed properly.

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- C. The AFRO should ensure that Insolvency Reports are properly calculated. The AFRO should also consider using the trimester reports reviews as opportunities for feedback and to train bookkeepers who do not fully understand the reporting requirements.
- D. The principal and bookkeeper should ensure that only allowable transfers are completed with an approved Fund Transfer Journal Entry Proof Sheet retained on file. The principal and current bookkeeper should obtain approval from the AFRO before usage of PY Carryover, and document those approvals. Transfer journal entries completed by AFRO should also be documented and justification shared with the principal.

2018.05 Fundraiser Forms

The Fundraiser Request and Authorization Form, Fundraiser Completion Form, and annual reports summarizing fundraising events held were not completed during the audit period.

Administrative Procedure 5135.1, *Fund Raising* requires the completion of Fundraiser Request and Authorization Forms, the Fundraiser Completion Form and annual fundraising reports for fundraising events held by schools.

The bookkeeper completed some fundraiser reports for the audit period but could not locate them upon request. Financial records are not complete and profit/loss ratio of fundraisers conducted could not be determined. The school is not in compliance with the BOE Policy 5135.1 on *Fundraising*. (*This condition was also noted in the previous audit as of October 31, 2010.*)

Recommendation: The principal should require fundraiser sponsors to complete the required fundraiser forms and hold them accountable for compliance. Documentation should be maintained in a location accessible for public or auditors review.

2018.06 Record Retention

The school did not have the following documents available upon requests:

- 8 voided checks;
- 6 Void Check Proof Sheets;
- 23 cancelled checks; and
- 24 Journal Entry Proof Sheets and supporting documentation

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The APM Section 6.12 on Record Retention states “All SAF records must be retained for a period of 7 years and/or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.”

Due to a misunderstanding of information, the bookkeeper did not know she was expected to retain the cancelled check copies. Although the Journal Entry Proof Sheets were printed, the bookkeeper was not aware that the Journal Entry Proof Sheets were also required to be approved for transfers and provided with supporting documentation.

The audit trail is compromised when financial records are not maintained and the validity of transactions cannot be confirmed. *(This condition was also noted in the previous audit as of October 31, 2010.)*

Recommendation: The bookkeeper should review the APM to become familiar with the Record Retention requirements pertaining to the Student Activity Funds. The principal must hold the bookkeeper accountable for maintaining an adequate records management system and complying with the year retention policy.

2018.07 Administration of Vending Contracts

A current vending contract was not on file for the 4 vending machines located at the school.

Administrative Procedure 5135.2, *Principal's Contracting Authority*, requires the principal, as an agent of the BOE, to approve and sign all agreements and contracts entered into for all school activities. In addition, the APM, Section 9.8, *Vending Machine Sales*, states, “all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency that these commissions are remitted.”

The principal failed to request a new contract at the start of the school year. Failure to have a formal contract in place constitutes non-compliance with BOE policies and procedures. The risk of inadequate maintenance of the machines and insufficient commission revenue from vending machines is increased by not having a current contract agreement.

Recommendation: The bookkeeper and principal should review the APM to become familiar with the requirements of school contracts and all policies and procedures pertaining to the SAF. The principal must ensure that the current

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vendor contract is obtained, renewed annually, and maintained on file in compliance with BOE policies and procedures.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Maya Angelou FIMM was issued for the period ended October 31, 2010. During that period, the principal and bookkeeper were not in their current positions. The bookkeeper's tenure began in October 2015. The principal's tenure began in July 2015 and was on leave from July 2016 to May 2017. The school had an acting principal while the principal was on leave. The following findings were noted as a result of that audit and the current status is indicated below.

- **Excessive Spending in Restricted Accounts-** Condition still exists. See **2018.06** regarding *Record Retention*.
- **Missing Funds-** Control appears to be working.
- **Delinquent Deposits –** Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **MTF Documentation-** Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **MTF Log and Year-End MTF Envelopes -** Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **Sales Tax not Collected for Items Sold –** Condition still exists. See **2018.01** regarding *Mismanagement of Funds Received*.
- **Transactions Misclassified –** Control appears to be working.
- **Fundraiser Forms –** Condition still exists. See **2018.05** regarding *Fundraiser Forms*.
- **Expenditures Made Without Proper Approval –** Condition still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Payments to Individuals/Unincorporated Businesses for Services Rendered –** Control appears to be working.

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- **Incomplete and/or Inadequate Supporting Documentation for Disbursements** – Condition still exists. See **2018.02** regarding *Mismanagement of Disbursements*.
- **Contracts** – Control appears to be working.
- **Items Purchased with Student Activity Funds not on Inventory** – Control appears to be working.
- **Sales Tax Paid** – Control appears to be working.
- **Membership Cards** – Control appears to be working.
- **Overpayments** – Control appears to be working.
- **Retention of Records** – Condition still exists. See **2018.06** regarding *Record Retention*.
- **Financial Reports** – Condition still exists. See **2018.04** regarding *Untimely Financial Reporting*.
- **Management Oversight** – Control appears to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of Maya Angelou French Immersion School for their cooperation and assistance during the audit.