



June 21, 2018

MEMORANDUM

To: Ed Ryans, Ed.D, Instructional Director
Cluster 15

Mary Wall, Principal
Deerfield Run Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of April 30, 2018

An audit of the financial records of **Deerfield Run Elementary School** was completed for the period July 1, 2014 through April 30, 2018. The audit indicates that the school's financial records require some improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and the 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 signed and dated 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.

cc: Kevin M. Maxwell, Ph. D, Chief Executive Officer of Schools
Segun Eubanks, Ed. D, Board Chair
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
Monique Whittington Davis, Ed. D, Deputy Superintendent
Melissa McGuire, Ed. D., Associate Superintendent, Area III
Erica Berry Wilson, Esq., Board Executive Director
J. Michael Dougherty, Director Financial Services
Alicia Robinson, Internal Auditor II

Internal Audit Report

Deerfield Run Elementary School Student Activity Funds

For the Period Ended April 30, 2018

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Student Activity Funds
Internal Audit Report
For Period Ended April 30, 2018**

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Deerfield Run Elementary School for the period July 1, 2014 through April 30, 2018. Deerfield Run 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 Receipts,*
- *Transfers Not Properly Approved*

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 April 30, 2018.



Michele Winston, CPA
Director, Internal Audit

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SUMMARY

The Internal Audit Department has completed an audit of the student activity funds (SAF) for Deerfield Run Elementary School for the period July 1, 2014 through April 30, 2018. 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 July 1, 2014 through April 30, 2018. 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 Receipts

There were at least 7 instances of non-compliance regarding the administration of funds received. The following indicates the issues of non-compliance:

- A. ***Delinquent Deposits:*** There were at least 4 instances where funds collected for various school activities were held for a longer period than required (4 or more days) by the staff and recordkeeping staff.
- B. ***Incomplete MTF Documentation:*** There were at least 2 instances where documentation was missing from MTFs submitted to the recordkeeping staff, (i.e. 5th grade fieldtrip & yearbook collections).
- C. ***Sales Taxes not Remitted to the State of Maryland:*** There was at least 1 instance where sales tax was not remitted to the State of Maryland for 5th grade t-shirts sold for the end of year fieldtrip. (*This finding was noted during the previous audit period ended June 2014.*)

The APM section 4.5.2.2 (1), (2) *Collecting Funds* require **all** funds collected to 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 APM requires that the MTF must be completely filled out indicating from whom the funds were received, amount and form of collection and reason for collecting the funds. If additional space is needed, then a Student Remittance Report, class list, receipts or ticket/report stubs can be attached. Documentation should substantiate funds remitted.

The APM, section 8.3 *Procedures, Sales Tax*, indicates that when a school engages in the resale of items, collection and remittance of sales tax for merchandise sold that is not fundraising related is required.

Staff did not always remit funds daily to the recordkeeping staff. The recordkeeping staff indicated that staff would place funds in the drop safe for safekeeping until all funds were collected. The staff would then retrieve the funds, complete a MTF and submit the funds to the recordkeeping staff for verification. Also, the recordkeeping staff explained that she was not aware that the principal and/or other designees could complete a MTF in cases where checks were received during the summer. The recordkeeping staff thought

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that the MTF could only be completed by the office designee. The office designee is a ten (10) month employee and does not work during the summer. It was further noted that recordkeeping staff did not always review remittance documentation to determine that it substantiated funds provided.

The principal and recordkeeping staff were unaware that sales tax was due on the fieldtrip t-shirts sold.

The security of student activity funds is at risk when funds are retained in the school for several days. Delinquent deposits violate the school's compliance with APM requirements. The audit trail for reviewing cash receipts was compromised due to lack of documentation. As a result, internal controls for ensuring all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased.

The school failed to adhere to the State of Maryland tax law requirements. PGCPs could be penalized when schools do not adhere to the tax law requirements.

Recommendation: The principal should ensure the following is performed to improve management of funds received:

- A. Staff should be reminded to remit funds promptly to the recordkeeping staff. The recordkeeping staff should ensure that all funds received are remitted promptly to the financial institution. Also, the recordkeeping staff should be held accountable for making timely deposits with the bank.
- B. The staff should be reminded that when submitting MTFs documentation must be attached verifying source of funds. The recordkeeping staff should not accept MTFs without appropriate supporting documentation and should verify that funds remitted is substantiated.
- C. The principal and recordkeeping staff should familiarize themselves with the applicable tax law requirements for items sold. Please refer to the APM pages 46 – 47 for additional information. The principal and recordkeeping staff should ensure that the delinquent sales tax is posted to the sales tax account for future payment.
- D. The principal should complete a periodic review of cash receipt files to ensure compliance with Board policies and procedures (funds are remitted, deposited timely, documentation is attached to MTFs and sales taxes are remitted to the State of Maryland for applicable items sold).

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2018.02 Inappropriate Transfer of Funds

There were at least **15** instances where inappropriate transfers were processed during the audit period. The recordkeeping staff performed transfers totaling **\$398.78** from Prior Year (PY) Carryover to various unrestricted accounts to offset expenditures. Even though the transfers were not of a significant amount, they were not compliant since approval had not been sought prior from the Accounting Office.

The APM section 4.5.5 *Prior Year Carryover Funds* states, “The Principal may request the use of PY Carryover to purchase instructional material, computers, maintenance needs or other items for the school. The request must be sent to the Director of Business Operations, detailing the items to be purchased, purpose and the amount of the request.”

The recordkeeping staff was not aware that fundraiser funds should first be depleted before using PY Carryover Funds. Neither the principal nor the recordkeeping staff were aware that they needed approval from the Accounting Office prior to using PY Carryover funds. The recordkeeping staff has since learned of the procedure for requesting use of PY Carryover.

Inappropriately used PY Carryover Funds are not be available for student use.

Recommendation: The principal and recordkeeping staff should ensure that only allowable transfers are completed with appropriate documentation and approval. Only upon written approval of the Director of Business Operations should funds be transferred from the PY Carryover account.

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Deerfield Run Elementary School was issued for the period ended June 2014. The current principal and recordkeeping staff were on staff during the previous audit. There were **3** findings noted as a result of that audit. There was **1** repeated finding noted in the current audit and is included in this report. The following findings were noted as a result of that audit and the current status is indicated below:

- **Transactions Incorrectly Posted** - Controls appear to be working.
- **Mismanagement of Disbursements:**
 - **Payment of Delinquent Invoices and/or Reimbursements** – Controls appear to be working.

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- **Lack of Sufficient Documentation** – Controls appear to be working.
- **Sales Taxes Paid and/or Not Collected and/or Remitted to the State of Maryland** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Receipts – Sales Taxes not Remitted to the State of Maryland.*

ACKNOWLEDGEMENT

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