



January 31, 2018

MEMORANDUM

To: Kristil Fossett, Instructional Director
Cluster 8

Emmett Hendershot, Principal
Charles Carroll Middle School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for July 1, 2014 through November 30, 2017

An audit of the financial records of **Charles Carroll Middle School** was conducted for the period July 1, 2014 through November 30, 2017. The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures for School Activity Funds (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit 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, Chief Executive Officer and other parties specifically stated in this transmittal letter. This report is not intended and should not be used by anyone other than the specified parties.

Enc.

cc: Segun Eubanks, Ed. D., Chair, Board of Education
Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Carolyn Boston, Vice Chair, Board of Education
Lupi Quinteros-Grady, Member, Board of Education, District II
Monique Whittington-Davis, Ed. D, Deputy Superintendent
John Pfister, Chief Financial Officer
J. Michael Dougherty, CPA, Esq.,
Helen Coley, Ed. D, Associate Superintendent, Area II
Erica Berry Wilson, Esq., Executive Director, Board of Education
Derrick Martin, Internal Auditor II

Internal Audit Report

Charles Carroll Middle School Student Activity Funds

For the Period Ended November 30, 2017

Charles Carroll Middle School
Student Activity Funds
Internal Audit Report
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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Charles Carroll Middle for the period July 1, 2014 to November 30, 2017. Charles Carroll 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:

- *Record Retention*
- *Transfers Not Properly Approved*
- *Vending Machine Contract*
- *Administration of Voided Checks*
- *Fundraising Forms*

Individually or in the aggregate, these findings resulted in 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 November 30, 2017.



Michele Winston, CPA
Director, Internal Audit

Charles Carroll Middle School
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SUMMARY

The Internal Audit Department completed an audit of student activity funds (SAF) for Charles Carroll Middle School for the period July 1, 2014 to November 30, 2017.

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 Accounting Procedures Manual (APM) and the Board of Education (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, financial reports, available cancelled checks, all voided checks, and Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2014 to November 30, 2017. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

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FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations:

2018.01 Record Retention

During the audit **56** MTF remittances from FY 2016 and **20** MTF remittances from FY 2017 were not made available for review.

The APM Section 6.12 *Record Retention* requires all accounting records and supporting documentation to be open at all times for the auditors. Board policy for the retention of records is **7** years or until audited.

Reportedly, certain MTFs were not made available upon request. The end of the year envelopes that housed missing MTF remittances were misplaced.

Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

Recommendation: The principal must ensure that financial records are retained in an organized manner for the stipulated period of **7** years. The principal should oversee the process for ensuring school records are properly maintained and secured. Staff should be held accountable for compliance.

2018.02 Transfers Not Properly Approved

There were **40** instances where the principal did not approve the Fund Transfer Journal Entry Proof Sheet for restricted fund transfers processed during the audit period.

The APM Section 4.5.4.2 *Transfers between Restricted and Unrestricted/Net Accounts* states, "Transfers between restricted accounts are only authorized if reviewed and approved by the principal."

Neither the principal nor the recordkeeping staff was aware of the need to document, approve and retain the Fund Transfer Journal Entry Proof Sheet for restricted fund transfers.

BOE policies and procedures are violated when transfers are made without the principal's approval or are inappropriately performed. Inappropriate transfers result in misstated financial information presented to administrators for decision-making.

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Recommendation: The principal and recordkeeping staff should ensure that only allowable transfers are completed and supported with an approved Fund Transfer Journal Entry Proof Sheet retained on file as evidence of compliance.

2018.03 Vending Machine Contract

There are **1** faculty **and 4** student vending machines located throughout the school. However, there is no contract in place that specifies commission due and specific terms.

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

The recordkeeping staff and school administrators were unable to locate a signed contract or to contact the vendor to obtain an appropriate contract for the vending machines. Failure to have a formal contract in place constitutes non-compliance with BOE policies and procedures. The lack of an agreement with the vending company may increase the risk of inadequate maintenance of the machines and insufficient commission revenue from vending machines.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are established and maintained on file in compliance with BOE policies and procedures. Purchasing and Supply Services should be contacted to locate an alternate vending company since the current vending company cannot be contacted to obtain a contract that complies with requirements of the APM.

2018.04 Administration of Voided Checks

There were **14** instances where the Void Check Proof Sheets and/or SFEFs were not completed by responsible personnel and approved by the principal.

The 2008 School Accounting Manual section 4.5.3.2.4, *Voiding Checks* instructs that when voiding a check, the physical check must still be accounted for. 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 also be voided in the computer. A SFEF or Void Check Proof Sheet should also be completed and approved by the principal, noting the check was voided.

The school personnel responsible for ensuring that checks are appropriately voided was not familiar with internal controls regarding voided checks. Inappropriate administration of checks exposes the school to fraud, waste and abuse of its resources.

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Recommendation: The principal and school personnel with check-voiding responsibilities must review the APM to be familiar with the requirements for voiding checks. The principal and recordkeeping staff must acknowledge the importance of administering checks as required by the APM. Controls must be implemented to ensure that all voided checks are reviewed and approved by the principal. Evidence of approval must be documented on the Void Check Proof Sheet or a SFEF and retained for Internal Audit review.

2018.05 Fundraiser Forms

The school held several fundraisers during the audit period. However, Fundraiser Completion Reports and annual reports summarizing fundraising activities 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 report should be available for review by parents, other interested members of the community, and include the net amount retained as profit from each fundraising activity.

Reportedly, the principal did not establish accountability for ensuring that required fundraising forms were prepared and submitted. It is difficult to determine whether the fundraisers conducted by the school yielded any financial benefit or loss. Financial records are not complete and information may not be available to make informed decisions on continuing fundraising activities.

Recommendation: The principal should hold staff accountable for Fundraiser Completion Reports for all fundraising activities. The fundraising process should be managed by the principal assigning responsibility for distribution of relevant fundraiser forms. The principal should also compile or instruct preparation of annual fundraising summary reports each year as required by the APM.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Charles Carroll Middle School was issued for the period ended March 31, 2012. During that period, neither the principal nor the recordkeeping staff held their current positions. The previous audit report included **10** reportable conditions. There was no repeated finding identified during the current audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Deficit in Principal Sponsored Activity Fund Account** – Controls appear to be working.
- **Yearbook Deficit in FY 2011** – Controls appear to be working.
- **Safeguarding/Accessibility of Assets** – Controls appear to be working.
- **Delinquent Deposits** – Controls appear to be working.
- **Incomplete and/or Inadequate Supporting Documentation for Disbursements** – Controls appear to be working.
- **Payment for Services Rendered** – Controls appear to be working
- **Check Writing** – Controls appear to be working.
- **Items Purchased with Student Activity Funds Not on Inventory Listing** – Controls appear to be working.
- **Non-Local Travel** – Controls appear to be working.
- **Segregation of Duties** – Controls appear to be working.

ACKNOWLEDGEMENT

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