



November 30, 2017

MEMORANDUM

To: Brian Baudoin, Instructional Director
Cluster 7

Cynthia Rodgers, Acting Principal
Paint Branch Elementary School

From: Michele Winston, CPA, Director
Internal Audit

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

An audit of the financial records **Paint Branch Elementary School** was completed on for the period June 1, 2012 through September 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) for School Activity Funds (SAF) 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: Kevin Maxwell, Ph. D., Chief Executive Officer of Schools
Segun Eubanks, Ed. D., Board Chair
Carolyn Boston, Vice Chair, Board of Education
Lupi Grady, Board Member, District II
Monique Whittington Davis, Ed. D., Deputy Superintendent
Helen Coley, Ed. D., Associate Superintendent, Area II
Erica Berry Wilson, Esq., Board Executive Director
Michael Dougherty, Director Financial Services
Alicia Robinson, Internal Auditor II

Internal Audit Report

Paint Branch Elementary School Student Activity Funds

For the Period Ended September 30, 2017

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Student Activity Funds
Internal Audit Report
For Period Ended September 30, 2017**

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Paint Branch Elementary School for the period June 1, 2012 to September 30, 2017. Paint Branch Elementary School's principal is responsible for the administration of the 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:

- *Mismanagement of Fund Received,*
- *Unauthorized Check Signer,*
- *Year-End Monetary Transmittal Form Envelope Submission,*
- *Administration of Sales Tax,*
- *Administration of Voided Checks,*
- *Vending Contract,*
- *Fundraiser Forms, and*
- *Unauthorized Transfer of Funds*

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

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 September 30, 2017.



Michele Winston, CPA
Director, Internal Audit

**Paint Branch Elementary School
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SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Paint Branch Elementary School for the period June 1, 2012 through September 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 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 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 complied 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 selected bank statements, financial reports, cancelled checks, voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period June 1, 2012 to September 30, 2017. Also, available 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 Mismanagement of Funds Received

There were at least **6** instances of non-compliance regarding the administration of funds received. The following indicates the issues of non-compliance:

- A. ***Segregation of Duties:*** There was at least **1** instance where the current bookkeeper collected and deposited proceeds from the FY 2017 Claire's Gourmet fundraiser without preparing a MTF.
- B. ***Delinquent Deposits:*** There were at least **3** instances where funds collected for various school activities were held for a longer period than required (**5** or more days) by the bookkeeper, prior to deposits with the financial institution.
- C. ***Incomplete and/or Missing Documentation:*** There were at least **2** instances where supporting documentation for funds collected was not provided or was incomplete. The school store sponsor did not submit documentation for sales generated. The music instructor submitted incomplete documentation for recorder sales. ***This finding was noted during the previous audit period ended May 2012.***

The APM section 4.5.2.2 (1), (2) *Collecting Funds* requires that the bookkeeper verify the MTF with the documentation submitted. Under no circumstances should the bookkeeper accept and/or collect funds without a completed MTF. Also, **all** funds collected should be remitted to the bookkeeper on the day of collection. The bookkeeper is also required to make timely deposits with the financial institution. Deposits are recommended at least every other day when funds under \$250.00 are collected. Funds collected in excess of \$250.00 are required to be deposited on the day of collection.

The bookkeeper was not aware that she could not collect funds from students without a MTF. The bookkeeper indicated that she was following the procedures from the former bookkeeper. The current and former bookkeepers were not always able to leave school at a reasonable time to make the deposit prior to the bank closing.

Internal controls are compromised when the bookkeeper receives funds directly, funds are retained in the school for several days and documentation is incomplete. Delinquent deposits violate the school's compliance with APM requirements. The audit trail for reviewing cash receipts are compromised when there is inadequate segregation of duties, deposits are delinquent and supporting documentation is incomplete or unavailable.

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Recommendation: The following recommendations resulted from the audit of funds received:

- A. The principal should designate someone other than the bookkeeper to collect funds presented directly to the school office. (i.e. school-wide fundraisers, t-shirt sales, etc.)
- B. The bookkeeper should ensure that she is only verifying and not collecting directly funds submitted with a completed MTF and appropriate documentation.
- C. The bookkeeper should ensure that all funds received are deposited promptly with the financial institution. Also, the bookkeeper should be held accountable for making timely deposits.
- D. The principal should complete a periodic review of the cash receipt files to ensure compliance with Board policies and procedures (funds are remitted and deposited timely and detailed validated deposit tickets are attached to MTF).
- E. The bookkeeper should familiarize herself with the policies and procedures regarding the administration of funds received as established in the January 2016 APM.

2018.02 Unauthorized Check Signer

The former principal's name has not been removed from the school's checking account. The former principal resigned in August 2017. The acting principal's name has not been added to the school's checking account for check signing privileges.

Administrative Procedure (AP) 4180 *School Bank Accounts: Opening of New Accounts and Changing Signatures* requires 3 individuals to be designated check signers on the school's account. The 2 standard check signers are the principal and bookkeeper. The third alternate check signer should be a vice principal or other school administrator. AP 4180 also requires immediate update of the school's signature card when there is a personnel change involving an authorized signer.

The acting principal was aware that her name should be added to the school's checking account and that the former principal's name should have been removed. The current principal stated that there has not been sufficient time for her and the bookkeeper to complete the task of changing signatories on the school's checking account since she arrived in August 2017.

Internal controls are compromised when required Board policies are not followed. There is the potential for unintended access to the school's SAF.

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Recommendation: The acting principal and bookkeeper should immediately initiate the process of updating the school's signatory card in accordance with requirements set forth in the AP 4180. Confirmation that an updated bank signatory has been accomplished should be sent to Internal Audit and a copy of the bank signatory card should be retained in the school's safe.

2018.03 Year-End Monetary Transmittal Form Envelope Submission

The year-end MTF submission process did not operate as outlined in the APM. The bookkeeper collected FY 2017 year-end MTFs. Also, FY 2017 year-end MTFs were not submitted in sealed, signed envelopes.

The APM *Exhibit B: Staff Responsibility for School Activity Funds* requires that the principal designate an administrator to retrieve signed and sealed MTF envelopes from staff collecting SAF during the year. Also, the bookkeeper should be prohibited from accepting year-end MTF envelopes from staff.

The current bookkeeper was not aware that she could not accept year-end MTFs from teachers. She also was not aware that the year-end MTF envelopes are required to be signed and sealed. The bookkeeper reportedly followed the practice of the former bookkeeper, which could not be verified since the former bookkeeper retired in 2016.

The audit trail for reviewing cash collections is compromised when the bookkeeper is allowed to collect the year-end staff MTFs. The potential for unidentified loss of assets increased.

Recommendation: The principal should designate someone other than the bookkeeper to collect the signed, sealed envelopes and store them in a place that is inaccessible to the bookkeeper. The bookkeeper should familiarize herself with the policies and procedures established in the APM to ensure compliance with MTF submission.

2018.04 Administration of Sales Tax

There were at least 6 instances of non-compliance regarding the sales tax. The following indicates the issues of non-compliance:

- ***Sales Tax Not Collected on Taxable Items Sold*** – There were at least 3 instances where sales taxes were not collected for school store and music recorder sales. ***This finding was noted during the previous audit period ended May 2012.***
- ***Sales Tax paid on Fundraiser Items Sold*** – There were at least 3 instances where sales tax was paid on the t-shirt fundraiser which is no longer required.

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The APM section 8.3 *Sales Tax Procedures* require sales tax to be assessed on all non-fundraising sales. Administrative Procedure 5137 *Sales Tax* provides direction to school principals for the collection and remittance of sales taxes resulting from the sale of goods and merchandise. Also, *HB234 Sales and Use Tax Exemption for Parent-Teacher Organization Fundraisers* was passed in 2013 exempting assessment of sales tax on fundraising proceeds.

The current and former bookkeepers were not aware that sale of fundraiser items are exempted from sales tax. Also, the bookkeeper was not aware that sales tax had to be paid on other non-fundraiser items sold.

The school's resources were not used efficiently. The school has violated BOE and the State policies and procedures. Also, due to sales tax not being assessed and/or paid for taxable items there is a potential for the school to be assessed penalties and interest.

Recommendation: The bookkeeper should familiarize herself with policies and procedures regarding sales tax collection and remittance. The principal should complete a periodic review of applicable documents to ensure compliance with the State of Maryland and the BOE sales tax remittance requirements.

2018.05 Administration of Voided Checks

There were **25** instances of non-compliance relative to the administration of voided checks. The following non-compliances were noted:

- A. ***Voided Checks Not Entered in the School's Accounting System:*** There were at least **2** instances where voided checks were not entered and/or not properly voided in the accounting system.
- B. ***Voided Checks Not Properly Mutilated and/or Retained on File:*** There were at least **3** instances where checks were not properly voided by removal of the signature line. The current bookkeeper mistakenly printed over the 3 checks.
- C. ***Unsigned School Funds Expenditure Forms (SFEF) or Void Check Proof Sheets (VCPS):*** There were at least **20** instances where the SFEF or VCPS were either not completed by the bookkeeper or not signed by the principal. Both the current and former bookkeepers did not complete or have the principal sign VCPS indicating the checks were voided.

The following guidelines are established in the APM relative to voided checks:

- A. The check must be voided in the computer.

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- B. When a check is voided, 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. Voided checks should be retained on file.
- C. A SFEF or a VCPS from SFO should also be completed, noting that the check was voided. The principal is required to sign the SFEF or the VCPS to acknowledge that the check was voided. The physical check is then filed in check number sequence with images of cancelled checks.

The non-compliance regarding management of disbursements resulted from the following:

- A. The former bookkeeper did not enter one of the voided checks into the accounting system. Also, the former bookkeeper entered the other check as zero amount instead of voiding the check in the accounting system.
- B. The current bookkeeper was aware that the signature line had to be removed from the voided checks, but failed to do so due to excessive workload. Other checks were properly voided.
- C. The former and current bookkeepers were not aware that the principal had to sign the SFEF and/or VCPS acknowledging that the check was void.

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

Recommendation: The following is recommended for Paint Branch Elementary School to comply with policies and procedures for appropriate management of voided checks:

- A. The principal and bookkeeper should establish and document procedures to ensure that there is proper administration of voided checks.
- B. Voided checks should have completed SFEF or VCPS signed by the principal, entered into SFO and be properly defaced.
- C. The principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures. All check signers must take the time to get familiar with the policy and procedures set forth in the APM regarding voiding checks.

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2018.06 Vending Contract Not on File

The school does not have a vending contract on file. The school's vending company, ACBLES, Inc., is an approved vendor; however, a contract was not submitted for the current principal to sign. The current bookkeeper could not locate a vending contract for previous years.

Administrative Procedure (AP) 5135.2 *Principal's Contracting Authority* states that the principals are authorized to execute contracts committing funds SAF funds. Contracts should only be signed for a one-year agreement. All contracts should be maintained at the school and on file with Purchasing and Supply Services.

The current bookkeeper could not locate the contract with the vending company within the former bookkeeper's records and was not aware of its existence. The vending company did not provide a contract upon request.

Without a vending contract, the terms and conditions for vending service cannot be determined. Also, the percentage of vending proceeds due the school and the timeframe for receiving those funds is not established. Students may not have received the benefits they should have received from the school having purchases from the vending machine.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are established, adhered to, and maintained on file in compliance with BOE policies and procedures. The principal should consult with Purchasing and Supply Services to identify an alternate vending company in absence of a contract.

2018.07 Fundraiser Forms

Requirements for administering fundraisers were not always complied with during the audit period. The school held several fundraising activities e.g.: candy gram sales, dances and t-shirt sales. Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and annual reports summarizing fundraising activities were not completed. Fundraising forms for FY 2016 could not be located.

Administrative Procedure 5135.1, *Fundraising* requires schools to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and annual reports summarizing the results of all fundraising activities sponsored. These documents must be maintained on file for public and auditor review upon request.

The current bookkeeper did not follow up with responsible staff when fundraisers were held to ensure applicable reports were completed. It could not be readily determined that the school's fundraisers yielded profit for the school. Also, pertinent financial information for the school's administrators to make fiscal decisions was not available.

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Recommendation: The principal must establish procedures to ensure completion of Fundraiser Request and Authorization Forms, Completion Reports and annual reports summarizing the results of fundraising activities held during the school year. Required reports must be maintained on file for public and auditor review. Staff should be held accountable for compliance.

2018.08 Unauthorized Transfer of Funds

There were at least **4** instances where inappropriate transfers were processed during the audit period. The former bookkeeper performed **3** such transfers totaling **\$2,750.25** from PY Carryover to Unrestricted Postage, Classroom Materials and Office Supplies in May 2016. The current bookkeeper transferred funds totaling **\$32.64** from unrestricted Claire's Gourmet to restricted School Store in January 2017 to offset the deficit in the account. The transfers were not reviewed and/or approved by Accounting Operations and the principal prior to processing.

The APM section 4.5.5 *Prior-Year (PY) Carryover Funds* states that principals' may request the use of PY Carryover funds to purchase instructional materials, computers, maintenance needs, or other items for the school. The request must be sent to the Accounting and Financial Reporting Office detailing the reason for the transfer. Only upon written approval should funds be transferred from the PY Carryover account.

Also, 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.

The former bookkeeper did not request approval from Accounting and Financial Reporting to transfer funds from PY Carryover to various unrestricted accounts to offset the deficit in those accounts. Also, the current bookkeeper was not aware that she was not allowed to transfer from the unrestricted fundraiser account to offset the small deficit to the School Store account without principal approval.

Inappropriate transfers result in misstatement of financial information presented to administrators for decision-making.

Recommendation: The principal and bookkeeper should ensure that only allowable transfers are completed with appropriate documentation and approval from the principal or the Accounting and Financial Reporting Office.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Paint Branch School was issued for the period ended May 31, 2012. The current principal and bookkeeper were not on staff during the previous audit. The current principal's tenure began in August 2017 and the bookkeeper's tenure began in August 2016. There were **9** findings noted as a result of that audit. There were **2** 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:

- **Deficit in Principal Sponsored Activities Account** - Controls appear to be working.
- **Incomplete and/or Inadequate Documentation for Receipts** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Changes on Monetary Transmittal Forms Improperly Made** – Controls appear to be working.
- **Transactions Posting** – Controls appear to be working.
- **Unallowable Use of Student Activity Funds** – Controls appear to be working.
- **Lack of Pre-Approval of School Expenditures** – Controls appear to be working.
- **Sales Taxes not collected for Items Sold** – Condition still exists. See **Finding 2018.04** regarding *Administration of Sales Tax*.
- **Payments for Services Rendered** – Controls appear to be working.
- **Grants and Donations** – Controls appear to be working.

ACKNOWLEDGEMENT

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