



February 26, 2018

MEMORANDUM

To: Brian Baudoin, Instructional Director
Cluster 7

Sandra Mayo-Carr, Ed. D., Principal
Tayac Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Student Activity Funds Financial Audit as of December 31, 2017

An audit of the financial records of **Tayac Elementary School** was completed for the period July 1, 2014 through December 31, 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
Edward Burroughs III, Board Member, District VIII
Monique Whittington Davis, Ed. D., Deputy Superintendent
Helen Coley, Ed. D., Associate Superintendent, Area II
Erica Berry Wilson, Esq., Executive Director, Board of Education
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John Pfister, Chief Financial Officer
Alicia Robinson, Internal Auditor II

Internal Audit Report

Tayac Elementary School Student Activity Funds

For the Period Ended December 31, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of Tayac Elementary School for the period July 1, 2014 to December 31, 2017. Tayac 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 Funds Received,*
- *Financial Reporting,*
- *Administration of Voided Checks, and*
- *Year-End Monetary Transmittal Form Envelope Submission*

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 December 31, 2017.



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 Tayac Elementary School for the period July 1, 2014 through December 31, 2017. The audit was conducted as part of the annual audit plan.

The audit results indicate 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, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period July 1, 2014 to December 31, 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 7 instances of non-compliance relative to the administration of funds received. The following indicates the issues of non-compliance:

- A. ***Delinquent Deposits:*** There were at least 3 instances where funds collected for various school activities were held for a longer period than required (4 or more days) by the recordkeeping staff and/or MTF preparer, prior to deposit with the financial institution. *This finding was noted during the previous audit period ended June 2013.*
- B. ***Monetary Transmittal Form Documentation:*** There were at least 2 instances where documentation was not provided to substantiate MTF submission i.e. school store and fieldtrips. Teachers who collected funds for fieldtrips provided funds to a designated teacher for recording on a MTF instead of individually completing MTFs. The completed MTF was provided to the recordkeeping staff without any detailed supporting documentation. *This finding was noted during the previous audit period ended June 2013.*
- C. ***Sales Taxes Not Collected and Remitted:*** There were at least 2 instances where science fair backboards and school store supplies were sold to students, but relevant sales taxes were not collected and remitted to the State of Maryland.

The following criteria are established in the APM regarding administration of funds received:

- A. 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.
- B. Section 4.5.2.2(1) *Procedures, Collecting Funds: Completing the Monetary Transmittal Form* requires completion of MTFs by indicating the source of funds, 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.

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- C. Section 8.3 *Sales Tax Procedures* require that all non-fundraising items sold be subject to Maryland sales tax. A restricted account exists in SFO to record sales tax collection and remittance. Once the funds are posted to the restricted sales tax account, the Treasury Office will “sweep” the account monthly and pay the sales tax remittance to the State on behalf of each school.

Contributory factors in the mismanagement of funds received are as follows:

- A. Staff waited until all funds were collected for the school activity prior to remittance.
- B. Staff members were not aware that each teacher is responsible for completing a separate MTF and submitting with funds remitted. The recordkeeping was unaware that consolidating funds collected by various teachers for a specific activity was prohibited. Reportedly, there was lack of knowledge regarding detailed supporting documentation required to substantiate amounts documented on the MTF.
- C. The teachers and recordkeeping were not aware that sales taxes were due for non-fundraising items sold – i.e. science fair backboards and school store supplies.

Noncompliance with the requirements for management of funds received can have the following impact to the school:

- A. Increased the risk of loss to the school due to delinquent deposits.
- B. The audit trail for reviewing cash receipts is compromised when there is inadequate documentation. As a result, internal controls for ensuring all SAF collected were subsequently deposited is weakened and the potential for loss of assets increased.
- C. The school system can be penalized for failure to remit applicable sales tax to the State of Maryland.

Recommendation: The principal should implement the following recommendations regarding administration of funds received:

- A. Remind staff that all funds collected are to be remitted daily for deposit.
- B. Ensure that each teacher who collects funds must complete a MTF and submit it directly to the bookkeeper along with the appropriate documentation required. Funds should not be accepted without the appropriate documentation.

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- C. Sales taxes must be collected for non-fundraising items sold and posted to the restricted sales tax account in SFO to ensure remittance to the State of Maryland.
- D. Periodic review of cash receipt files must be performed to ensure compliance with Board policies and procedures relative to timely remittance and deposits, adequate documentation and application of sales tax.

2018.02 Financial Reporting

There were **6** instances in FY 2017 where all required monthly reports were not prepared. Only monthly bank reconciliations, without accompanying financial reports were prepared for the principal's review. There were at least 3 instances during the audit period where monthly bank reconciliations were not signed by the principal evidencing review.

The APM section 5.2.1 *Financial Reporting Requirements Procedures* require the following monthly reports to be reviewed and signed by the principal:

- Bank Reconciliation Reports
- Available Funds Report/Insolvency Report
- Year to Date Report
- Journey Entry Register
- Unpaid Bills Spreadsheet

Reportedly, the individual with financial reporting responsibilities was informed that the complete reporting package is only required for trimester reports. Failure to prepare the required financial reports impacts the timeliness and reliability of information used in the decision-making process. The principal's ability to promptly verify the school's solvency status and identify individual transactions may be impacted.

Recommendation: The recordkeeping staff must immediately begin completion of all required monthly reports and make the reports available for the principal to review as required by APM. The principal must ensure that there is compliance with the financial reporting requirements.

2018.03 Administration of Voided Checks

There were **5** instances of non-compliance relative to the administration of voided checks. The following non-compliances were noted:

- A. ***Voided Checks Not Properly Mutilated and/or Retained on File:*** There were at least **2** instances where checks were not properly voided by removal of the

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signature line. There was 1 separate instance where the bookkeeper disposed of a voided check by tearing it up.

- B. ***Voided Checks Not Entered in School's Accounting System:*** There was 1 instance where a voided check was not entered in the accounting system as required by the APM.

- C. ***School Funds Expenditure Forms (SFEF) or Void Check Proof Sheets (VCPS) not completed and/or Signed by Principal:*** There were at least 2 instances where the SFEF or VCPS were not made available to substantiate preparation and review.

The following guidelines are established in the APM Section 4.5.3.2, *Policies and Procedures, Voiding Checks*:

- A. Accounting for a physical check is required when an error is made at the time it is prepared or when a check is damaged. 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.

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

- 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 administration of voided checks resulted from the following:

- A. The recordkeeping staff was not aware that checks were not properly voided since the signature line was not removed.

- B. The recordkeeping staff was not aware that all voided checks are required to be entered into the school's accounting system.

- C. The recordkeeping staff was not aware that a completed, signed SFEF or VCPS was required for each voided check.

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

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Recommendation: The following is recommended compliance with policies and procedures for appropriate administration of voided checks:

- A. The principal should establish procedures to ensure appropriate voiding of checks by removal of the signature line and retention of the physical check.
- B. Voided checks should have a completed SFEF and/or VCPS signed by the principal and entered into SFO.
- C. The principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures. The recordkeeping staff must take the time to become familiar with the policy and procedures set forth in the APM regarding voiding checks.

2018.04 Year-End Monetary Transmittal Form Envelope Submission

The year-end MTF submission process did not operate as outlined in the APM. Staff failed to submit their end of year MTFs in signed, sealed envelopes to the assistant principal, who is principal's designee. Also, there was at least one instance where a staff member's MTF envelope did not contain the pink MTF remittance copy. *This finding was noted during the previous audit period ended June 2013.*

The APM section 4.5.2.2 (1) *Collecting Funds: Completing the Monetary Transmittal Form* states that the staff is responsible for maintaining an envelope containing all the MTF (pink and yellow) remittance copies prepared during the year. Staff members are required to submit copies in signed, sealed envelopes to the designated administrator during the year-end check out process. The envelopes should remain sealed until requested by Internal Audit. The year-end MTF envelopes should be retained in a place that is inaccessible to the bookkeeper.

The principal's designee did not follow up with staff to ensure that all year-end MTFs were remitted in signed, sealed MTF envelopes. BOE policies and procedures relative to the MTF envelope submission process were not followed during the year-end check out process.

Recommendation: The principal should require the "*Receiptee History*" report to be printed and provided to the principal's designee to ensure that all staff submit their end of year MTFs in signed, sealed envelopes. The principal or designee, someone other than the bookkeeper, should ensure that all end of year MTFs are retained in a place that is **not accessible** to the bookkeeper until reviewed by Internal Audit.

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STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for Tayac Elementary School was issued for the period ended June 2013. There were 17 findings noted as a result of that audit. There are 3 repeat findings included in the current report. The current principal was on staff during the previous audit. The recordkeeping staff's tenure began February 2016. The following findings were noted as a result of that audit and the current status is indicated below:

- **Missing Funds** – Controls appear to be working.
- **Excessive Spending in Principal Sponsored Activities (PSA) Account** – Controls appear to be working.
- **Delinquent Deposits** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Monetary Transmittal Form (MTF) Documentation** – Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Funds Received*.
- **Year-End Monetary Transmittal Form Envelopes Collection Process** – Condition still exists. See **Finding 2018.05** regarding *Year-End Monetary Transmittal Form Envelope Submission*.
- **Record Retention** – Controls appear to be working.
- **Inaccurate Recording of Accounting Transactions** – Controls appear to be working.
- **Inadequate Supporting Documentation for Disbursements** – Controls appear to be working.
- **Check Writing** – Controls appear to be working.
- **Expenditures Made Without Proper Approval** – Controls appear to be working.
- **Payments for Services Rendered and Non-Approved Vendors Used to Provide Services** – Controls appear to be working.
- **Vending Machine Contract** – Controls appear to be working.
- **Fundraiser Forms** – Controls appear to be working.
- **Delinquent Payment of Invoices** – Controls appear to be working.
- **Inappropriate Use of Student Activity Funds** – Controls appear to be working.
- **Equipment Purchased with Student Activity Funds not on Inventory Listing** – Controls appear to be working.
- **Improvement Needed in Management Oversight** – Controls appear to be working.

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ACKNOWLEDGEMENT

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