

CONFIDENTIAL



November 9, 2017

MEMORANDUM

To: Susan Holiday, Instructional Director
Cluster 10

Charity Magruder, Ed. D., Principal
Stephen Decatur Middle School

From: Michele Winston, CPA
Director Internal Audit



Re: Financial Audit for Period October 1, 2014 to August 31, 2017

An audit of the financial records of **Stephen Decatur Middle School** was completed for the period October 1, 2014 to August 31, 2017. The audit results indicate that the school's internal controls require improvement to ensure compliance with Board policies. The exceptions noted are included in the attached report.

As the principal of the school, you will be responsible for preparing an action plan within **30** days, indicating steps that will be taken to ensure compliance with the School Accounting Manual. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. Please note that you are required to provide your action plan using the attached Microsoft Word template and any other correspondence to the Internal Audit Office, Attention: Jerry Chandler, Business Analyst, email address: jerry.chandler@pgcps.org. 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 and Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended to be and should not be used by anyone other than the specified parties.

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair
Kevin M. Maxwell, Ph.D, Chief Executive Officer
Carolyn Boston, Vice Chair, Board of Education
Sonya Williams, Board Member, District 9
Monique Whittington Davis, Ed. D., Deputy Superintendent
Raymond Brown, Chief Financial Officer
Helen Coley, Ed. D., Associate Superintendent, Area II
Erica Berry Wilson, Esq., Executive Director, Board of Education
Daniel Reagan, Internal Auditor II

Internal Audit Report

Stephen Decatur Middle School Student Activity Funds

For the Period Ended August 31, 2017

Stephen Decatur Middle School
Student Activity Funds
For the Period Ended August 31, 2017

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Stephen Decatur Middle School
Student Activity Funds
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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Stephen Decatur Middle School for the period October 1, 2014 to August 31, 2017. Stephen Decatur Middle School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

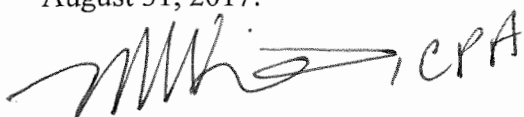
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we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

Our examination disclosed the following findings:

- *Mismanagement of Funds Received;*
- *Inadequate Approval of Disbursements;*
- *Misuse of Student Activity Funds by Former Principal;*
- *Administration of Checks;*
- *Fundraiser Forms Not Completed;*
- *Inadequate Approvals of Transfers;*
- *Deficit in the Principal Sponsored Activities Account;*
- *Lack of Budgeting for Clubs and Organizations; and*
- *Vending Machine Contract*

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

In our opinion, except for the deviation from the criteria described in the preceding paragraph, the SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended August 31, 2017.



Michele Winston, CPA
Director, Internal Audit

Stephen Decatur Middle School
Student Activity Funds
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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Stephen Decatur Middle School for the period October 1, 2014 to August 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 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 all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period October 1, 2014 to August 31, 2017. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

Stephen Decatur Middle School
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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 were noted regarding administration of funds received:

- A. ***Delinquent Deposits:*** There were **21** instances where funds were deposited between 1 and 37 days after collection. Funds that were not deposited on the day of collection exceeded the \$250.00 limit.

- B. ***Administration of Monetary Transmittal Form Envelopes:*** The following exceptions were noted regarding year-end MTF envelopes submission:
 - a. There were 4 instances where MTF remittance copies (pink and yellow) could not be located in staff members' year-end MTF envelopes that supported transactions entered in the school's accounting system.

 - b. Staff members did not sign over the seal on their year-end MTF envelopes for the 2014-2015 and 2016-2017 school years.

 - c. Envelopes were collected by the bookkeeper during the audit period.

The following guidelines are established in the APM relative to receiving funds in SAF:

- A. Section 4.5.2.2, *Cash Receipts, Procedures* requires bookkeepers to make deposit of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight. In addition, staff members should never hold funds overnight.

- B. 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 bookkeeper with remitted funds. After approving MTFs, the bookkeeper returns 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 bookkeeper will print the SFO "*Receiptee History*" Report and submit it to the designated administrator. This alerts the administrator which MTF envelope packages to expect.

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Non-compliance regarding management of receipts resulted from the following:

- A. Internal controls have not been established at the school to ensure timely deposits. The bookkeeper explained that many staff members often do not remit funds until after 4:10 pm, when school ends. She is not able to get to the bank before it closes and was not aware of the bank's night depository option. The current procedures for field trip funds collection has also contributed to the untimely deposits. Funds collected are not counted, recorded on MTFs, or deposited until all funds have been collected for a given field trip. Observed remittance reports indicate that collections for field trips usually last up to a week.
- B. The bookkeeper stated that she did not always receive support in enforcing year-end MTF envelopes submission control from the former principal. Staff was not sufficiently reminded of the procedures for retaining forms and signing over the seals of the envelopes. Further, the former principal did not designate an administrator to collect the envelopes despite the bookkeepers' insistence that she was not permitted to do so. For each year, she ended up collecting the envelopes before having the former principal store them.

Mismanagement of funds received constitutes non-compliance with BOE policies and procedures and increases financial risk to the school.

- A. Untimely deposits can lead to lost or stolen funds.
- B. The ineffective year-end MTF process compromises the audit trail for ensuring that SAF collected were subsequently remitted and deposited.

Recommendation: The following recommendations resulted from mismanagement of funds received:

- A. The current principal and bookkeeper should develop and document specific internal controls for the receipt, remittance, and deposit of funds. This should include training of staff, specifically in the area of field trip funds collection. Further, the bookkeeper should begin using the night depository option at the bank to ensure all funds are deposited timely.
- B. The principal should ensure that internal controls regarding year-end MTF envelopes submission are established and documented to ensure the MTF envelopes submission process is effective. Specifically, procedures should be implemented to ensure that someone other than the bookkeeper is assigned responsibility for collecting year-end MTF envelopes.

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2018.02 Inadequate Approval of Disbursements

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

- A. There were **18** instances where purchases were made prior to requests for approval.
- B. There were **26** instances where the bookkeeper did not indicate the amount of funds available for the relevant fund accounts on School Funds Expenditure Form (SFEF).
- C. There were **14** instances where the principal did not date the pre-approval and approval lines on the SFEF.

The APM, Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal. The form includes space for the bookkeeper to indicate the amount of funds available in the relevant account and space for the principal to pre-approve the purchase.

Internal controls have not been established at the school to ensure the principal's pre-approval of disbursements. Disbursements were made by staff or orders were made by the bookkeeper with verbal approval from the principal. The bookkeeper usually completed SFEFs prior to writing checks, with pre-approval and approval signatures performed simultaneously by the principal. She stated that she was unaware of the purpose of the "funds available" line on the SFEF.

Inadequate approval of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Specifically, schools and their SAF can be held liable for financial obligations made by staff if completion of the SFEF is not performed and pre-approval is not obtained from the principal.

Recommendation: The current principal and bookkeeper should develop and document specific internal controls requiring advance signatory approval prior to expenditures and thorough completion of SFEFs. This should include training of staff and accountability for compliance. The current principal should provide oversight and enforcement of the new procedures.

2018.03 Misuse of Student Activity Funds by Former Principal

The former principal used \$1,500.00 in SAF from the Positive Behavior Interventions and Supports (PBIS) restricted fund account to pay for tuition to attend the Illinois Association of School Administrators (IASA) Aspiring Superintendent Academy. The bookkeeper documented her objection, given that the expenditure was not related to the PBIS or current student activities.

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The APM, Section 1.2, *Activity Funds*, requires the use of SAF to be restricted to the general welfare of students, and for activities not a part of the regular curriculum – typically extracurricular activities such as clubs, class and student organizations.

PBIS funds are required to be used for activities establishing a positive social culture and behavioral support for students.

The bookkeeper stated that the former principal received permission from the PBIS director to use “their” funds, after being informed by the bookkeeper that the use of SAF was prohibited for unrelated professional development. According to the bookkeeper, the former principal rationalized use of the funds by stating that the PBIS program was for students and staff. The bookkeeper reportedly did not inform anyone about the incident for fear of retribution.

The misuse of SAF by the former principal to attend the IASA Aspiring Superintendent Academy has resulted in those funds no longer being available to benefit the student body and represents abuse of office.

Recommendation: The former principal is no longer employed by PGCPSS. However, the bookkeeper and the current principal should establish procedures for ensuring adherence to requirements of the APM and reporting of abuse regardless of who is in violation. Internal Audit and Security Services should be notified immediately when misuse or abuse of SAF is identified. Staff should be made aware of the PGCPSS Hotline for reporting fraud, waste and abuse anonymously.

2018.04 Administration of Checks

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

A. Voided Checks

- a) There were **13** instances where voided checks were not properly approved by the principal.
- b) There were **3** instances where voided checks’ signature lines were not properly removed.
- c) There were **5** instances where voided checks were not properly recorded in SFO.

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B. Cancelled Checks

There were 5 cancelled check images for the audit period that could not be located in the school's cancelled check file.

The following guidelines are established in the APM relative to receiving funds in SAF:

- A. The APM, Section 4.5.3.2, *Cash Disbursements: Policies and Procedures*, states that if an error is made on the check at the time it is prepared or a check is damaged and unable to be used, the physical check must still be accounted for. The word "VOID" is written across the face of the check. The signature portion of the check must be cut off and destroyed. The check must also be voided in the computer to keep the empty transaction in the system. A SFEF should also be completed for the principal's approval.
- B. The APM, Section 4.5.3, *Cash Disbursements*, states that images of all 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. Endorsements on the back of the cancelled checks provide critical information concerning the person who cashed the check. The bookkeeper must safeguard these images of cancelled checks, including endorsement information on the back of the checks.

Non-compliance regarding administration of checks resulted from the following:

- A. The bookkeeper was not aware of the specific requirements for voiding checks. In particular, she was not aware that checks that are voided immediately, due to a printing error, are required to be voided in the system, have the signature line removed, and be approved by the principal.
- B. The bookkeeper stated that former principal did not review the cancelled check file during his tenure.

The ineffective process for administering checks constitutes non-compliance with BOE policies and procedures. Specifically:

- A. Lack of approval and physical destruction of voided checks increases the risk of check fraud.

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- B. Missing cancelled check images constitute non-compliance with BOE policies and procedures. The audit trail for ensuring that checks were properly signed and written for appropriate items was compromised.

Recommendation: The following recommendations resulted from improper administration of checks:

- A. The current principal and bookkeeper should familiarize themselves with the procedures for voiding checks as outlined in the APM and demonstrate compliance by approving, recording, and removing signature lines for **all** voided checks.
- B. The current principal should provide oversight to the financial process at the school, to include reviewing cancelled checks returned from the bank.

2018.05 Fundraiser Forms Not Completed

Fundraiser Request and Authorization Forms, Fundraiser Completion Report and annual fundraiser summaries for school-wide fundraisers and club-specific fundraisers held during the audit period were not completed.

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

The bookkeeper stated that she was aware of the requirement for fundraising forms from the previous audit, but that she and the former principal had not established controls within the school to ensure that fundraising sponsors completed the reports. Fundraisers were verbally approved by the principal.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures. In addition, it decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, fundraising forms support the budgeting process which can ensure optimal results of each fundraiser.

Recommendation: The current principal and bookkeeper should familiarize themselves with the procedures for completing fundraiser forms and establish procedures to ensure compliance. Staff should be trained on the new procedures. The principal should provide oversight to ensure the appropriate forms are completed and maintained on file.

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2018.06 Inadequate Approval of Transfers

The following exceptions pertaining to the approval of fund transfers were identified:

- A. There were 7 instances where funds were transferred between restricted accounts without approval from the principal.
- B. There were 3 instances where funds were transferred from the PY Carryover account without approval from the Office of Business Operations.

The APM, Section 4.5.4, *Transfer of Funds*, requires transfers between restricted accounts to be authorized only if reviewed and approved by the principal. It also requires the principal to send a request to the Director of Business Operations detailing the items to be purchased, purpose and the amount of the request for the use of PY Carryover funds. Only upon written approval of the Director of Business Operations should funds be transferred from the PY Carryover account.

The bookkeeper was not aware that signatory approval was required for each transfer between restricted fund accounts. Further, she was not aware that approval from the Director of Business Operations was needed to use PY Carryover funds. She stated that she only used PY Carryover funds when no other unrestricted balances existed.

Failure to obtain approval for transfers constitutes non-compliance with BOE policies and procedures. Funds transferred between restricted accounts without principal approval can lead to insolvent accounts, and funds transferred from PY Carryover without BOE approval can lead to overall insolvency of the school. The previous audit report identified several insolvent restricted accounts, and overall insolvency for the school.

Recommendation: The current principal and bookkeeper should familiarize themselves with the procedures for transfer of funds. Additional procedures should be established to ensure compliance. Specifically, the bookkeeper should print transfer proof sheets from SFO when appropriate for signatory approval and the current principal should obtain approval from the Office of Business Operations before use of PY Carryover.

2018.07 Deficit in the Principal Sponsored Activities Account

The Principal-Sponsored Activities (PSA) fund account was insolvent in the amount of **(\$11,781.08)** as of August 31, 2017. The school wrote 1 check in 2015 for **\$500.00** and 2 checks in 2016 for **\$148.53** out of the PSA fund account. The Deficit in PSA fund account for the previous audit period as of September 30, 2014 totaled **(\$17, 995.45)**.

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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 discontinued until the existing PSA deficit is resolved.

The bookkeeper explained that she was aware that expenditures out of the PSA account were to be discontinued when the deficit was identified in the previous audit. She has obtained donations and made necessary transfers to decrease the deficit from (\$17,995.45) to (\$11,781.08) during the current audit period. However, the former principal insisted on the noted purchases for staff. Failure to fully cease PSA spending constitutes non-compliance with BOE policies and procedures. The PSA deficit represents funds that were collected for student use and are no longer available to benefit the student body.

Recommendation: The current principal and bookkeeper should be diligent to ensure expenditures from the PSA fund account are discontinued until the deficit is resolved.

2018.08 Lack of Budgeting for Clubs and Organizations

The school has several clubs that conduct financial activity, to include the Band, Drama Club, National Honor Society, Newspaper, Yearbook and PBIS. Annual budgets were not developed and submitted by the clubs and organization for the audit period.

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

The bookkeeper was unaware of the new requirement for annual budgets to be submitted by clubs and organizations.

Failure to develop and submit annual club budgets constitutes non-compliance with BOE policies and procedures. Further, lack of budgeting can lead to insolvent accounts or substandard experience for students in extracurricular activities. The bookkeeper stated that club sponsors have also been stressed due to a lack of financial planning and awareness of whether funds are available for planned expenditures.

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

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2018.09 Vending Machine Contract

A current, annual contract with the vendor for vending machines has not been obtained.

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

The bookkeeper stated that when they initially contacted the vendor in 2015 regarding a contract, the vendor stated that they had a contract with the Board and no specific contract with the school was needed. Internal Audit confirmed with Purchasing and Supply Services that the BOE does not have a blanket contractual agreement with Canteen Vending.

Failure to maintain an active contract for vending machine operations constitutes non-compliance with BOE policies and procedures. Further, the lack of contract prevents the school from having any recourse if there are issues with service or commissions.

Recommendation: The current principal should contact the vendor and obtain a signed contract for the vending machine operations. The contract should stipulate the frequency and percentage of commissions. The contract should be renewed annually. The principal should consult with Purchasing and Supply services about contracting with an alternate vendor if the current vendor does not promptly comply.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Stephen Decatur Middle School was issued for the period ended September 30, 2014. The current principal's tenure began in July 2017. The bookkeeper was in place for the entire audit period. The following findings were noted as a result of the last audit and the current status is indicated below:

- **Financial Insolvency and Excessive Spending in Restricted Accounts** – Controls appear to be working.
- **Credit Account** – Controls appear to be working.
- **Delinquent Deposits** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Monetary Transmittal Form Documentation** – Controls appear to be working.
- **Year-End Monetary Transmittal Form Envelopes Collection Process** – Condition still exists.
- See **Finding 2018.01** regarding *Mismanagement of Funds Received*.

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- **Sales Taxes Not Collected and Posted for All Items Sold** – Controls appear to be working.
- **Transactions Misclassified** – Controls appear to be working.
- **Mismanagement of Disbursements** – Controls appear to be working.
- **Improper Administration of Checks** – Condition still exists. **See Finding 2018.04** regarding *Administration of Checks*.
- **Payments for Services Rendered and Non-Approved Vendors Used to Provide Services** – Controls appear to be working.
- **Vending Machines** – Condition still exists. **See Finding 2018.09** regarding *Vending Machine Contract*.
- **Fundraiser Forms Not Completed** – Condition still exists. **See Finding 2018.05** regarding *Fundraiser Forms Not Completed*.
- **Contracts** – Controls appear to be working.

ACKNOWLEDGEMENT

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