



October 19, 2017

MEMORANDUM

To: Tasheka Green, Ed.D. Instructional Director
Cluster 11

DeMarco Clark Ed. D., Principal
Thurgood Marshall Middle School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of June 30, 2017

An audit of the financial records Thurgood Marshall Middle School was completed for the period January 1, 2013 through June 30, 2017. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual (APM) and Board of Education 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 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.

cc: Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Monique Whittington Davis, Ed. D., Deputy Superintendent
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Carolyn Boston, Vice Chair, Board of Education
Edward Burroughs, District 8 Board Member
Erica Berry Wilson, Esq., Board Executive Director
Raymond Brown, Chief Financial Officer
Alicia Robinson, Internal Auditor II

Internal Audit Report

Thurgood Marshall Middle School Student Activity Funds

For the Period Ended June 30, 2017

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Internal Auditor's Report

We have examined Thurgood Marshall Middle School for the period January 1, 2013 to June 30, 2017. Thurgood Marshall Middle School Principal is responsible for the administration of the Student Activity Fund (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 contracted services payments, 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:

- *Record Retention,*
- *Mismanagement of Funds Received,*
- *Principal Sponsored Activity Fund Account Deficit,*
- *Restricted Yearbook Fund Account Deficit,*
- *Inappropriate Transfer of Funds,*
- *Fundraiser Forms/Reports not Completed, and*
- *Administration of Voided Checks.*

These findings individually or in aggregate, resulted in a material deviation from Board of Education (BOE) Policies and Procedures.

In our opinion, as a result of the significant deviations from the criteria described in the preceding paragraph including that sufficient appropriate documentation may not have been not provided for the audit, SAF compliance with BOE policies and procedures and the APM, may have been materially affected, for the period ended June 30, 2017.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Thurgood Marshall Middle School for the period January 1, 2013 through June 30, 2017. The audit was conducted as part of the annual audit plan.

The audit indicated that the school's financial records and procedures require **significant** improvement to be in accordance with the Accounting Procedures Manual (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 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 focuses on deficiencies, it is 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 examination of all bank statements and voided checks, selected financial reports and cancelled checks and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period January 1, 2013 through June 30, 2017. Also, available receipts, disbursements and supporting documentation were reviewed for the said period. Certain supporting documentation including end of year MTF envelopes and cancelled checks were not made available for review. *(Refer to finding 2018.01 regarding Record Retention.)*

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01 Record Retention

The following financial records were not available for review:

- FY 2015 cancelled checks
- End of Year Monetary Transmittal Forms (MTFs) for:
 - FY 2013,
 - FY 2014,
 - FY 2015 - MTF envelopes were stored with the previous bookkeeper's financial records but not all included
 - FY 2016
 - FY 2017

The APM section 6.12, Record Retention, requires accounting records and supporting documentation to be retained for a period of 7 years and/or audited.

The former bookkeeper indicated that the cancelled checks for FY 2015 should have been stored in the accounting office in a notebook. She could not explain why they were not in the box where the FY 2015 records were stored. The principal was charged with collecting the FY 2017 end of year MTFs. He indicated that his office was moved over the summer and files were missing, which included the end of year MTFs. The assistant principal was charged with collecting the end of year MTFs for FY 2013, 2014, 2015, and 2016. He indicated that he was unable to locate the MTFs in his office. He could not determine where the MTFs were.

Internal controls are compromised when documentation is not available for review. It could not be determined if all funds collected were appropriate, authorized and remitted for deposit. The audit was hindered since not all documentation was available for review. *(This finding was noted during the previous audit period ended December 2012.)*

Recommendation: The school must establish procedures to ensure that financial records are retained for 7 years and/or until audited to ensure compliance with BOE policies.

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2018.02 Mismanagement of Receipts

There were at least **12** instances of non-compliance regarding receipts. The following indicates the instances of non-compliance:

- A. ***Separation of Duties:*** There were at least **3** instances where the bookkeeper collected funds presented directly to the school office, completed the MTF and had another individual sign the form.
- B. ***Delinquent Deposits:*** There were at least **3** instances where funds collected for various school activities were held for a longer period than required (4 or more days) by staff, prior to submission to the bookkeeper. ***This finding was noted during the previous audit period ended December 2012.***
- C. ***Missing and/or Incomplete MTF Documentation:*** There were at least **4** instances where supporting documentation was not provided or was incomplete for funds received. Also, a validated deposit ticket was not attached to the deposit documentation. ***This finding was noted during the previous audit period ended December 2012.***
- D. ***Misclassified Transaction:*** There were at least **2** instances where vending receipts were not posted to the correct accounts. Vending proceeds received for FY 2016 and FY 2017 were posted entirely to “faculty vending” instead of being appropriately allocated to both the faculty and student vending accounts. ***This finding was noted during the previous audit period ended December 2012.***

The APM provides the following guidelines relative to management of funds received:

- A. Exhibit A, *Segregation of Duties*, states that no one individual should ever be made solely responsible for maintaining records on resources that they have custody of, access to and/or authority over.
- B. Section 4.5.2.2 (1), (2) *Collecting Funds and Guidelines for Bank Deposits, Completing the MTF and (3) Preparing Bank Deposits*, requires **all** funds collected to be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely (at least every other day) deposits with the financial institution.
- C. Documentation is required to be presented along with MTFs indicating source of funds collected, when it was collected, the amount and form

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of the collection and the reason for the collection. Also, a validated deposit ticket should be attached to the deposit documentation.

- D. The APM section 3.2.2 *Bookkeepers/Financial Secretaries* requires the bookkeeper or financial secretary to accurately record and report the school's financial transactions.

The Bookkeeper provided the following explanations for the exceptions noted:

- A. The principal and bookkeeper failed to ensure that someone other than the bookkeeper collected funds submitted directly to the school office. The bookkeeper indicated that vending checks and/or fundraiser money were given to her directly. It was her normal practice to complete the MTF and request another individual to sign the form.
- B. The bookkeeper held onto funds prior to making deposits with the bank because of competing responsibilities.
- C. When completing the MTFs for school dances, t-shirts, and scholastic book fair, the bookkeeper did not require that staff submit complete supporting documentation indicating the source of funds. Also, the bookkeeper could not locate the validated the deposit ticket.
- D. The bookkeeper failed to accurately post vending proceeds to faculty and student vending. The vending company charged a \$30.00 fuel fee for each check issued. In most cases, the student vending did not receive sufficient proceeds to cover the charge. The bookkeeper did not complete an analysis to determine a percentage cost of the fuel fee to be deducted from the student vending portion of the check. Hence, all vending proceeds were posted to the faculty vending.

Internal controls are compromised when the bookkeeper collects funds received directly in the school office; funds are retained in the school for several days and complete documentation is not provided to substantiate collection. Failure to make timely deposits constitutes a compromise of internal controls and increases the risk for loss of funds. Segregation of duties, untimely deposits and failure to provide complete MTF documentation violates the school's compliance with the APM.

The faculty vending account was overstated and therefore improper transfers were completed to PSA.

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

- A. Someone besides the bookkeeper should be designated to collect funds and complete MTFs for funds received directly by the school office (i.e. vending commission checks and fundraiser money).
- B. The bookkeeper must be held accountable for depositing funds timely (at least every other day) to the bank. The principal should periodically review the deposit records, which includes the MTF Log, to monitor whether deposits are made as required.
- C. Staff must be informed that appropriate documentation (detailed listing of remittances and validated deposit slips) is required to substantiate MTFs. The Bookkeeper should be held accountable for ensuring MTFs are properly supported.
- D. Faculty and student vending proceeds should be posted correctly. The bookkeeper should deduct the fuel fee directly from the faculty vending or complete a percentage analysis of remaining balance after the fuel fee is deducted to determine that accurate amounts are posted to both accounts. The principal should consider researching alternate vending operators that may be more financially beneficial to the school.

2018.03 Principal Sponsored Activity (PSA) Fund Account Deficit

The Principal Sponsored Activity (PSA) fund account had a deficit of **(\$3,527.03)** as of June 30, 2017. However, the deficit should have been **(\$5,273.65)** due to misclassified transactions that occurred in FY 2016 and FY 2017. The previous deficit as of the audit period ended December 31, 2012 was (\$7,980.50). Even though the PSA fund account deficit has declined, expenditures from this fund have not ceased as recommended during the previous audit. *This finding was noted during the previous audit period ended December 2012.*

The APM section 9.6 *Principal Sponsored Activities for Staff* indicates that expenditures for authorized principal sponsored activities are restricted to funds available from the sources as outlined in the manual, which includes 100% vending commissions in the staff lounge, 25% of vending commissions from student accessed machines up to the first \$50,000.00 and 15% of school-wide fundraising profits. As the fiduciary agent for the Student Activity Funds (SAF), the principal should ensure all accounts are solvent at all times.

The PSA funds account deficit was caused by excess spending on PSA during the previous administration without regard for the availability of funds. Students did not

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receive the maximum possible benefit from the resources that should have been available to them. Even though the principal has reduced spending in the PSA account, there still exists a deficit.

Overspending on PSA constitutes noncompliance with the policy documented in the APM. Students did not receive the maximum possible benefit from the resources that should have been available to them.

Recommendation: The principal should continue to work towards elimination of this deficit. This can be accomplished by continuing the cessation of spending from this account and transferring only authorized vending proceeds until the deficit is completely resolved.

2018.04 Restricted Yearbook Fund Account Deficit

The restricted yearbook fund accounts contained deficits which aggregated to **(\$3,106.84)** as of June 30, 2017. An outstanding invoice totaling **\$1,420.13** for yearbooks was not paid and recorded as of fiscal year end. As a result the actual restricted yearbook fund account deficit as of June 30, 2017 totaled **(\$4,526.97)**. The outstanding invoice was paid in September 2017 (FY 2018). The previous deficit in restricted yearbook fund account was **(\$1,208.63)** as of December 31, 2012.

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted expenditures exceed the available cash, the account will have a deficit. As a fiduciary agent for SAF, the principal should ensure all accounts are solvent at all times.

There were several contributory factors for the yearbook deficit. The cost per yearbook for FY 2016 was \$35.75 each. The school sold the yearbooks for \$35.00 each, the previous year's price, which did not cover the cost of the yearbook. Sales taxes from yearbook sales were not paid which resulted in additional deficit to the account. Also, a minimum amount of yearbooks were ordered but not all were sold. There were 22 and 17 remaining yearbooks for FY 2015 and FY 2016 respectively.

The school had to absorb the deficit in the "*Restricted Yearbook*" fund account which impacted the amount of funds available to benefit students. *This finding was noted during the previous audit period ended December 2012.*

Recommendation: The principal should consider alternatives for making yearbooks available to students where there would be reduce accountability for unsold yearbooks. This could include researching yearbook vendors where parents pay the company directly and the school receives a commission check for yearbooks sold. . Also, the principal should research options for elimination of the school's existing yearbook deficit.

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2018.05 Inappropriate Transfer of Funds

There were at least 6 instances where inappropriate transfers were processed during the audit period. The bookkeeper performed these transfers totaling **\$1,780.46** to the PSA fund account to offset expenditures (\$980.46 from administrative allotment and \$800.00 from restricted donation). The transfers were not reviewed or approved by the principal prior to processing.

The APM section 4.5.4.2 *Transfer of Funds Transfers Between Restricted and Unrestricted/net Accounts* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal. Transfers from unrestricted to restricted accounts are not allowed except for the applicable transfers to PSA from vending and/or fundraising activities." For example, 100% of vending commission from machines located in the staff lounge; 25% of vending commissions from student-accessed machines and 15% of school-wide fundraiser profits, including picture commissions.

Funds were inappropriately transferred to the PSA account to help reduce the spending deficit. The PSA account was misstated to appear that the deficit balance had been reduced to a lower amount.

The bookkeeper thought that funds from the Administrative Allotment fund account could be used to offset expenses in the PSA account. Likewise, the bookkeeper assumed that a PTA donation of \$800.00 could be used for PSA. The bookkeeper's attempt to contact the prior PTA President to obtain documentation to substantiate the intended use of the \$800.00 donation was unsuccessful.

Inappropriate transfers misstate financial information presented to administrators for decision-making. Restricted PSA fund account was overstated as of the end of the audit period.

Recommendation: The principal and bookkeeper should ensure that only allowable transfers are completed with appropriate documentation and approval by the principal.

2018.06 Fundraisers Forms

Requirements for administering fundraisers were not complied with during the audit period. The school held several fundraising activities i.e.: candy gram sales, dances, t-shirt sales, student/staff basketball games. Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and annual reports summarizing fundraising activities were not completed.

Administrative Procedure 5135.1, *Fundraising* requires schools to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the

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Annual Fund Raising Summary Report for all fundraisers sponsored. These documents must be maintained on file for public and auditor review upon request. Approval must be given prior to the onset of a fundraiser.

Staff did not complete the Fundraiser Request and Authorization forms requesting approval to conduct the various student fundraisers. The bookkeeper did not maintain an updated fundraiser file documenting completion reports. The principal did not provide adequate oversight to ensure that the appropriate fundraiser documents to initiate approved fundraisers, completion reports and the annual fundraiser report summarizing fundraising activities were completed.

It could not be readily determined that the school's fundraisers yielded overall profits or loss for the school. Pertinent financial information for the school's administrators to make fiscal decisions was not available.

Recommendation: The principal must enforce established BOE procedures to ensure completion of all fundraising reports. Staff should complete the Fundraiser Request and Authorization Forms to document approval of fundraisers and Completion Reports indicating profit/loss for fundraising activities. The principal or designee should complete the annual fundraising report at the end of the each school year to summarize fundraising activities held. Required reports must be maintained on file for public and auditor review.

2018.07 Administration of Voided Checks

There were **199** instances of non-compliance regarding the administration of voided checks identified from the **109** voided checks reviewed. The following issues of non-compliance were noted:

- ***School Funds Expenditure Forms (SFEF) or Void Check Proof Sheets (VCPS) not completed and/or Signed by Principal:*** There were at least **103** instances where the SFEF or SFO VCPS forms were either not completed by the bookkeeper and/or not signed by the principal.
- ***Voided Checks not Properly Mutilated:*** There were at least **96** instances (from voided checks previously mentioned) where checks were not properly voided by removal of the signature line by the bookkeeper. ***This finding was noted during the previous audit period ended December 2012.***

The APM, section 4.5.3.2, *Policies and Procedures, Voiding Checks* requires accounting for the physical check when an error is made at the time of preparation or when a check is damaged. 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 be voided

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in the computer. SFEF or VCPS from SFO should also be completed, noting the check was voided. The principal should sign the SFEF or the VCPS to acknowledge that the check was voided. The physical check should be filed in check number sequence with images of cancelled checks.

The excessive amounts of voided checks occurred due to a cancelled field trip for which refund checks were issued. Parents did not follow instructions to uplift checks from the school office which resulted in the checks being voided.

The bookkeepers (current and former) failed to ensure that voiding of checks was administered in compliance with BOE policies and procedures. The former bookkeeper and current bookkeeper did not provide the SFEF or VCPS to the principal for review. The bookkeeper was not aware of the policy regarding voided checks. The principal was unaware of the existence of voided checks since the bookkeepers did not inform him or present the SFEF or VCPS for signature.

Inappropriate administration of checks exposes the school to fraud, waste and abuse of its resources.

Recommendation: The principal must implement procedures to ensure proper administration of voided checks. Voided checks should be substantiated by completed SFEFs or VCPS signed by the principal, entered into SFO and be properly defaced. The principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures. The bookkeeper should ensure that all voided checks are entered into SFO. All check signers must take the time to get familiar with the policy and procedures set forth in the APM relative to voiding checks.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Thurgood Marshall Middle School was issued for the period ended December 2012. The current principal and bookkeeper were not on staff during the previous audit. The current principal's tenure began in July 2014 and the bookkeeper's tenure began in November 2015. There were **18** findings noted as a result of that audit. There were **7** repeat findings noted in the current audit. The following findings were noted as a result of the previous audit and the current status is indicated below:

- **Excessive Spending in Restricted Accounts** – Condition still exists. See **Finding 2018.04** regarding *Restricted Yearbook Fund Account Deficit*.
- **Excessive Spending in Principal Sponsored Activities** – Condition still exists. See **Finding 2018.03** regarding *Principal Sponsored Activity Fund Account Deficit*.

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- **Delinquent Deposits** – Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Funds Received*.
- **Monetary Transmittal Form Documentation** – Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Funds Received*
- **Missing Funds** – *Controls appear to be working.*
- **Year-End Monetary Transmittal Form (MTF) Envelopes** – Controls appear to be working.
- **Check Writing** – Condition still exists. See **Finding 2018.07** regarding *Administration of Voided Checks*.
- **Transactions Misclassified** – Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Receipts*.
- **Sales Tax not paid for Items Sold** – Controls appear to be working.
- **Incomplete and/or Inadequate Supporting Documentation for Disbursements** – Controls appear to be working.
- **Delinquent Payment of Invoices** – Controls appear to be working.
- **Contracts** – Controls appear to be working.
- **Items Purchased with Student Activity Funds not on Inventory** – Controls appear to be working.
- **Warehouse Membership Cards** – Controls appear to be working.
- **Retention of Records** – Condition still exists. See **Finding 2018.01** regarding *Record Retention*.
- **Payments Made for Services Rendered** – Controls appear to be working.
- **Vending Machines** – Controls appear to be working.
- **Textbook Replacement Fees (Core)** – Controls appear to be working.

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ACKNOWLEDGEMENT

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