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March 16, 2015

Leroy Walker, School Committee Chairman  
Mary Gormley, Superintendent  
Milton Public Schools  
25 Gile Road  
Milton, MA 02186

Dear Mr. Walker and Ms. Gormley,

StoneTurn Group, LLP (“StoneTurn”) was engaged by the Milton Public Schools (“MPS”) in connection with MPS’s response to an alleged theft of school funds by the former Milton High School Director of Guidance. The alleged theft involved the misappropriation of payments collected from students for Advanced Placement exam fees. The former Director allegedly diverted these payments into a bank account he utilized to pay personal expenses instead of depositing them into MPS accounts.

In response to this theft, MPS asked StoneTurn to assist in its evaluation and enhancement of the internal controls over cash management as well as its assessment of the likelihood of additional instances of similar thefts of funds.<sup>1</sup> Specifically, StoneTurn was asked to do the following:

- Review MPS policies and procedures regarding the collection of funds from students and participants of MPS sponsored programs;
- Evaluate existing cash management practices and assist in creating a comprehensive cash management policy designed to reduce risks related to theft of funds; and
- Test a sample of expected payments by students and program participants over the past five years to verify the deposit of those expected payments into MPS accounts.

This letter summarizes the procedures we performed and our findings associated with those procedures. This review does not constitute a financial statement audit as defined by Generally Accepted Auditing Standards (“GAAS”) or the standards of the Public Company

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<sup>1</sup> It is our understanding that the MPS Food Services Department has a separate policy governing cash management with sound procedures and implemented practices. As a result, MPS asked StoneTurn to exclude Food Services from our review.

Accounting Oversight Board (“PCAOB”); such an audit may have identified additional items.

## **PROCEDURES PERFORMED**

The following procedures, which were performed by StoneTurn, were designed to understand and evaluate the cash management practices of MPS as well as to test a sample of historical payments made into MPS accounts:

### *Cash Management Practices and Policy*

- Interviews with approximately 25 MPS employees to gain an understanding of cash management practices in the various schools and sponsored programs;
- Review and evaluation of existing written policies and internal controls relating to cash deposits and disbursements; and
- Preparation of a draft comprehensive cash management policy governing the processes, procedures and internal controls surrounding cash deposits into, and cash disbursements from, MPS accounts.

### *Testing of Historical Cash Receipts*

- Testing a sample of approximately 300 transactions to confirm that payments that should have been received by MPS were deposited into MPS accounts and not misappropriated. This testing included:
  - (a) An analysis of the five-year trend of cash receipts into each of MPS’s revolving funds;
  - (b) Based on the analysis in (a) and our understanding of MPS practices, we made a selection of programs to test in each of the five years; and
  - (c) For each of the programs selected, a sample of expected payments were selected from either rosters and databases of participants or yearbooks which contained athletics and club participation.
  - (d) For each of the approximately 300 expected payments, we reviewed MPS books and records either to confirm payment was received and deposited into MPS accounts or to understand the reason for non-payment.

## **FINDINGS AND RESULTS**

Below are the key findings resulting from the procedures performed including the identified weaknesses in the existing cash collection process and the results of the testing of historical cash receipts.

### *Weaknesses in Existing Cash Collection Processes*

Our review of policies and discussion with personnel identified a number of weaknesses in the cash collection process. These weaknesses are consistent with those that prevented the detection of the alleged theft by the former Director of Guidance. The three key weaknesses were:

- Lack of separation of duties. For many programs, the existing cash collection process placed primary responsibility for the process on a single individual. For example, an employee sponsoring a field trip would be responsible for (a) determining the per student cost of the trip, (b) collecting payment from students, (c) and determining which students would participate. Only that employee collecting funds would know the list of students who should make a payment. As a result, the Central Office had no mechanism to detect instances where the employee failed to deliver participant payments.
- No process to review amounts collected. Teachers, principals and program leaders often provided cash or checks collected from students to an individual at the MPS Business Office or Community Schools Office (collectively, the “Central Office”) with a self-prepared reconciliation of funds. As a result, there was often no process for an independent calculation of expected payments nor a review of the payments collected for each program.
- No requirement for retention of certain documentation. The existing cash collection processes did not consistently create certain documentation or require retention of key documentation. For example, rosters or attendance sheets of certain programs were not maintained so as to provide an audit trail verifying the correct amount of funds were deposited into MPS accounts based on program participation.

### *Testing Results*

The transactions selected based on our understanding of MPS processes and an analysis of the trend of deposits included 291 expected payments that should have been made between 2008 and 2014. These expected payments are related to programs including after school enrichment, vacation camps, preschool, adult education, kindergarten, and athletics. The 291 expected payments do not include any expected payments in programs where there was no documentation maintained to determine the students participating in the program such as field trips or music programs.

The 291 expected payments also exclude any high school student activity fees for the 2013-2014 school year. Our trend analysis indicated that only a very small amount of High School Student Activity fees for the 2013-2014 school year were deposited into MPS accounts as

compared to prior years. Based on discussion with Milton High School personnel, it appears that these “missing” fees were never collected from students due to a miscommunication between high school staff. In an effort to confirm these fees had not been collected, Central Office staff sent letters to a selection of parents whose students participated in high school activities inquiring whether they had made payments for 2013-2014 high school activities and requesting documentation of any such payments. We understand that no supporting documentation indicating payment was made was provided by the selected parents. This supports the conclusion that these fees were never collected.

We were able to confirm receipt of 282 of the 291 payments using documentation such as check copies, electronic payment confirmations and copies of bank deposit slips. The remaining nine instances of non-payment were explained by students’ qualification for economic hardship, participation in the special education program, removal from sports team due to academic or other issues and removal from programs due to non-payment. As a result, these procedures did not identify any additional areas where expected payments were not deposited to MPS accounts.

#### *Improvements in Cash Collection Process*

Based on the identification of the above-mentioned weaknesses, a new draft policy was prepared that addressed those and other weaknesses and set forth procedures to enhance the controls over the cash collection process. The draft policy also documented existing practices that were not contained in any existing written policy.<sup>2</sup> The draft policy is enclosed as **Attachment 1** and should be applied to all programs where MPS collects cash including those programs that had not previously conformed to any MPS policies. It is our understanding that MPS adopted this policy during the 2014-2015 school year.

- Assignment of key personnel with strict separation of duties. The draft cash management policy identifies several key positions to be assigned in the cash collection process including a Sponsor, Collections Coordinator and an Authorized Collector (See Appendix A of **Attachment 1**). These roles are defined such that no one person is responsible for the complete cycle of cash collections from determining the students required to make payments to the collection and deposit of payments.
- Independent verification of amounts collected and quality review process. The new cash management policy also requires an independent verification of the expected

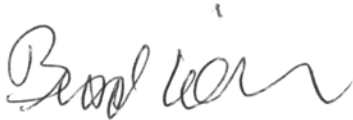
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<sup>2</sup> For example, the MPS existing practices around cash disbursements include a purchase order system; a three-way match between purchase orders, receiving documentation and invoices; approval by MPS leadership and access for review by school committee members. These practices are included in the new draft policy.

amount of collections and the total amount deposited to better ensure the accuracy of each deposit. This will provide the information necessary to perform such a verification as well as a quality review at key steps throughout the cash collection process.

- Document retention requirements. The draft policy requires documentation such as an Approval Letter, Lists of Participants, Inventory and Collections Summary to be prepared where appropriate. This key documentation used to verify the accuracy of collections as well as to document evidence of the deposit of those collections is now required to be retained for a period of no less than five (5) years.

Sincerely,



Brad L. Wilson, CPA  
Partner  
StoneTurn Group, LLP



Tristan Cecala  
Manager  
StoneTurn Group, LLP

# **ATTACHMENT 1**

# MILTON PUBLIC SCHOOLS CASH MANAGEMENT POLICY

## **I. Introduction**

This policy sets forth required processes and procedures for the collection and disbursement of cash, including checks and other cash equivalents, related in any way to academics, athletics or other activities within the Milton Public Schools (“MPS”). The primary objectives of this policy include:

- Reduction of risks related to the loss or theft of funds;
- Protection of MPS personnel from allegations of theft or wrong-doing;
- Retention of documentation for accounting and auditability; and
- Increasing the operational efficiency of the cash management cycle.

The policies set forth below are to be adhered to by all MPS personnel that collect or disburse funds relating to any MPS program, event or activity. This cash management policy supplements, and in some cases supplants, the existing guidance on the handling of funds for the Milton High School student activity accounts or Milton Public Schools Food Services.

## **II. Key Requirements**

- *This policy requires a strict separation of duties. Only MPS personnel with specified authority may receive cash or checks on behalf of MPS. Authority must be approved in advance by the Superintendent. Personnel responsible for coordinating programs, events and activities may not receive cash or checks on behalf of MPS.*
- *Under no circumstance shall MPS personnel open or maintain a bank account for funds received for MPS programs, events or activities. Furthermore, MPS personnel may not hold MPS funds in their personal bank accounts.*

## **III. Cash Receipts Process**

A. The following procedures should be followed for any program, event or activity whereby each participant is to be assessed a specified fee or charge to participate in the activity or attend the event. Each of these programs, events or activities is to be supervised by a Sponsor (i.e. an MPS employee who is directly responsible for planning and conducting the activity such as a classroom teacher or program leader.

1. When a Sponsor is planning a program, event or activity that requires the collection of funds, the Sponsor shall:
  - a. Create an *Approval Letter*, a letter to participants (or parents/guardians), which contains the following information (1) general description of the

program, event or activity, (2) date of, or date range covering, the duration of the event or activity, (3) the amount of fee and methods of payment available, and (4) notification that all cash and check payments should be made directly to Milton Public Schools and provided to the Collections Coordinator; and

- b. Provide to the Collections Coordinator, (1) the *Approval letter*, (2) a *List of Participants*, a list which contains the names of every individual who are expected to participate in the program, event or activity, (3) the dates funds will be collected and the expected amount to be collected, (4) if necessary, a detailed calculation of the fee amount
2. The Collections Coordinator and other Authorized Collectors shall be the only individuals authorized to receive cash and checks and shall be approved in advance by the Superintendent. These individuals shall receive all cash and check payments directly from participants or parents. If Authorized Collectors receive payments, those payments should be provided to the Collections Coordinator as soon as possible.
3. The Collections Coordinator will record these payments, as well as any electronic payments made, in the *List of Participants* provided by the Sponsor. A representative from the Business Office, or another appointed individual, shall be responsible for providing the Collections Coordinator weekly (or more frequently, if necessary) reports of all electronic payments made to Milton Public Schools (i.e. UniPay).
4. On a weekly basis (or more frequently, if necessary), the Collections Coordinator will provide the Sponsor with an *Updated List of Paid Participants* with notations of payments received as well as calculation of the initial amount expected, the payments received-to-date and the amount outstanding.
5. On a weekly basis (or more frequently, if necessary), the Collections Coordinator will provide the business office with (1) all cash and check payments received, including copies of all checks, (2) the *Updated List of Paid Participants* for each program, and (3) a *Collections Summary* listing the total amount collected by program. If the amount collected and the impact of any changes to the list do not equal the initial amount expected, an explanation of the variance should be provided.
6. A representative from the MPS Central Office or another appointed individual<sup>1</sup> shall be responsible for (1) comparing the *List of Participants* to the *Updated List of Paid Participants* for consistency, (2) reviewing the calculations on the *Updated List of Paid Participants*, (3) confirming the amounts received per the *Updated List of Paid Participants* is consistent with the cash and checks to be deposited, (4) making necessary entries into the MPS accounting system(s) (i.e. Zobrio or Schoolbooks) and (5) depositing all funds received with the Town Hall, Student Activity Savings Account or other approved MPS account.
7. Before completion of the program, the Sponsor should provide a list of changes or exceptions to the *List of Participants* to both the Collections Coordinator and the Business office.

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<sup>1</sup> Student Activity Accounts Receipts Director.



8. The Collections Coordinator will prepare a *Final List of Paid Participants* which shall include notations of payments received as well as calculation of the initial amount expected, payments received, the impact of changes and exceptions. If the amount collected and the impact of any changes to the list do not equal the initial amount expected, an explanation of the variance should be provided. The Collections Coordinator shall sign the *Final List of Paid Participants* certifying its accuracy and completeness and assuming responsibility for any errors or omissions.
- B. The following procedures should be followed for any activity where cash or check payments are received in exchange for products including ticket sales for athletic events, concerts and other performing arts.
1. The Sponsor shall ensure that an *Inventory* of goods available for sale is maintained including the number available for sale. This *Inventory* should be supported by third party records if possible (i.e., invoices for product purchases). An *Inventory* is not necessary for ticket sales. For ticket sales, the number of the first available ticket shall be recorded prior to the event.
    - a. When cash is collected, it shall be provided to the Collections Coordinator or Authorized Collector as soon as possible. The cash should be provided along with a *Deposit Form* including (1) a description of the items sold, (2) the total amount received, and (3) two signatures confirming the deposit is complete and accurate including confirming that amounts correspond accurately to the number of tickets sold or the *Inventory*, and (4) an updated *Inventory* reflecting the sales. For ticket sales, the numbers of the first and last numbered tickets following the conclusion of the event should be provided.
  2. On a weekly basis (or more frequently, if necessary), the Collections Coordinator will provide the business office with (1) all cash and check payments received, including copies of all checks and (2) the *Deposit Forms* and *Inventories* for each activity.
  3. A representative from the MPS Business Office or another appointed individual<sup>2</sup> shall be responsible for (1) comparing the *Deposit Forms* to the *Inventory* for consistency, (2) reviewing the calculations on the *Inventory and Deposit Forms*, (3) confirming the amounts received per the *Deposit Forms* is consistent with the cash and checks to be deposited, (4) making necessary entries into the MPS accounting system(s) (i.e. Zobrio or Schoolbooks) and (4) depositing all funds received with the Town Hall, Student Activity Savings Account or other approved MPS account.

#### **IV. Cash Disbursements Process**

- A. The following procedures shall be followed for any teacher, advisor, administrator or other employee seeking to use funds within the Milton Public school system. Any disbursements to

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<sup>2</sup> Appointed by MPS Superintendent.

be made from Student Activity accounts should refer instead to the MPS High School Student Activity Accounts policy.

1. All MPS personnel must first fill out and sign a pre-printed Purchase Order.
2. The requestor must then provide the Purchase Order to either the Principal, Department Head or Program Director for approval.
3. After the Purchase Order is completed and approved, it shall be sent to the Business Office for final approval by the Assistant Superintendent or Superintendent.<sup>3</sup> After the Purchase Order is processed by Business Office personnel, a copy will be provided to the vendor.
4. When the invoice is received from the vendor, it will be matched with the purchase order and the initial requestor will approve payment. All approved payments will be included in the next appropriate warrant report (the listing of checks to be paid).

B. In the limited instances where it is not feasible to follow the Purchase Order process above, then MPS personnel will adhere to the following procedures. Any disbursements to be made from Student Activity accounts should refer instead to the MPS High School Student Activity Accounts policy.

1. Personnel may remit payment directly to a vendor from their own personal funds, if necessary, with the understanding that they may not be reimbursed by MPS if prior approval is not received.
2. The employee must fill out and sign a pre-printed *Reimbursement Form* describing the purchase (including justification for not utilizing the Purchase Order process) and requesting reimbursement.
3. The requestor must then provide the *Reimbursement Form* to either the Principal, Department Head or Program Director for approval.
4. After the *Reimbursement Form* is completed and approved, it shall be sent to the Business Office for final approval by the Assistant Superintendent or Superintendent.<sup>4</sup>
5. After obtaining advanced approval, MPS Central Office personnel will enter the reimbursement request into the accounting system. All approved payments will be included in the next appropriate warrant report (the listing of checks to be paid).

## **VI. Quality Review of Cash Receipts Processes**

A. There shall be various levels of review that occur at specified points throughout the cash receipts process to ensure that deposits are accurately recorded, tracked and accounted for.

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<sup>3</sup> Final Approval may not be given by the initial requestor.

<sup>4</sup> Final Approval may not be given by the employee requesting reimbursement.

1. The Program Sponsor shall verify the accuracy of the *Approval Letter* and *List of Expected Participants* prior to sending to the Collections Coordinator.
2. The Collections Coordinator shall verify the accuracy of the *Final List of Paid Participants*, the *Collections Summary*, *Inventory form*, *Deposit form* and reconciliation of tickets sold and amounts received. The Collections Coordinator is responsible for any inaccuracies in the above documents and should communicate any variances or inconsistencies with the Program Sponsor and MPS Central Office as necessary.
3. The relevant Principal or Program Director<sup>5</sup> shall review the *Approval Letter* and the *Final List of Paid Participants* or the *Deposit Form* and *Inventory* and sign the documents to evidence their review.
4. The Assistant Superintendent shall perform a monthly review *Approval Letters*, *Final Lists of Participants*, *Collections Summaries*, *Deposit Forms* and *Inventories* to ensure accuracy.<sup>6</sup>

## **VI. Document Retention**

- A. The following documents shall be retained for a period of no less than five (5) years for auditability purposes:
1. *Approval Letter*,
  2. *Final List of Paid Participants*,
  3. *Collections Summary*,
  4. *Copies of all checks received*,
  5. *Inventory Form*, and
  6. *Deposit Form*.

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<sup>5</sup> Student Accounts Director for MPS High School Activity Accounts.

<sup>6</sup> These records should also be available for the Superintendent's periodic review.

**APPENDIX A: Key Personnel**

<b>Title</b>	<b>Description and List of Duties</b>
<u>Sponsor</u>	An MPS employee responsible for planning and conducting a program, event or activity that involves the collection of funds from students/participants (i.e. classroom teacher or program leader).
<u>Collections Coordinator</u>	An MPS employee approved in advance by the Superintendent who receives all cash and check payments directly from participants (or parents) of a specific activity. The Collections Coordinator <b><u>may not</u></b> be the same individual as the Sponsor.
<u>Authorized Collector</u>	An MPS employee approved in advance by the Superintendent who receives all cash and check payments directly from participants (or parents) for various activities. The Authorized Collector <b><u>may not</u></b> be a Sponsor for any activity.
<u>Principal, Vice Principal or Program Director</u>	The individual responsible for the oversight of a fund collecting program, activity or event.
<u>Superintendent or Assistant Superintendent</u>	Individual responsible for oversight of the MPS Business Office.

**APPENDIX B: Key Documentation**

<b>Title</b>	<b>Description and List of Duties</b>
<i>Approval Letter</i>	A letter to participants (or parents/guardians) regarding an upcoming program, event or activity, which contains the following information.
<i>List of Participants</i>	A list initially created by a Sponsor that includes participants that will participate in a program, event or activity. This list shall also contain an approximate calculation of the amounts to be collected from the participants for a particular activity.
<i>Updated List of Paid Participants</i>	A version of the <i>List of Participants</i> that has been sent from the <u>Sponsor</u> to the <u>Collections Coordinator</u> and reflects payments made by program participants.
<i>Final List of Paid Participants</i>	A finalized version of the <i>Updated List of Paid Participants</i> that contains all payments received from participants as well as any exceptions or waivers.
<i>Inventory</i>	A list of purchased goods that reflects the quantity and cost of all items purchased as well as the quantity and price at which all items were subsequently sold.
<i>Collections Summary</i>	A summary of all cash, check and cash equivalent payments received by the <u>Collections Coordinator</u> by activity for deposit.
<i>Deposit Form</i>	A document that shall accompany funds received from sales activities (including ticket sales) that contains information about the items sold and amounts received.