



TO: Julie Martel, Area 3 Superintendent
FROM: Stephen Carr, Director, Office of Internal Audit *WSC*
DATE: July 14, 2014
RE: Linda Vista Elementary School PTSO Audit

Our office conducted an audit of the Linda Vista Elementary School PTSO for the period September 1, 2008 to July 31, 2013. The audit report contains information regarding the audit findings and recommendations. Enclosed are copies of the audit reports and the response.

The site administrator was responsive to all of our recommendations and corrective actions had been taken or planned.

If you have any questions concerning the information in this report, please call me at 725-5696.

c: Members, Board of Education
C. Marten
S. Monreal
A. Donovan

email: BOE, Audit Committee
C. Marten
S. Monreal
C. Duran
M. Hudson



**Linda Vista Elementary School
Parent Teacher Student Organization, Inc.**

Audit Report

July 7, 2014

Introduction

The Linda Vista Elementary School Parent Teacher Student Organization (PTSO), a nonprofit organization, was established in 2008. According to their Articles of Incorporation, “The specific purpose of this organization is to support the students of Linda Vista Elementary School in their scholastic and physical education goals by providing them with support above and beyond what the school district provides and to give the students a foundation to withstand the influences of the local gangs”.

On 9/30/2008, the PTSO opened a checking and savings accounts with Bank of America (BoFA). When the former PTSO president took over the operation of the PTSO on 7/7/2009 as interim president, the balance of the PTSO BoFA checking account was \$9,965.81 and \$1,251.65 on the savings account.

From 7/8/2009 to 9/30/2010, the PTSO deposited \$17,555.19 and withdrew \$28,578.23 from the PTSO BoFA accounts. As of 9/30/2010, the checking account had a zero balance and the savings account had a balance of \$194.42. The PTSO did not have any financial records during this period except for the bank statements requested by the current PTSO bookkeeper from BoFA.

On 10/15/2010, the BoFA checking account was closed by the bank due to consistent negative balance in the checking account. The BoFA savings account continued and was closed on 2/18/2011 with an ending balance of \$1,963.39.

From 10/16/2010 through 3/14/2011 (about 5 months), the PTSO did not have a checking account. Activities such as fundraising proceeds and disbursements during this period cannot be determined due to lack of financial records.

On 3/15/2011, the PTSO opened a new bank account with Mission Federal Credit Union (MFCU). From 3/15/2011 to 3/6/2012, the PTSO deposited \$18,381.12 and withdrew \$19,901.99 having a balance of (\$1,520.87). The former PTSO president did not keep a record of the financial transactions except for a partially completed check register and bank statements.

On 3/7/2012, the former PTSO president was relieved of the control of the financial records and the control of deposits and disbursements. A member was assigned as a bookkeeper to maintain the PTSO’s financial records.

From 3/7/2012 to 7/31/2012, the PTSO under the new management deposited \$14,814.25 and

withdrew \$9,098.65 having a cash inflow of \$5,715.60. As of 7/31/2012, the PTSO's bank accounts had a balance of \$4,194.73 (cash inflow of \$5,715.60 less the deficit of \$1,520.87).

Initial investigation by the current PTSO bookkeeper revealed that from 4/1/2011 through 2/29/2012, the total amount of \$5,000.80 was inappropriately used by the former PTSO president for her own benefit. The former PTSO president admitted to taking the money for her own personal use and signed a promissory note to pay the amount. As of 10/19/2012, the former PTSO president paid the PTSO the full amount of \$5,000.80.

On January 29, 2013, the principal reported to the San Diego Unified School District Police the possible theft and embezzlement of the PTSO funds by the former PTSO president. Subsequently, the principal requested Internal Audit to review the PTSO funds.

Audit Scope and Objectives

The scope of this audit included a review of available documents related to the financial activities of the PTSO from September 1, 2008 through July 31, 2013, and interview with the current PTSO's bookkeeper regarding collections and disbursements of funds to determine the following:

- The adequacy and effectiveness of the internal control system.
- The proceeds from fundraising activities are properly accounted for.
- The expenditures are authorized and have adequate supporting documentation.
- The total amount of funds withdrawn from the bank and the total amount of personal expenses by the former president of the PTSO.

Audit Findings Summary

1. Based on the available documents such as bank statements from BofA and MFCU and check register provided by the PTSO, we determined that the former PTSO president withdrew cash from the bank inappropriately for her personal benefit totaling \$15,345.72 for the period July 2009 through March 6, 2012.
2. The collections from the Butter Braid fundraising was short a total of \$701.00 for the year 2010 and 2011.
3. A personal check in the amount of \$700.00 from the former PTSO President was deposited in the MFCU checking account on 2/28/2012 but this check was returned by the bank due to non-sufficient fund.
4. Expenditures totaling \$52,000.82 were not verifiable due to lack of documentation.
5. The PTSO did not maintain complete accounting records and did not prepare monthly bank reconciliations prior to March 7, 2012. As a result, bank accounts' differences such as unrecorded transactions for ATM withdrawals, debit card charges, overdrafts and bank charges were not detected promptly.
6. Collections turned over for deposits were not receipted.

7. Lack of internal controls in using check card or ATM/debit card.
8. Two BofA checks were written payable to "Cash" in the amount of \$500.00 each.
9. Some checks issued were only signed by one signor instead of the required two signatures for over \$200.00 disbursement.


Conclusion

Based on the results of the review of available documents, we determined that the former president of the Linda Vista Elementary School PTSO withdrew funds from the PTSO's bank accounts totaling \$15,218.72 for her own personal benefit from 7/27/2009 through 3/6/2012. The former president of the PTSO has paid \$5,000.80 and is still responsible for the balance of \$10,217.92, cash withdrawals and debit card charges that she needs to account or document.


In addition, shortages in the Butter Braid fundraising totaling \$701.00 and a personal check from the former PTSO president, returned by the bank for non-sufficient fund in the amount of \$700.00 also needs to be accounted or reimbursed.

We were not able to determine if all collections from fundraisers and donations from September 2008 through July 2013 were deposited intact in the bank due to lack of receipts. Without receipts a determination is not possible of whether all funds collected by the PTSO were deposited in the bank. Also the lack of adequate documentation prevented verification and assurance that all expenditures were valid.

We appreciate the cooperation extended by the staff during the examination.



Ines G. Abitria
Operations Auditor



W. Stephen Carr
Director, Office of Internal Audit

Audit Findings and Recommendations

1. Based on the available documents such as bank statements from BofA and MFCU and check register provided by the PTSO, we determined that the former PTSO president withdrew cash from the bank inappropriately for her personal benefit totaling \$15,345.72 for the period July 2009 through March 6, 2012 as follows:

From July 2009 to October 2010 – Bank of America Account:

Total cash withdrawal from checking account using ATM	\$5,088.25	
Total cash withdrawal from savings account	2,655.30	
Total cash withdrawal from bank	1,443.00	
Total personal expenses using check card	307.94	
Total personal expenses for gas	165.00	
Total bank charges-ATM withdrawal fees and overdraft fees	146.00	
Total Withdrawals from Bank of America		\$9,805.49

From March 2011 to March 6, 2012 – Mission Federal Credit Union Account:

Total cash withdrawal from checking account using ATM	\$3,922.50	
Total cash withdrawal from savings account using ATM	600.00	
Total cash withdrawal from bank	200.00	
Total personal expenses using debit card	132.98	
Total personal expenses for gas	314.75	
Total bank charges-ATM withdrawal fees and overdraft fees	138.50	
January collections not deposited per PTSO	231.50	
Total Withdrawals from Mission Federal Credit Union		\$5,540.23

Total Cash Withdrawals and Personal Expenses	\$15,345.72
--	-------------

Initial investigation by the current bookkeeper revealed that the former PTSO president withdrew cash and used the PTSO's debit card for her own personal benefit. The identified inappropriate personal use of the PTSO funds amounted to \$5,000.80. On 3/9/2012, the former PTSO president signed a promissory note to pay the amount bi-monthly.

The former PTSO president paid in full the amount of \$5,000.80 from her personal account on 10/19/2012. However, our review revealed that there is still a remaining balance to be accounted for by the former PTSO president totaling \$10,344.92 (15,345.72 – 5,000.80).

According to the current bookkeeper, the former PTSO president would not produce or disclose any records or account numbers from the BofA bank accounts. The current bookkeeper was not able to determine if there were inappropriate withdrawals from BofA, however, after reviewing all materials she found a single copy of the first BofA check issued. She was then able to determine the bank account number and proceeded to request the bank statements from BofA.

Recommendation:

We are providing this report to the San Diego Unified Police Department with the

recommendation for their criminal investigation of the former PTSO president responsible for the PTSO's funds totaling \$10,344.92.

In addition, the PTSO should not secure an ATM or debit card for their members since the use of ATM or debit card, without proper controls can increase the risk of misappropriation of funds.

2. **The collections from the Butter Braid fundraising was short a total of \$701.00 for the year 2010 and 2011.**

We reviewed the invoices from Butter Braid San Diego from November 2008 to October 2013. Our analysis of five of the Butter Braid fundraising resulted in a total shortage of \$701.00 as follows:

Date	Invoice No.	No.	Cost Price	Invoice Total	Sale Price	Total Sales	Deposited	Short
11/17/2009	2009-250	202	\$7	\$1,414.00	\$12	\$2,424.00	\$2,090.00	(\$334.00)
06/01/2010	2010-195	202	\$7	1,414.00	\$12	2,424.00	2,196.00	(228.00)
06/01/2010	2010-197	9	\$7	63.00	\$12	108.00	63.00*	(45.00)
06/23/2010	2010-213	6	\$7	42.00	\$12	72.00	42.00*	(30.00)
10/19/2011	2011-258	250	\$7	1,750.00	\$12	3,000.00	2,966.00	(34.00)
10/19/2011	2011-258	6	\$7	42.00	\$12	72.00	42.00*	(30.00)
Totals		915		\$4,725.00		\$8,100.00	\$7,399.00	(\$701.00)

*Cash collection paid to vendor directly.

We conducted an interview with the teacher in charge of the Butter Braid fundraising on 3/31/2014. She stated that all collections were counted and verified by two people and were matched to the invoice order tabulator that indicated the total amount collected and the collections were turned over to the former PTSO president intact.

Recommendation:

We are providing this report to the San Diego Unified Police Department with the recommendation for their criminal investigation of the former PTSO president responsible for the Butter Braid fundraising in the amount of \$701.00.

3. **A personal check in the amount of \$700.00 from the former PTSO President was deposited in the MFCU checking account on 2/28/2012 but this check was returned by the bank due to non-sufficient fund.**

The former PTSO president issued a personal check in the amount of \$700.00 on 2/28/2012 citing on the memo portion "Fundraiser". The check was deposited into the MFCU account but was returned by the bank for non-sufficient funds. A service charge of \$15.00 was debited to the checking account along with the returned deposit. The \$700.00 was not re-deposited to the account.

Recommendation:

We are providing this report to the San Diego Unified Police Department with the recommendation for their criminal investigation of the former PTSO president responsible for the deposit returned by the bank in the amount of \$700.00 and recovery of the \$15.00 service charge.

4. Expenditures totaling \$52,000.82 were not verifiable due to lack of documentation.

Our verification of expenditures from the BofA checking and savings account from 9/30/2008 through 2/18/2011, revealed a total of \$36,335.21 representing 78% of the total disbursements were not supported by original vendor invoices or cash register receipts.

In addition, the expenditures incurred from the MFCU checking and savings account from 3/25/2011 to 3/4/2012 also revealed that a total of \$15,665.61 representing 79% of the total disbursement for the period did not have supporting documentation.

As a result, we were not able to determine the reasonableness or propriety of these expenditures.

Recommendation:

We are providing this report to the San Diego Unified Police Department with the recommendation for their criminal investigation of the former PTSO president responsible for the lack of supporting documentation. The investigation is needed to identify expenditures that were for the benefit of the bookkeeper.

The PTSO should ensure that proper documentation of disbursements exists before issuing a check and should adequately review supporting documentation for completeness and propriety before attaching their signatures on the check.

Supporting documents such as invoices and receipts are essential parts of sound accounting practice and required internal control. Documentation must be kept on file for audit purposes and to validate activity. Original receipts or invoices are to support all payments and not photocopies or facsimile of invoices, statements, packing lists or order forms.

5. The PTSO did not maintain complete accounting records and did not prepare monthly bank reconciliations prior to March 7, 2012. As a result, bank accounts' differences such as unrecorded transactions for ATM withdrawals, debit card charges, overdrafts and bank charges were not promptly detected.

For the BofA accounts, accounting records were not provided by the PTSO. The current bookkeeper had to request from the bank, copies of the bank statements for the period 9/30/2008 to 2/18/2011 - through the account's opening to closure.

For the MFCU accounts, the PTSO maintained a check register from March 2011 through February 2012, but the recording was incomplete and the running balance was inaccurate. The ATM and cash withdrawals were not recorded and payments using the debit card were

also not recorded.

Review and reconciliation are essential in determining if any errors occurred, unauthorized checks were issued or receipts were stolen. The person reconciling the bank statement should be other than the check signors, controller of the checking account and the individual processing transactions. The individual responsible for reconciling the account should receive the unopened bank statement. Segregating the processing of transactions and the reconciliation of accounts would have prevented or quickly revealed a number of the misappropriations. Separating the reconciling is an excellent technique for discovering errors and omissions that may accidentally occur. Poor accounting controls provide the opportunity for the misappropriation of cash receipts or making fraudulent expenditures without the risk of detection.

The current bookkeeper took over the records in March of 2012 and recorded transactions in the check register.

Recommendation:

The PTSO is to maintain good accounting records for all receipts and disbursements of the PTSO funds. Monthly bank reconciliation is essential in order to detect any discrepancies between the books of the entity and the bank.

An individual not involved in collecting and disbursing funds is to review the transactions on bank statements and reconcile the statements to the accounting records each month in a timely manner. Financial reports such as bank reconciliations are to be prepared every month.

6. Collections turned over for deposits were not receipted.

Collections turned over for deposits were not receipted to provide adequate control of funds. As a result, we were not able to determine if all collections were deposited.

The basic premise of cash receipting is that the receipts are written at the time the cash is collected and not at the time the deposit is being made. If the receipts are written at this time, the bookkeeper would have no way of knowing if money is misplaced or has been stolen.

To ensure all monies are collected and deposited intact, collections are to be receipted using pre-numbered or sequentially numbered receipts and deposited promptly in order to protect funds.

Recommendation:

The PTSO is to employ adequate measures of control and procedures, over all monies received, ensures the security of the funds, whether prior to being recorded or recorded and held prior to deposit.

7. Lack of internal controls in using check card or ATM/debit card.

The former PTSO president had a debit card that she used for withdrawing cash from the PTSO's checking and savings accounts. It was also used for payment of personal items.

Generally, disbursements should be made with pre-numbered checks. Using checks for all major cash payments ensures that there is a permanent record of the disbursement. The check should be pre-numbered so that it is accounted for properly. This procedure helps to prevent the issuance of a check that is not recorded in the cash disbursement records.

If possible, check signing should be the responsibility of individuals not maintaining the accounting records.

Recommendation:

We recommend that all disbursements are made by check only. Cash withdrawals should never be made via Automatic Teller Machine (ATM) cards. ATM or debit card should not be obtained for members to lessen the risk of misappropriation of funds.

8. Two BofA checks were written payable to "Cash" in the amount of \$500.00 each.

Our review of the cancelled checks requested from BofA revealed that check numbers 1021 and 1033 were written payable to "Cash" in the amount of \$500.00 each. These checks were dated 7/14/2009 and 7/27/2009 respectively and signed and endorsed by the former PTSO president. These checks did not have any supporting documentation to validate the expenditures.

Recommendation:

For internal control purposes, we recommend that the PTSO should prohibit the issuance of checks payable to "Cash" and require supporting receipts for all checks issued.

9. Some checks issued were only signed by one signor instead of the required two signatures for over \$200.00 disbursement.

- Per PTSO Bylaws Article VIII – Finances Section 4. "Two (2) authorized signatures shall be required on each check over the amount of two-hundred (\$200.00) U.S. dollars. Authorized signers shall be the co-chairs, treasurer, and bookkeeper."

Recommendation:

The PTSO is to follow their bylaws by requiring two signatures on each check over the amount of two hundred (\$200.00) dollars.



TO: W. Stephen Carr, Director, Office of Internal Audit

FROM: Deborah Hatchell-Carter, Principal, Linda Vista Elementary
Deborah Hoeltgen, Teacher, Linda Vista Elementary, and
Linda Vista Elementary School Parent Teacher Student Organization,
Inc., Bookkeeper

DATE: July 7, 2014

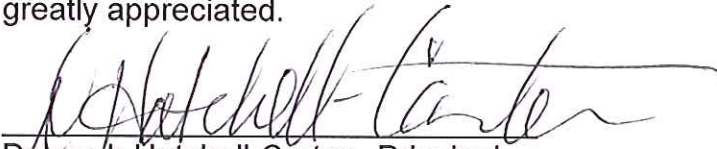
RE: Formal Written Response to Audit Report Dated June 30, 2014

1. This is correct based on the documents available to us for the period July 2009 through March 6, 2012. On March 7, 2012, we were only able to document money inappropriately taken from the Mission Federal Credit Union account. The former PTSO president had promised to return to school all account records and documentation. The former PTSO president signed a promissory note for those funds and paid it off by the following October. On that day, we instituted the following internal controls of the PTSO checking and savings accounts. PTSO officers who are signors on the accounts would not reconcile bank statements. Bookkeeper volunteer position was begun who was not a signor on the account and would maintain an income and expense summary on Excel to provide to principal as required by the district. Bank debit card was collected from the former PTSO president and cut up. The credit union was notified that no debit cards were to be issued on that account. Checks and year end records were to be locked in a school filing cabinet in the office. The bookkeeper would be responsible for all documentation of income and expenses which were never to leave the school. The former PTSO president would have no access to cash or the accounts.
2. This is correct based on the documentation provided to us by San Diego Butter Braids and the teacher who has been in charge of this fundraising event. We have instituted a numbered cash receipts book for cash receivables.
3. This is correct based on the statements from MFCU. This is what lead us to investigate the PTSO account, because our Junior Achievement Biz Town check had bounced twice and was now a collection item. As a courtesy, they contacted me, Deborah Hoeltgen, because I was the lead teacher for Biz Town.


July 7, 2014

4. This is correct. Our former PTSO president had promised to return all PTSO records and documentation from her terms in office. Subsequently, we learned that she would never produce any records or disclose any account numbers from the Bank of America accounts. Also, all financial records and documentation of the previous PTSO president's term, who started the organization, mysteriously disappeared. Now, all year end records (income and expenditures) are kept in the office and current year is in a portable cardboard file with the bookkeeper locked in her classroom closet.
5. The PTSO did maintain complete accounting records and monthly bank reconciliations during the term the PTSO's first president, from 2008 through July 2009. However, these documents disappeared during our former PTSO president's term. Now, all year end records (income and expenditures) are kept in the office and current year is in a portable cardboard file with the bookkeeper locked in her classroom closet.
6. This is correct. We have instituted a numbered cash receipts book for cash receivables.
7. This is correct. We no longer use a PTSO check card or ATM/debit card.
8. This is correct. Currently, the bookkeeper presents to the treasurer and president the monthly bank reconciliation with receipts for all checks. At monthly PTSO meetings, the parents receive copies of the reconciled bank statements with written explanations as to the use of the money for checks and the reason for the income. PTSO agrees with the recommendation not to issue a check payable to "cash."
9. This is correct. We have read our PTSO By-Laws and have instituted the required two signatures for an over \$200 disbursement. Our bookkeeper also makes a copy of those checks to attach to their receipts for additional documentation.

Thank you for hard work and research into this matter. Your thorough audit report is greatly appreciated.


Deborah Hatchell-Carter, Principal


Deborah Hoeltgen, Bookkeeper


SHERRIE YEE, Linda Vista Elementary 2 of 2
PTSO President


Julie Martel, AREA Superintendent