



December 18, 2019

**MEMORANDUM**

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

Trena Wilson, Principal  
Springhill Lake Elementary School

From: Michele Winston, CPA, Director,  
Internal Audit

Re: Student Activity Funds Audit for through August 31, 2019

An audit was completed on the financial records of **Springhill Lake Elementary School** for the period July 1, 2016 through August 31, 2019. 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 Funds (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit report.

As principal of the school, you will be responsible for preparing an action plan by **January 31, 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, email address [internal.audit@pgcps.org](mailto:internal.audit@pgcps.org). Please forward this template as a Microsoft Word and PDF document. A copy of your action plan should also be forwarded to Derrick Martin, Internal Auditor II, email address: [derrick.martin@pgcps.org](mailto:derrick.martin@pgcps.org); Deborah Smalls, Business Operations Technician, email address: [deborah.smalls@pgcps.org](mailto:deborah.smalls@pgcps.org); and Joeday Newsom, Esq., Ethics Compliance Officer, email address: [joeday.newsom@pgcps.org](mailto:joeday.newsom@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  
Michael Herbstman, Chief Financial Officer  
James Dougherty, Esq., Director, Financial Services  
Kassandra Lassiter, Ed. D, Associate Superintendent for Elementary Schools  
Helen Coley, Ed. D, Chief, School Support and Leadership  
Joeday Newsom, Esq., Ethics Compliance Officer  
Suzann King, Esq., Executive Director, Board of Education  
Kelvin Campbell, Internal Auditor II

**Internal Audit Report**

**Springhill Lake Elementary School  
Student Activity Funds**

**For the Period Ended August 31, 2019**

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**Internal Auditor's Report**

We have examined the Student Activity Funds (SAF) of Springhill Lake Elementary School for the period July 1, 2016 through August 31, 2019. Springhill Lake 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:

- *Mismanagement of Disbursements,*
- *Administration of Voided Checks,*
- *Mismanagement of Funds Received,*
- *Record Retention,*
- *Vending Machines Contract,*
- *Monthly Bank Reconciliation and Financial Reporting,*
- *Inappropriate Use of Refund and Reimbursement Vendor Options,*
- *Excessive Spending in Restricted Accounts,*
- *Administration of Sales Tax, and*
- *Improvement Needed in Management Oversight*

Individually or in the aggregate, these findings resulted in a material deviation from Board of Education (BOE) Policies, Procedures, and the requirements of the Accounting Procedures Manual for School Activity Funds (APM).

In our opinion, except for the deviations 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 August 31, 2019.



Michele Winston, CPA, Director  
Internal Audit

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**SUMMARY**

Internal Audit completed an audit of the student activity funds (SAF) for Springhill Lake Elementary School for the period July 1, 2016 through August 31, 2019. The audit was conducted as part of the department's 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 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 complies with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit 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 bank statements, financial reports, selected cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period July 1, 2016 through August 31, 2019. Additionally, 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.

**2020.01: Mismanagement of Disbursements**

There were **18** of the **22** cash disbursements reviewed that were *not* processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Approval*** – There were **8** instances where expenditures were not adequately approved. The School Funds Expenditure Forms (SFEFs) were approved after purchases were made or items ordered from vendors or not signed by the former principal in **4** instances.
- B. ***Delinquent Vendor Payments*** – There were **4** instances where payments for expenditures were not remitted to the vendor in a timely manner. The range of delinquency was between **35** and **106** days.
- C. ***Inadequate Supporting Documentation*** - There were **13** instances where documentation to substantiate checks issued was incomplete or could not be located.

The APM provides the following guidelines regarding the administration of cash disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed (approved) by the principal.
- B. Invoices are required to be paid within 30 days of receipt or by the invoice due date. Principals should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- C. All checks must have itemized documentation attached to the SFEFs that substantiate the amount of the checks.

The recordkeeping staff did not follow established internal controls relative to management of disbursements. SFEFs were accepted from staff that were incomplete and/or lacked adequate supporting documentation. Additionally, the former principal failed to approve all expenditures prior to purchases being made or to enforce the requirement for timely submission of invoices for payment.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff members. Approving purchases without adequate documentation or failure to adequately approve expenditures timely could

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result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. Delinquent payments of invoices could also result in vendors placing the BOE's account with a collection agency where significant collection fees could be assessed.

**Recommendation:** The principal and recordkeeping staff must perform the following to improve the administration of disbursements:

- A. The principal must ensure staff members are aware that pre-approval is required prior to the purchase of products or services and be held accountable for compliance. SFEFs should be entirely completed. The principal should ensure all pre-approval details are provided on SFEFs prior to approving expenditures.
- B. The principal and recordkeeping staff must ensure that vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- C. Internal controls must be established to ensure that all SFEFs are complete and has adequate supporting documentation prior to issuance of vendor payments or staff reimbursements.

**2020:02 Administration of Checks**

The following exceptions pertaining to administration of checks were noted:

- A. ***Voided Checks*** - During the review of the school's voided checks, the following exceptions were noted:
  - There were **23** instances where voided checks could not be located in the school's files to determine appropriate disposition.
  - There were **14** instances where voided checks were not properly voided by removal of the signature line.
  - There were **2** instances where voided checks were not entered into SFO accounting system.
- B. ***Approved Signatures*** – There were **2** instances where approved signatures were not affixed on checks generated from SFO.

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The APM provides the following guidelines regarding the administration of checks:

- A. All voided checks are required to be entered in SFO and have “VOID” written across the face of the check. The signature line must be removed and the voided checks attached to approved SFEFs or Void Check Proof Sheets.
- B. Administrative Procedure 4180, *School Bank Accounts*, requires 2 authorized signers on each check issued by the school.

The recordkeeping staff did not follow established internal controls relative to administration of checks. An adequate filing system was not properly maintained to ensure all voided checks were adequately maintained.

Mismanagement of checks constitutes noncompliance with BOE policies and procedures and increases financial risk to the school and the staff. Issuing checks without the two authorized signatures increases the school’s vulnerability to potential misuse of resources or could result in unauthorized negotiation of checks.

**Recommendation:** The following corrective actions should be implemented for administration of checks in accordance with BOE policies and procedures:

- A. The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE. All voided checks must be entered in SFO and have “VOID” written across the face of the check. The signature line must be removed.
- B. The principal must ensure all school checks generated from SFO have 2 approved signatures affixed – one by the principal and one by the recordkeeping staff or an alternate in absence of either the principal or recordkeeping staff.

**2020:03 Mismanagement of Funds Received**

A. **Monetary Transmittal Form Documentation**

- ***Inadequate Supporting Documentation*** - There were **38** instances where cash receipts were not properly supported (incomplete MTF or no documentation).
  - ***Changes made to Monetary Transmittal Forms***- There were **11** instances where changes made to MTFs were not initialed according to the MTF instructions.
- B. ***Fundraiser Forms Not Completed*** - Staff members failed to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the annual summaries for all fundraising events.



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- C. ***Transfer of Funds Received*** - There were **4** instances where transfers were not made in accordance with the requirements of the APM. Also, there were **17** instances where supporting documentation to determine whether transfers were made in accordance with the requirements of the APM could not be located.
- D. ***Delinquent Deposit*** – There were **50** instances where deposits were not made in a timely manner. The delinquency was up to **47** days.

The APM provides the following guidelines regarding the administration of funds received:

- A. MTFs should be supported with student remittance forms, fundraiser forms or other documentation that shows the source and purpose of funds. All funds collected should be remitted to the bookkeeper and properly supported with approved MTFs. Changes and alterations made to MTFs require initials of the individual making the change.
- B. Fundraiser Request and Authorization Forms and Fundraiser Completion Reports must be prepared by the sponsor, and 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.
- C. Transfers should occur when expenditures are recorded in unrestricted (or net) accounts that lack a specific funding source, funds must be transferred from an unrestricted account that has revenue (e.g., fundraisers, unrestricted donations, prior year carryover, etc.). Each transfer must be properly substantiated.
- D. Bookkeepers 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. If funds are kept on-hand at the school awaiting deposit, it must be kept in a secure location. It is important that schools establish internal controls to ensure frequent deposits occur.

BOE policies and procedures as established in the APM were not always followed. The recordkeeping staff did not perform verification and maintenance of all MTFs and supporting documentation prior accepting MTFs and making deposits. The requirement for completion of fundraiser forms was not communicated to fundraising sponsors.

Failure to adequately perform recordkeeping responsibilities relative to processing of funds received constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring all funds collected were subsequently remitted and deposited is impacted. Delinquent deposits of funds impacts the accuracy and timeliness of financial reporting upon which administrators rely to make financial decisions. Failure to initial changes on MTFs removes responsibility from the person making the change and affects the audit trail. Failure to complete

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fundraising forms removes audit evidence sufficient to provide administrators and interested personnel with information about fundraising results. Failure to complete transfers in accordance with the requirements of the APM could lead to inaccurate recording and reporting the school's financial transactions.

**Recommendation:** The following corrective actions must be implemented for Springhill Lake Elementary School collections to be in accordance with BOE policies and procedures:

- A. The recordkeeping staff must ensure that all MTF documentation is complete including verifying that all supporting documentation is attached along with the MTF prior to acceptance and deposit of funds. The recordkeeping staff should not accept a MTF if changes are not initialed.
- B. The recordkeeping staff must be reminded that all funds collected and remitted should be deposited on a daily basis especially funds in excess of **\$250.00**. Teachers must be reminded that funds collected cannot be held overnight. The principal must provide the recordkeeping staff with adequate time to verify that funds collected are as indicated on the MTFs submitted and that deposits are made with the bank promptly. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.
- C. The principal must establish internal controls to ensure that sponsors complete the required fundraising forms for all fundraising events held. These documents must be maintained on file for public and auditor review upon request.
- D. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal.

**2020.04 Record Retention**

During the audit the recordkeeping staff was unable to locate **2** cancelled checks and **4** MTF's for review.

According to Section 6.12 of Accounting Procedural Manual, *Record Retention*, All SAF records must be retained for a period of **7** years and or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.

The bookkeeper did not properly maintain an adequate filing system. The principal did not provide oversight. These actions caused the school to be non-compliant with BOE policies and procedures as established in the Accounting Procedural Manual.

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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 proper custody of all records relating to SAF until they are audited. An adequate filing system must to be implemented to help ensure that in the absence of the bookkeeper or principal, financial documents would be filed properly for future review.

**2020.05 Vending Machines Contract**

A current signed vending contract stipulating commissions due the school and frequency of commissions was not on file.

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

The principal did not ensure that the school established a contractual agreement for vending.

Due to the nonexistence of a valid contractual agreement for vending, the BOE cannot determine if the school is deriving maximum benefits from the operation of the vending machines.

**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.

**2020.06 Monthly Bank Reconciliation and Financial Reporting**

There were **21** instances where monthly bank reconciliations and financial reporting were not performed timely. The range of delinquency was 3 to 171 days.

The principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the bookkeeper for reconciliation. The bookkeeper should complete the bank reconciliation within 7 days after receiving the statement from the bank. Typically, this process is completed by the 15th of each month. The completed bank reconciliation should be returned to the Principal every month for review and approval. After review and approval, all reports and related documentation should be organized and maintained in three-ring binders identified by fiscal year. This is not only required accounting practice; it also facilitates review by auditors.

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The former Principal did not exercise proper oversight to ensure that monthly bank reconciliations and financial reporting was completed by the 15<sup>th</sup> of each month. BOE policies and procedures as established in the **APM** regarding financial reporting was not effective.

Current financial information was not available for review by the principal to make informed financial decisions.

**Recommendation:** The principal must establish procedures to ensure that monthly bank reconciliations and financial reporting occur by the 15<sup>th</sup> of each month and related documentation are organized and maintained in three-ring binders identified by fiscal year.

**2020.07 Inappropriate Use of Reimbursement and Refund Vendor Options**

The following exceptions pertaining to use of the Refund and Reimbursement Vendor options when posting disbursements were noted:

- The former recordkeeping staff inappropriately processed **4** reimbursements to staff members totaling **\$402.73** using the “Refund Vendor” option.
- The former and current recordkeeping staff inappropriately processed **7** refunds to parents totaling **\$389.51** using the “Reimbursement Vendor” option.
- The recordkeeping staff inappropriately processed **1** cash disbursement transaction for a field trip that appears to be a payment to a Non BOE approved vendor totaling **\$138.00** using the “Reimbursement Vendor”.

Expenditures posted to SFO are primarily those paid to PGCPs approved vendors. The payee defaults to this listing of vendors when checks are written in SFO. The “*Reimbursement Vendor*” option was created to post reimbursable expenses to staff and the “*Refund Vendor*” option was created to post refundable expenses to parents.

The former and current recordkeeping staff have not read the APM. Reportedly, Accounting and Financial Reporting has not provided appropriate training pertaining to use of the “Refund Vendor” and “Reimbursement Vendor” options when posting disbursements.

Consequently, the school’s financial records may not have been accurately stated. Refunds were inappropriately made through use of “*Reimbursement,*” option in SFO. Failure to follow instructions for processing refunds results in noncompliance with BOE policies and procedures.

**Recommendation:** The principal must establish procedures to ensure that financial recordkeeping staff properly post all cash disbursements accurately in SFO. The recordkeeping staff should be held accountable for compliance. Additionally, the principal should contact Accounting and Financial Reporting to request training pertaining to use of the “Reimbursement Vendor” and “Refund Vendor” options when posting disbursements transactions.

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**2020.08 Excessive Spending in Restricted Accounts**

The school's SAF included 4 restricted fund accounts with deficits totaling **(\$1,308.95)** as of June 30, 2019. The following is a listing of accounts with deficits:

- The Donations account (Field Trip) has a deficit of **(\$250.00)**,
- The Take 10 account has a deficit of **(\$56.66)**,
- The Yearbook account has a deficit of **(\$933.25)** and
- The Kindergarten Fee account has a deficit of **(\$69.04)**

Expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted accounts exceed the available cash, the account is insolvent. As the fiduciary agent for the Student Activity Funds (SAF), the principal should ensure all accounts are solvent at all times.

The former principal and the recordkeeping staff did not monitor accounts to ensure that each restricted account maintained a positive balance. BOE policies and procedures as established in the **APM** regarding the use of restricted funds were not always followed.

Student activity funds are not being properly administered when there are fund account deficits.

**Recommendation:** Each expenditure must be evaluated with regard to available resources and care must be exercised to ensure the resources are used within fiscal limitations. Spending in these accounts must cease until the accounts' deficits are resolved.

**2020:09 Administration of Sales Tax**

There were 3 instances where sales taxes were not collected on sales taxable transactions in accordance with BOE and State of Maryland policies and procedures.

The APM requires adherence to Maryland Comptroller of the Treasury regulations when the school engages in resale of taxable items. This involves collection and remittance of sales tax for merchandise sold. Also, AP 5137, *Sales Tax*, requires general Maryland sales and use tax to be collected by schools for all sales taxable items sold.

Staff members collecting funds have not documented sales tax on the MTFs. Further, the recordkeeping staff did not identify sales taxable transactions. This has led to BOE policies and procedures requiring remittance of sales taxes to the State of Maryland and the reimbursement of sales tax not being followed and the school being in violation of the State of Maryland policies on sales tax.

This places the BOE in a position of possibly being assessed penalties and interest for failure to remit sales taxes.

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**Recommendation:** The recordkeeping staff should ensure that the appropriate sales tax is collected and remitted to the State of Maryland for all applicable sales taxable items sold by the school. The recordkeeping staff should review AP 5137 to become familiar with sales taxable items. Staff members should be educated on how to document sales tax for sales taxable items sold.

**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Springhill Lake Elementary School was issued for the period ended November 30, 2012. During that period, neither the principal nor the current recordkeeping staff held those positions. The previous audit report had **14** reportable conditions, of which **5** are repeated in the current audit. The following findings were noted as a result of the prior audit and the status is indicated below:

- **Mismanagement of Student Activity Funds Received** - Condition still exists. See **Finding 2020.03**, *Mismanagement of Funds Received*
- **Sales Taxes not Collected and Posted for All Items Sold** - Condition still exists. See **Finding 2020.09**, *Administration of Sales Tax*
- **Staff Failed to Deposit Receipts Intact** – Controls appear to be working.
- **Grant Funds not Forwarded to BOE** – Controls appear to be working.
- **Payment for Services Rendered using Student Activity Funds** – Controls appear to be working.
- **Inadequate Supporting Documentation for Disbursements** - Condition still exists. See **Finding 2020.01** regarding *Mismanagement of Disbursements*
- **Raffle Ticket Sales** – Controls appear to be working.
- **Retention of Records** - Condition still exists. See **Finding 2020.04** regarding *Record Retention*.
- **Improper Handling of Voided Checks** - Condition still exists. See **Finding 2020:02** regarding *Administration of Checks*
- **Transactions Posted to Incorrect Accounts** – Controls appear to be working.

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- **Separation of Duties for Collection of Student Activity Funds** – Controls appear to be working.
- **Contracts Entered by School Staff** – Controls appear to be working.
- **Principal Sponsored Activity (PSA) Fund Overspending** - Controls appear to be working.
- **Management Oversight** - Controls appear to be working.

**ACKNOWLEDGEMENT**

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



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**ADDENDUM**

**Pertinent Positions Noted Throughout Report:**

- **Principal** – Trena Wilson
- **Recordkeeping Staff** – Maria King
- **Former Principal** – Natasha Jenkins
- **Former Recordkeeping Staff** – Elizabeth Merriman