



March 25, 2019

**MEMORANDUM**

To: Susan Holiday, M. Ed., Instructional Director  
Cluster 2

Joel Nelson, Principal  
Kettering Elementary School

From: Michele Winston, CPA  
Director Internal Audit

Re: Financial Audit for Period July 1, 2015 to October 31, 2018

An audit was completed on the financial records of **Kettering Elementary School** for the period July 1, 2015 to October 31, 2018. The audit results indicate that the school's financial records and procedures require significant improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (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 by April 25, 2019 indicating steps that will be taken to ensure compliance with the Accounting Procedures Manual. 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](mailto: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](mailto:deborah.smalls@pgcps.org).

cc: Alvin Thornton, Ph. D, Chairman of the Board of Education  
Monica Goldson, Ed.D, Chief Executive Officer  
Members, Board of Education  
Helen Coley, Ed. D, Chief of School Support and Leadership  
Michael Herbstman, Chief Financial Officer  
J. Michael Dougherty, Director Financial Services  
Kasandra Lassiter, Ed. D., Elementary School Associate Superintendent  
Kristi Murphy, Chief Human Resources Officer  
Howard Burnett, Acting Director, Employee Labor Relations  
Joeday Newsom, Ethics Compliance Officer  
Patrick Pope, Internal Auditor II

# Internal Audit Report

## Kettering Elementary School Student Activity Funds

For the Period Ended October 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Kettering Elementary School for the period July 1, 2015 through October 31, 2018. Kettering Elementary School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

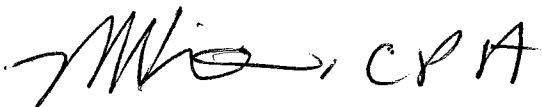
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures as we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

Our examination disclosed the following findings:

- *Missing Funds,*
- *Record Retention,*
- *Insolvent Principal Sponsored Activities Fund Account, and*
- *Financial Reporting*

These findings individually or in the aggregate, resulted in a **material deviation** from Board of Education (BOE) Policies and Procedures and the requirements of the Accounting Procedures Manual (APM) for School Activity Funds. This was primarily due to the scope limitation relative to unavailable documentation for FY 2017 and FY 2018.

As a result of the scope limitation which we deem significant, we are unable to provide an opinion, on administration of student activity funds in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended October 31, 2018.



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 Kettering Elementary School for the period July 1, 2015 through October 31, 2018. The audit was performed 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 for School Activity Funds (APM) and Board of Education (BOE) policies and procedures. The performance of the audit was impacted by the school's failure to provide supporting documentation for disbursements and receipts for FY 2017 and FY 2018.

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

**OBJECTIVES**

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school 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, and financial reports, and Monetary Transmittal Form (MTF) remittance documents submitted by staff for the period July 1, 2015 through October 31, 2018. Supporting documents for FY 2017 and FY 2018 receipts and disbursements were not available for audit. (See 2019.02, *Record Retention*). Hence, the audit was limited to available documentation including bank statements obtained from the Accounting and Financial Reporting Office to support deposits. Supporting documents including school funds expenditure forms, invoices and cancelled checks were not available.

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**FINDINGS AND RECOMMENDATIONS**

The audit resulted in the following findings and recommendations:

**2019.01: Missing Funds**

There were **29** MTF documents prepared in FY18 that could not be traced to the bank statements totaling **\$5,221.00**. The recordkeeping staff was unable to produce any records for FY16-17 and FY17-18 except for the sealed end-of-year MTFs. Also, the recordkeeping staff called out of work each day during audit fieldwork.

The APM, Section 4.5.2.2, *Cash Receipts Procedures* states that the Bookkeeper must make deposits of all funds at least every other day. Also, the Bookkeeper is responsible for counting cash, verifying the total on the MTF and applicable attachments. The funds counted must agree with the MTF and the actual funds submitted. When discrepancies are noted, the Bookkeeper must immediately contact the individual who submitted the MTF.

The principal failed to provide adequate oversight over the collection process as well as monitor the monthly financials. The recordkeeping staff failed to deposit funds in the school's bank account as required. This appears to be fraudulent acts by the recordkeeping staff.

Failure to adequately collect and deposit SAF funds is considered waste and a loss for the student body. The missing funds are currently unavailable to the benefit of the students as intended. Lastly, the financial statements do not reflect total funds collected for student activities.

**Recommendation:** The recordkeeping staff should provide restitution of **\$5,221.00** for the missing funds. This incident should be forwarded to ELRO to determine any necessary disciplinary action.

**2019.02: Record Retention**

The audit revealed the following pertaining to record retention:

- All financial documents for FY 2017 **could not be located** except for end-of-year MTFs.
- All financial documents for FY 2018 **could not be located** except for end-of-year MTFs.

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The APM provides the following regarding record retention:

All SAF records must be retained for a period of seven (7) years and/or until audited, included the current fiscal year. This includes, but is not limited to, financial reports, banks statements, receipts, disbursement authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.

According to the recordkeeping staff, the documents were present as of November 14, 2018, which is the day before the audit was scheduled to commence. No one could account for the documents when IA arrived for the audit.

Lost or misplaced documents constitute non-compliance with BOE policies and procedures. Documents that are not readily accessible when needed for audit impacts the determination that SAF are properly administered. There is the potential for fraud waste and abuse of resources.

**Recommendation:** The principal and recordkeeping staff should work towards organization of documents to ensure that future documents are made available when needed. Like documents should be stored by year in binders.

This matter should be forwarded to Employee Labor Relations for determination of disciplinary action.

**2019.03: Insolvent Principal Sponsored Activities Fund Account**

The Principal Sponsored Activities (PSA) fund account has a deficit of **(\$5,587.36)** as of October 31, 2018. The beginning FY deficit was **(\$5,054.17)**. Despite the deficit in the PSA fund account, disbursements from the account for food for staff totaling **\$693.00** while transfers into this account only totaled \$159.81.

The APM Section 9.6, *Principal-Sponsored Activities (PSA) for Staff*, states that the PSA account is for discretionary expenditures incurred by the Principal on behalf of school staff. These activities must be of a professional nature that enhances staff members' job performance. Expenditures for authorized PSA are restricted to 100% of faculty vending commission and 15% of school-wide fundraiser profits. If the PSA account has a deficit, funds are not available for this purpose and faculty spending must be ceased until the existing PSA deficit is resolved.

The principal has failed to establish a system of internal controls to ensure that expenditures occur only when funding balance is available for the PSA fund account.

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The deficit in the PSA constitutes noncompliance with the policy documented in the APM. SAF may have been expended without receipt of the maximum possible benefit from the resources that should have been available to students.

**Recommendation:** The principal should work towards elimination of the PSA fund account deficit by discontinuing expenditures from this fund account until the deficit is resolved. The principal should also review fundraising profits and vending commissions periodically to ensure proper transfers are made to the PSA fund account to assist with eliminating the deficit.

#### **2019.04: Financial Reporting**

The audit revealed **21** instances where monthly financial reports were not completed by the 15<sup>th</sup> of the subsequent month.

The APM Section 5.2, *Financial Reporting Requirements*, requires that the principal receive monthly financial reporting packages from the bookkeeper by the 15<sup>th</sup> of the subsequent month.

The recordkeeping staff did not provide an explanation for the tardy reports.

The principal's ability to promptly verify the school's solvency status may have been impacted. Delinquent and inaccurate reporting impacts the timeliness of information used in the decision-making process.

**Recommendation:** The recordkeeping staff must prepare the monthly financial reporting package for the principal's review by the 15<sup>th</sup> of each month. The principal and recordkeeping staff should refer to The APM Section 5.2, *Financial Reporting Requirements* for details of required reporting. The principal should ensure that all required documents are reviewed and signed in a timely manner.

#### **STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Kettering Elementary School was issued for the period ended September 30, 2013. The current principal was in place at the time of the previous audit. There were **4** findings reported in the previous audit, **2** of which still exists. There were also **2** new findings that were not present during the previous audit period. The following findings were noted as a result of that audit and the current status is indicated below:

- **Incomplete Documentation of Receipts and Disbursements** – Condition still exists. See **2019.02** regarding *Record Retention*.



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- **Transactions Improperly Posted to Principal Sponsored Activities (PSA) Fund Account Deficit and Other Accounts** – Condition still exists. See 2019.03 regarding *Insolvent Principal Sponsored Activities Fund Account*.
- **Sales Tax not Remitted for Items Sold** – Unable to Determine if Condition Still Exists.
- **Failure to Separate Cash Management Duties** – Unable to Determine if Condition Still Exists.

**ACKNOWLEDGEMENT**

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