



March 28, 2019

**MEMORANDUM**

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

Roger Prince, Principal  
Rockledge Elementary School

From: Michele Winston, CPA  
Director Internal Audit

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

An audit was completed on the financial records of **Rockledge Elementary School** for the period October 1, 2015 to December 31, 2018. The audit indicates that the school's control environment is strong but requires further improvement to ensure full compliance with BOE 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 29, 2019 indicating steps that will be taken to ensure compliance with the School Accounting Manual. Send your signed action plan to the Internal Audit Office, Sasscer Administration Building. 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 at [internal.audit@pgcps.org](mailto:internal.audit@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).

Enclosure

cc: Alvin Thornton, Ph. D., Chairman of the Board of Education  
Monica Goldson, Ed. D, Interim Chief Executive Officer  
Members, Board of Education  
Christian Rhodes, Chief of Staff  
J. Michael Dougherty, Director, Financial Services  
Michael Herbstman, Chief Financial Officer  
Kassandra Lassiter, Ed. D., Associate Superintendent, Elementary Schools  
Helen Coley, Ed. D., Chief, School Support and Leadership  
Joeday Newsom, Ethics Compliance Officer  
Daniel Reagan, Internal Auditor II

# Internal Audit Report

## Rockledge Elementary School Student Activity Funds

For the Period Ended December 31, 2018

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Rockledge Elementary School for the period October 1, 2015 to December 31, 2018. Rockledge 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:

- *Delinquent Deposits;*
- *Invalid Check Signatures;*
- *Lack of Pre-Approval for Disbursements;*
- *Sales Tax Not Properly Accounted For; and*
- *Fundraiser Forms Not Completed.*

Individually or in aggregate, these findings resulted in a 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 December 31, 2018.

Michele Winston, CPA  
Director, Internal Audit

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**SUMMARY**

The Internal Audit Department completed an audit of student activity funds (SAF) for Rockledge Elementary School for the period October 1, 2015 to December 31, 2018. The audit was performed as part of the annual audit plan.

The audit indicated that the school's financial controls are strong but require further improvement to be in full compliance with the Accounting Procedures Manual for School Activity Funds (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.

**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, financial reports, available cancelled checks all voided checks and monetary transmittal form (MTF) envelopes submitted by staff for the period October 1, 2015 to December 31, 2018. 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:

**2019.01 Delinquent Deposits**

There were **34** instances where deposits were made between 1 and 14 days after collection.

The Accounting Procedures Manual (APM), Section 4.5.2.2, *Cash Receipts, Procedures* states that school staff is required to make deposit of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight.

The current financial recordkeeping staff stated that they were not aware of the specific requirements in the APM for deposits to be made at least every other day. Further, coverage responsibilities in the front office have prevented the financial recordkeeping staff from prioritizing frequent trips to the bank. They have waited for funds to accumulate to a significant amount before making a bank deposit. The current Principal had not reviewed the documentation to identify that deposits were not being made timely.

Delinquent deposits constitute non-compliance with BOE policies and procedures and increases financial risk to the school. Untimely deposits can lead to lost or stolen funds. In addition, funds received are not immediately available for student use.

**Recommendation:** The current Principal and current financial recordkeeping staff should immediately familiarize themselves with specific requirements for deposits in the APM. Subsequently, the current financial recordkeeping staff should incorporate more frequent deposits into their schedule. The Principal should provide support by relieving financial recordkeeping staff from front office coverage to making prompt bank deposits. The Principal should also provide oversight to ensure that bank deposits are being made promptly.

**2019.02 Invalid Check Signatures**

The following instances of invalid check signatures were noted:

- A. There were **2** instances where the former financial recordkeeping staff signed reimbursements made out to themselves.
  
- B. There was **1** instance where a check had only the principal's signature.

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The SAF Accounting Procedures Manual (APM), Section 4.5.3, *Cash Disbursements* states that two signatures are required on all checks. The two standard check signers should be the Principal and the Bookkeeper. The third signer must be a vice-Principal or school administrator. Check signers, in instances where reimbursement is necessary, should not sign their own reimbursement check. This responsibility lies with the two alternate signers.

All 3 instances occurred during the current principal's first year, FY 17. The current Principal could not recall the 3 specific instances listed above, but explained that during the transition period, controls over the administration of checks were lacking. Controls have improved in subsequent years to ensure appropriate check signatures.

The lack of proper check signatures constitute non-compliance with BOE policies and procedures and increases financial risk to the school. The separation of duties required for check signatures is a key control to prevent check fraud.

**Recommendation:** The current Principal and current financial recordkeeping staff should ensure that two signatures are included on every check and that individuals do not sign their own reimbursement checks. The current Principal should conduct reviews of check images on bank statements to ensure full compliance.

### **2019.03 Lack of Pre-Approval for Disbursements**

There were 5 instances where purchases were made prior to pre-approval from the current Principal. The current Principal did not date his signature on a separate instance, and it could not be determined whether the pre-approval was made prior to purchase.

The SAF Accounting Procedures Manual (APM), Section 4.5.3, *Cash Disbursements*, states that prior to ordering or purchasing goods or services, a SFEF must be completed, signed, and dated by the principal.

All 5 instances took place during the current Principal's first year, 2016-2017. The current Principal explained that it took some time to fully institute controls over the expenditure process and that there were some early instances of staff making purchases prior to written pre-approval. Controls have improved in subsequent years.

Failure to properly pre-approve expenditures constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Unapproved purchases can lead to insolvent accounts without the principal's knowledge.

**Recommendation:** The current Principal and current financial recordkeeping staff should continue to institute controls over the pre-approval process. Staff should not make purchases until after written pre-approval from the Principal.

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**2018.04 Sales Tax Not Properly Accounted For**

Sales Tax for Agenda Book sales was not properly collected for the period October 1, 2017 to December 31, 2018 and for Recorder sales during the period November 1, 2017 to December 31, 2018. As a result, **\$120.72** due to the State of Maryland has not been remitted (See Figure 1 below)

**Figure 1:**

<b>Account</b>	<b>Dates</b>	<b>Total Receipts</b>	<b>Sales Tax Amount (6%)</b>
505 Agenda Books	10/1/17-12/31/18	\$1,363.00	\$81.78
580.1 Recorders	11/1/17-12/31/18	\$649.00	<u>\$38.94</u>
<b>Total:</b>			<b>\$120.72</b>

The APM, Section 8.3, *Sales Tax Procedures*, states that when a school engages in the resale of items, adherence to Maryland Comptroller of the Treasury regulations is required. This involves collection and remittance of sales tax for merchandise sold that is not fundraising-related.

The current financial recordkeeping staff began in August 2017 and was not aware of the specific requirements for sales tax collection. Failure to collect and remit sales tax constitutes non-compliance with BOE policies and procedures and with Maryland State Tax Code.

**Recommendation:** The current financial recordkeeping staff should immediately familiarize themselves with the specific requirements for sales tax collection the APM. Subsequently, sales tax should be accounted for properly for re-sale of non-fundraising items so that Treasury Operations can remit funds to the State of Maryland.

The financial recordkeeping staff should make transfers in the amounts of \$81.78 and \$38.94 respectively from the Agenda Books and Recorders accounts to the 460.00 Sales Tax account.

**2019.05 Fundraiser Forms Not Completed**

Fundraiser Completion Reports could not be located for the 2015-2016 and 2016-2017 school years. Further, annual fundraising summaries have not been completed during the audit period.

The APM, Section 7.2.2, *Fundraising Procedures*, states that club fundraisers must be formally approved by the Principal using a Fundraiser Authorization Form. At the conclusion of the all fundraisers, a Fundraiser Completion Report must be prepared by the sponsor. Additionally, the Principal should prepare an annual report summarizing all

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fundraising activities concluded during the year. The data in this annual 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.

The current Principal stated that he believes that Completion Reports were completed prior to the current financial recordkeeping staff's tenure beginning with the 2017-2018 school year, but could not locate the forms. The current Principal and current financial recordkeeping staff were unaware of the requirement for an annual fundraising summary report.

Failure to complete fundraiser forms constitutes non-compliance with BOE policies and procedures and increases financial risk to the school. It decreases transparency of fundraising activities and the associated profits to interested parents and community members. Further, Fundraiser Completion Reports bolster the budgeting process which can ensure optimal performance by each fundraiser.

**Recommendation:** The current Principal and current financial recordkeeping staff should immediately familiarize themselves with the requirements for fundraiser forms in the APM. Subsequently, Completion Reports should be completed and maintained for all fundraisers. The Completion Reports should be used by the current Principal to compile a fundraising summary at the end of each school year.

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

The previous audit report for **Rockledge Elementary School** was issued for the period ending **September 30, 2015**. There were **3** findings noted in that audit and **2** are repeated. The current principal has been in place since August 2016 and the current financial recordkeeping staff has been in place since August 2017. The following findings were noted as a result of the last audit and the current status is indicated below.

- **Mismanagement of Disbursements** – Condition still partially exists (See Finding 2019.02, *Invalid Check Signatures* ).
- **Delinquent Deposits** – Condition still exists (See Finding 2019.01, *Delinquent Deposits*)
- **Contract Not On File for Vending Machine** - Controls appear to be working.

### **ACKNOWLEDGEMENT**

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