



August 14, 2018

**MEMORANDUM**

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

Ryan Daniel, Principal  
Chillum 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 **Chillum Elementary School** was completed for the period October 1, 2014 through April 30, 2018. 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 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 Accounting Procedures 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: Segun Eubanks, Ed. D., Board Chair  
Monica Goldson, Ed. D., Interim Chief Executive Officer  
Carolyn Boston, Vice Chair, Board of Education  
Members, Board of Education  
Helen Coley, Ed. D., Chief of School Support and Leadership  
Kassandra Lassiter, Ed. D, Associate Superintendent, Elementary Schools  
Erica Berry Wilson, Esq., Board Executive Director  
J. Michael Dougherty, Director, Financial Services  
Alicia Robinson, Internal Auditor II

# Internal Audit Report

## Chillum Elementary School Student Activity Funds

For the Period Ended April 30, 2018

**Chillum Elementary School  
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 Chillum Elementary School for the period October 1, 2014 to April 30, 2018. Chillum 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,*
- *Depository Safe Not on School Premises,*
- *Contracts Not on File,*
- *Voided Checks Not Properly Mutilated,*
- *Unauthorized Transfer of Funds, and*
- *Fundraiser Forms/Reports Not Completed.*

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

In our opinion, considering the deviations from the criteria described in the preceding paragraph, the SAF referred to above, has not been 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 Chillum Elementary School for the period October 1, 2014 to April 30, 2018. The audit was conducted as part of the annual audit plan.

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 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 examination of selected bank statements, financial reports, cancelled checks, all voided checks and Monetary Transmittal Form (MTF) envelopes submitted for the period October 1, 2014 to 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:

**2019.01 Mismanagement of Funds Received**

There were at least **8** 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 **7** instances where funds collected for various school activities were held for a longer period than required (**4** or more days) by the receipting staff and recordkeeping staff. *(This finding was noted during the previous audit period ended September 2014.)*
- B. ***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 resale of science backboards.

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, 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.

The former principal and current recordkeeping staff did not always remit funds timely to the financial institution. The former principal was completing the recordkeeping duties when the former recordkeeping staff was on leave and therefore did not always deposit funds timely. The current recordkeeping staff was not aware that funds should be deposited at least every other day when funds are under \$250.00.

The current recordkeeping staff was unaware that collection of sales tax was required for science backboards and other non-fundraiser items sold.

Internal controls are compromised when funds are retained in the school for several days. Delinquent deposits violate the school's compliance with APM requirements. As a result, internal controls for ensuring all SAF collected were subsequently deposited was weakened and the potential for loss of assets increased.

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The State of Maryland sales tax law requirements were not followed. PGCPs could be penalized when schools do not adhere to the tax requirements.

**Recommendation:** The recordkeeping staff should ensure that all funds received are remitted promptly to the bank. Also, the recordkeeping staff should be held accountable for making timely deposits with the bank. Staff should be reminded to remit funds promptly to the recordkeeping staff.

The recordkeeping staff should become familiar with the applicable sales tax requirements as outlined in the APM pages 46 – 47.

The principal should complete a periodic review of cash receipt files to ensure compliance with Board policies and procedures (funds are remitted, deposited timely, and sales taxes are posted to the Sales Tax account for applicable items sold).

**2019.02 Depository Safe Not on School Premises**

The school does not have a depository (drop) safe to secure funds remitted by staff members after normal business hours or in the recordkeeping staff's absence. The school has a safe, which is not a drop safe, located in an area where staff do not have access.

The APM section 4.5.2.2 (3) *Cash Receipts Guidelines for Bank Deposits* requires schools to secure funds in a locked fireproof safe, which is only accessible to the principal and bookkeeper. Drop safes are required for every school. The safe should be bolted to the floor and placed in a location accessible to the staff.

Neither the principal nor recordkeeping staff was aware that the school is required to have a drop safe to securely store funds and allow staff members the opportunity to remit funds when the bookkeeper is not available. The former principal failed to purchase a drop safe for staff access.

Staff members are denied access to securely remit funds when the recordkeeping staff is not available.

**Recommendation:** The principal should ensure that a drop safe is purchased and installed in a location that is accessible to the staff. A safe log should be established to document when individuals place funds in the drop safe. The principal should complete periodic reviews of the safe contents and safe log to ensure compliance.

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**2019.03 Contracts Not on File**

Contracts for faculty beverage/snack vending and photography services were not on file at the school. Also, the school does not receive a commission for the beverage/snack machines located in the faculty lounge. The machines are provided as a service to the faculty. (*This finding was noted during the previous audit period ended September 2014.*)

The principal, as the agent of the BOE, must approve and sign all agreements and contracts entered into for all school activities per Administrative 5135.2, *Principal's Contracting Authority*. According to the APM, section 9.8, *Vending Machine Sales*, "All schools with vending machines must have signed contract stipulating commissions due the school and frequency that these commissions are remitted. The contract term cannot exceed one year."

The former principal requested the service of a new beverage/snack vending company to service the faculty in FY 2016 without obtaining a contract. The former principal retired as of July 2017 and left the unsigned photography contract for the upcoming new principal to sign. The current principal arrived on July 3, 2017, but was not informed of the unsigned photography contract.

Internal controls for monitoring vending and photography commission revenues were not sufficient to ensure that contract terms were followed and all proceeds was received.

**Recommendation:** The principal must ensure that a current signed vending and photography contracts stipulating commissions due the school and frequency of these commissions are on file at the school. The contract term cannot exceed one year. The principal should seek guidance from Purchasing and Supply Services to ensure compliance with BOE policies and procedures.

The school should consider contracting another vending company since the school does not receive a commission from vending machine sales.

**2019.04 Voided Checks Not Properly Mutilated**

There were at least 3 instances where checks were not properly voided by removal of the signature line.

The APM, section 4.5.3.2, *Policies and Procedures, Voiding Checks* requires accounting for a physical check when an error is made at the time it is prepared or 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.



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The current recordkeeping staff was not aware that removal of signature lines from voided checks is required for compliance with the APM. Inappropriate voiding of checks constitutes noncompliance with BOE policies and procedures and increases the risk of check fraud, waste and abuse of the school's resources.

**Recommendation:** The principal and recordkeeping staff should establish and document procedures to ensure that there is proper administration of voided checks.

- A. Voided checks should have a completed VCPS signed by the principal, entered into SFO and be properly defaced.
- B. The principal should complete a periodic review of voided checks to ensure compliance with BOE policies and procedures.

**2019.05 Unauthorized Transfer of Funds**

There were at least 3 instances where unauthorized transfers were processed during the audit period. The recordkeeping staff performed transfers totaling \$504.64 from prior year (PY) Carryover to the unrestricted Special Events account to pay for expenditures. Even though the transfers were not of a significant amount, the Accounting and Financial Reporting Office did not approve them. Transfers were performed in March and April 2016 and August 2017.

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 Accounting and Financial Reporting office detailing the reason for the transfer. Only upon written approval should funds be transferred from the PY Carryover account."

Neither the former nor the current principal or recordkeeping staff was aware that approval from Accounting and Financial Reporting was required to transfer funds from PY Carryover. The recordkeeping staff has since learned of the procedure for requesting use of PY Carryover.

Inappropriate transfers have resulted in misstatement of financial information presented to administrators for decision-making.

**Recommendation:** The principal must implement procedures to ensure that only allowable transfers from the PY Carryover account are completed with appropriate documentation and approval from the Accounting and Financial Reporting Office. Review of financial reports must be performed by the principal to ensure that transfers are completed as required.

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**2019.06 Fundraiser Forms/Reports Not Completed**

Requirements for administering fundraisers were not followed during the audit period. Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the annual reports summarizing fundraising activities were not completed.

Administrative Procedure 5135.1, *Fundraising* requires schools to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the Annual Fund Raising Summary Report for all fundraisers sponsored. These documents must be maintained on file for public and auditor review upon request.

The current principal and current recordkeeping staff were not aware of the fundraiser requirements. It could not be readily determined whether the school's fundraisers yielded an overall profit. As a result, pertinent financial information for the school's administrators to make fiscal decisions was not available.

**Recommendation:** The principal must establish procedures to ensure completion of all Fundraiser Request and Authorization Forms, Completion Reports and annual reports of fundraising activities for fundraising events held during the school year. The required reports must be maintained on file for public and auditor review.

**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Chillum Elementary School was issued for the period ended September 2014. There were **5** findings reported previously and **2** have been repeated in this audit report. The current principal and recordkeeping staff were not on staff during the previous audit. The current principal's tenure began July 2017. The current recordkeeping staff's tenure began January 2017. The following findings were noted as a result of that audit and the current status is indicated below:

- **Delinquent Deposits** – Condition still exist. See **Finding 2019.01** regarding *Mismanagement of Funds Received*.
- **Inadequate Checking Signing** – Controls appear to be working.
- **Delinquent Disbursements** – Controls appear to be working.
- **Beverage Vending Contract Not on File** – Condition still exist. See **Finding 2019.03** regarding *Contracts Not on File*.
- **Year-End Monetary Transmittal Forms/Envelopes** – Controls appear to be working.

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**ACKNOWLEDGEMENT**

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