



June 25, 2020

**MEMORANDUM**

To: Niki Brown, Ed.D. Instructional Director  
Cluster 4

Nancy Schickner, Principal  
Carrollton Elementary School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for the Period July 1, 2016 through February 29, 2020

An audit was completed on the financial records of **Carrollton Elementary School** for the period July 1, 2016 through February 29, 2020. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Fund (APM) and Board of Education policies and procedures. The exceptions noted including **\$535.77** in Missing Funds are included in the attached report.

As principal of the school, you will be responsible for preparing an action plan by **July 27, 2020** 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: Danyelle Washington, Business Analyst, email address: [dany.washington@pgcps.org](mailto:dany.washington@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, Board of Education  
Monica Goldson, Ed.D, Chief Executive Officer  
Members, Board of Education  
Christian Rhodes, Chief of Staff  
Helen Coley, Ed. D, Chief School Support and Leadership  
Michael Herbstman, Chief Financial Officer  
James Dougherty, Director, Financial Services  
Casandra Lassiter, Ed. D, Associate Superintendent of Elementary Schools  
Suzann King, Esq, Executive Director, Board of Education  
Joeday Newsom, Esq., Ethics Compliance Officer  
Robin Welch, Director of Monitoring, Accountability and Compliance  
Jeffrey Carpenter, Director, Employee and Labor Relations  
Janice Walters-Semple, CPA, Internal Audit Supervisor  
Theodore Dzodzomenyo, Internal Auditor II

**Internal Audit Report**

**Carrollton Elementary School  
Student Activity Funds**

**For the Period Ended February 29, 2020**

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## Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Carrollton Elementary School for the period July 1, 2016 through February 29, 2020. Carrollton 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 Generally Accepted Government Auditing Standards 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:

- *Missing Funds,*
- *Mismanagement of Funds Received,*
- *Line of Credit for Postage Services,*
- *Mismanagement of Disbursements,*
- *Fundraiser Forms Not Completed,*
- *Deficit in Restricted Accounts,*
- *Inadequate Internal Controls Over Voided Checks, and*
- *Delinquent Bank Reconciliations*

Individually or in the 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 APM referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended February 29, 2020

Michele Winston, CPA  
Director, Internal Audit



## **SUMMARY**

The Internal Audit Department has completed an audit on the student activity funds (SAF) for Carrollton Elementary School for the period July 1, 2016 through February 29, 2020. The audit was conducted as part of the audit plan for the year.

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 to determine whether the school was in compliance with the policies and procedures of the Accounting Procedures Manual for School Activity Funds (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 all bank statements, financial reports, cancelled checks and all available Monetary Transmittal Form (MTF) envelopes submitted by staff for the period July 1, 2016 through February 29, 2020. Also, selected receipts, disbursements and supporting documentation were reviewed for the said period.

## **FINDINGS AND RECOMMENDATIONS**

The audit resulted in the following findings and recommendations:

### **2020.01 Missing Funds**

There were **5** instances where MTFs used to process funds collected from students could not be traced to School Funds Online (SFO). The amounts recorded on those MTFs totaled **\$535.77**.

According to the APM, Section 4.5.2.2, *Cash Receipts, Procedures*, the bookkeeper is responsible for counting cash, verifying the total on the MTF and applicable attachments. The funds counted must agree with the MTF and the actual funds submitted. Instructions on the MTF also state that, the bookkeeper will verify and sign at the bottom confirming that, the funds collected are as indicated.

Employee B who verified the missing funds collected could not recollect what happened and had noted, “to be deposited” on the end of year *Receiptee History Report*. The missing funds collected were not available for student programs.

**Recommendation:** Employee and Labor Relations must review this incident of missing funds and determine whether any disciplinary action is necessary. Employee B must refund the missing amount of **\$535.77** to the school. Those funds must be recorded on a separate MTF and deposited separately. A copy of the MTF and deposit slip must be forwarded to Internal Audit evidencing the payment.

### **2020.02 Mismanagement of Funds Received**

The following exceptions pertaining to the management of funds received were identified:

- A. ***Delinquent Deposits:*** There were **35** instances where funds received were not deposited timely. The delinquency ranged from **3** to **38** days after initial collection by the staff member.
- B. ***Inappropriate Corrections Made to Monetary Transmittal Forms:*** There were **2** instances where the corrections on the MTFs were made in a manner that obscured the original entries on the forms.
- C. ***Photocopy of Monetary Transmittal Forms:*** A staff member made **2** photocopies of the same MTF to record funds received from students.

The APM, Section 4.5.2.2, *Cash Receipts, Procedures* includes the following provisions:

- A. All funds collected must be remitted to the bookkeeper on the same day as collected, along with a completed MTF. The bookkeeper must make deposits of all funds received at least every other day. However, no more than \$250.00 should be kept in the building overnight.

- B. If a correction is necessary, the originator of the MTF must make the correction by drawing a line through the original entry and rewriting the correct entry next to the incorrect entry. The reason
- C. for the correction (e.g., transposition of numbers”, arithmetical error”, etc.) must be noted on the MTF and the originator must sign the correction.
  
- D. According to the APM, duplication of MTFs is prohibited.

The principal explained that, the absence of recordkeeping staff for a substantial part of the audit period resulted in her having to also perform bookkeeping responsibilities, which contributed to the deposit delinquency. Also, some staff members held funds collected beyond the day of collection.

The recordkeeping staff under whose tenure the inappropriate corrections and duplication of MTFs were performed was not available to explain these deficiencies.

Delinquent deposit of funds, improper corrections on the MTF and duplication of MTFs not only constitutes non-compliance with Board policies and procedures and increases the risk of loss and fraud, but also reduces the assurance that, all funds collected were accounted for appropriately.

**Recommendations:** The following steps must be taken to address mismanagement of collection of funds:

- A. The principal must implement policies that enforce the requirement for timely deposits as outlined in the APM. A drop safe could be used to facilitate daily drops during extended absence of the recordkeeping staff.
  
- B. Staff members must be reminded during student activity fund trainings that, any change to an MTF must be made by drawing a line through the incorrect entry and initializing the cancellation.
  
- C. Staff members must be reminded during student activity fund trainings that, duplicating copies of MTFs is prohibited.

### **2020.03 Line of Credit for Postage Services**

A 48 month line of credit (LOC) account was established with Neopost (now Quadient) for the use of a postage system that requires a monthly fee. Reportedly, the contract was signed by Employee A without the principal’s knowledge.

According to the APM, the use of purchase cards and lines of credit (LOC) are prohibited for school SAF. A LOC typically results in interest charges and late fees if payments are not prompt.

According to the principal, Employee A informed the principal about the LOC after the contract was signed and confirmed that another recordkeeping staff advised that this type of transaction was permitted.

There is the potential for unintended school obligations when staff other than the principal enter contractual agreements. Funds expended on prohibited items were not available for legitimate student activities.

**Recommendation** The principal must establish internal controls that prohibit the signing of contracts by unauthorized staff. This prohibition must be clearly communicated to all staff members. Employee A and other staff members must be held accountable for adhering to the policies relative to financially obligating the school.

#### **2020.04 Mismanagement of Disbursements**

The following exceptions pertaining to the management of disbursements were identified:

- A. ***Inadequate Pre-Approval of Expenditures:*** There were **2** instances where the principal's pre-approval was not obtained prior to the obligation of SAF.
- B. ***Delinquent Payment of Invoices:*** There were **3** instances where vendor payments were not made timely. The delinquency ranged from approximately 30 to 150 days.

The APM, Section 4.5.3.1 provides the following provisions pertaining to the management of disbursements:

- A. Prior to ordering or purchasing goods or services, a School Funds Expenditure Form (SFEF) must be completed and signed by the principal. Schools and their SAF cannot be held liable for financial obligations made by staff if the individual fails to complete the SFEF. The employee can be held personally liable for the obligation, if this procedure is not followed.
- B. Invoices should be paid within 30 days of receipt or by due date indicated on the invoice. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.

The following are causes for the instances of mismanagement of disbursements:

- A. The principal insists on pre-approval of disbursements. However, on occasion, items were purchased when the principal was not available to pre-approve the expenditure.
- B. There has been high turnover of recordkeeping staff at the school during the audit period has which resulted in lapses in following up with staff members regarding outstanding invoices. Also, the late payment of invoices for resale items was due to insufficient proceeds collected for remission to the vendors.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Failure to pre-approve expenditures can result in accounts being insolvent. Also, failure to pay invoices promptly can result in late fees being assessed or even legal action being brought against the school system. The school's financial statements are also overstated since outstanding invoices are not accounted for in the month that they were incurred.



**Recommendation:** The following actions should be implemented to ensure that disbursements are appropriately administered:

- A. The principal and recordkeeping staff should establish internal controls to ensure consistent adequate pre-approval of expenditure. Staff members must be trained on the process and held accountable for compliance.
- B. The principal should implement internal controls to ensure that, the current recordkeeping staff maintains a file for invoices and inspect the file periodically for any due payments.

### **2020.05 Fundraiser Forms Not Completed**

The school conducted **14** school-wide fundraisers during the audit period. However, only **13** Fundraiser Authorization forms were completed. Additionally, there were no Fundraiser Completion Reports, and Annual Fundraising Summary Reports completed.

AP 5135.1- *Fund Raising* and 5135.2- *Principal's Contracting Authority* provides specific guidance concerning fundraising. Prior to initiating fundraisers, a Fundraiser Request and Authorization Form must be approved by the principal. A Fundraiser Completion Report must be prepared by the sponsor, reviewed and acknowledged by the principal. Additionally, the principal should prepare an annual report summarizing all 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.

Both the principal and the financial recordkeeping staff are aware of this requirement but the principal reportedly forgot to train the staff members of their responsibility. The principal also did not ensure that her responsibility relative completion and approval of fundraiser forms was performed.

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 principal must establish procedures during student activity fund training to ensure that fundraising sponsors are aware of their responsibility obtain approval via an approved Fundraiser Request and Authorization Form and to complete the Fundraiser Completion Report at the end of each fundraiser. The principal must prepare or designate the responsibility for preparation of an annual summary of all fundraising activities that occurred in the school year. Evidence of this report must be maintained at the school for interested community members to review.

## **2020.06 Deficits in Restricted Accounts**

The following Restricted Accounts had deficits at the end of the audit period:

1. *Employee Sunshine Fund* - (\$240.13)
2. *Sales Tax* - (\$159.23)

The APM provides the following guidance pertaining to Restricted fund accounts:

- A. Restricted Accounts such as the Sunshine Fund contain all funds that are deposited into the SAF for a specific purpose and cannot be used for any other reason. For that reason, the expenditures are limited to the funds available in those accounts.
- B. Section 8.3 of the APM provides general guidance on items of sale that require the collection of sales tax and remittance to the Comptroller of Maryland.

According to the principal, the Sunshine Fund has been dormant for the past 6 years that she has been the principal at the school. Internal Audit determined that the deficit has been on the account since FY 2017, when a professional development check was drawn on the account. This was followed by two transfers in the same amount. One was a credit while the other was a debit.

During FY 2019, the sales tax account was overdrawn when previously recorded credits to the account were reversed due to inaccurate postings.

Inaccurate account balances do not fairly represent the results of the school's financial activities and presents inaccurate financial information for the decision making.

**Recommendations:** The following is recommended for the issue with restricted account deficits to be resolved:

- A. The principal should liaise on with Accounting and Financial Reporting Office to determine how best to resolve the deficit in the Sunshine Fund.
- B. The school should continue to record sales tax collected accurately to resolve the account deficit.

## **2020.07 Inadequate Internal Controls Over Voided Checks**

There were **2** instances where voided checks numbers were not recorded in SFO. There was also **1** instance where the signature line of a voided check was not removed as required by the APM.

According to the APM Section 4.5.3.2 *Summary of Check Disbursement Procedures*, each voided check is required to be entered into the accounting system; voided checks must be defaced, and filed in check number order with cancelled check images.

The previous recordkeeping staff was not aware about the provision to record and deface all voided checks.

Inappropriate administration of checks exposes the school to fraud, waste and abuse of its resources. Internal controls were weakened and the potential for loss of assets increased.

**Recommendation:** The current recordkeeping must take note of this provision and record all checks in SFO per the requirement. Also, the signature section on cancelled checks must be removed and mutilated.

### **2020.08 Delinquent Bank Reconciliations**

There were **10** instances during the audit period where monthly bank reconciliations were not completed timely by the recordkeeping staff.

According to the APM, Section 4.2.2, *Bank Account Procedures*, the principal should receive the bank statement unopened. After reviewing the statement and the cancelled checks, the principal is required to sign the bank statement and forward it to the recordkeeping staff. The bank account must be reconciled within 7 days of receipt of the bank statement. Also, Section 5.2.1, *Financial Reporting Requirements Procedures* require that, the principal is provided the report package from the recordkeeping staff by the 15th of each month to provide review and approval.

There was turnover at the school during the audit period and the student activity support specialist was unable to timely reconcile all schools' bank accounts that did not have recordkeeping staff due to competing responsibilities. Also, it took some time for the current recordkeeping staff to get trained and become conversant with the reconciliation process.

Delinquent bank reconciliations impacts the timeliness and reliability of financial information used in the fiscal decision-making process. The principal's ability to promptly verify the school's solvency status and identify significant transactions may be impacted.

**Recommendation:** The current recordkeeping staff should ensure that, all bank reconciliations are completed within **7** days of receiving the statement from the bank and that all financial reports are presented to the principal for review by the 15th day of each month. The principal should hold the recordkeeping staff accountable for timely report submission and perform prompt review of the monthly financial reports as evidenced by her signature.

### **STATUS OF PRIOR YEAR FINDINGS**

The previous audit report for Carrollton Elementary School was issued for the period ended August 31, 2014. The current principal was in her current position but the bookkeeper was not. There were **4** findings in the previous audit and **2** are repeated. The following findings were noted as a result of the last audit and their current status is indicated below.

- **Missing Funds and Unsubstantiated Disbursement** - Condition still exists. **See finding 2020.01** regarding – *Missing Funds*.
- **Lack of Approval or Preapproval of Disbursements** - Condition still exists. **See finding 2020.04** regarding *Mismanagement of Disbursement – Inadequate Pre-Approval of Expenditure*.
- **Incomplete Documentation of Receipts and Disbursements** - Condition was not noted during this audit.

- **Current Vending Contract not on file** - Condition was not noted during this audit.

### **ACKNOWLEDGEMENT**

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