



March 29, 2018

MEMORANDUM

To: Tasheka Green, Instructional Director
Cluster 1

Yolanda Coleman, Principal
J. Frank Dent Elementary School

From: Michele Winston, CPA, Director,
Internal Audit

Re: Financial Audit for July 1, 2014 through November 30, 2017

An audit was conducted of the financial records of J. Frank Dent Elementary School for the period July 1, 2014 through November 30, 2017. 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 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 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.

Enclosure

cc: Segun Eubanks, Ed. D., Board Chair
Kevin Maxwell, Ph.D., Chief Executive Officer of Schools
Carolyn Boston, Vice Chair, Board of Education
Members, Board of Education
John Pfister, Chief Financial Officer
Monique Whittington-Davis, Ed. D, Deputy Superintendent
J Michael Dougherty, CPA, Esq., Director, Financial Services
Melissa McGuire, Ed. D, Associate Superintendent, Area III
Erica Berry Wilson, Esq., Board Executive Director
Lewis Robinson, Director, Employee and Labor Relations
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**J. Frank Dent Elementary School
Student Activity Funds**

For the Period Ended November 30, 2017

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Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of J. Frank Dent Elementary School for the period July 1, 2014 through November 30, 2017. J. Frank Dent 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:

- | | |
|----------------------------------------------------------------|----------------------------------------------------------|
| 1) <i>Mismanagement of Disbursements,</i> | 6) <i>Monthly Reconciliation and Financial Reporting</i> |
| 2) <i>Mismanagement of Funds Received,</i> | 7) <i>Record Retention</i> |
| 3) <i>Collection of Funds,</i> | 8) <i>Vending Machines</i> |
| 4) <i>Inappropriate Use of the Reimbursement Vendor Option</i> | 9) <i>Management Oversight</i> |
| 5) <i>Excessive Spending in Restricted Accounts</i> | |

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 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 November 30, 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 J. Frank Dent Elementary School for the period July 1, 2014 through November 30, 2017. 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.

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.

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OBJECTIVES

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school is in compliance 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, 2014 through November 30, 2017. Also 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

2018.01: Mismanagement of Disbursements

There were **16** randomly selected cash disbursement transactions reviewed. The following exceptions pertaining to management of disbursements were noted:

- A. *Inadequate Approval and incomplete School Funds Expenditure Forms (SFEF)*** - There was **1** instance where expenditures were not adequately approved and **4** instances where the SFEF's were *not* completed.
- B. *Classification of Disbursements*** - Check number 2875 paid to Office Catering LLC for **\$652.50** for a welcome back breakfast was not properly recorded in the accounting system. This check was posted to the "Special Events" account and should have been posted to "Principal Sponsored Activities" (PSA).
- C. *Delinquent Vendor Payment*** - There was **1** instance where the expenditure was not made timely. This invoice was delinquent by **87** days.
- D. *Voided Checks*** - During the review of the school's voided checks, the following exceptions were noted:

 - 1.** There were **2** instances where voided checks could not be located in the school's files to determine appropriate disposition.
 - 2.** There were **4** instances where voided checks were not properly defaced with the signature line removed.
 - 3.** There were **4** instances where voided checks were not properly approved by the principal.
- E. *Contracts*** - There was **1** instances where contract against which a purchase was made did not include the principal's signature.
- F. *Checks Issued with one Signature:*** There were **9** instances where checks were issued with one signature.

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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. Transactions should be recorded in the most specific account relating to the activity. If transactions fit an established category but are expected to occur frequently, it is easier to monitor and track such transactions in a separate account.
- C. Invoices are required to be paid within 30 days of receipt or by the invoice due date. The principal should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- D. All voided checks must be defaced, filed in check number order with cancelled check images, and entered into the accounting system. SFEFs/VCPS must be completed and approved by the principal for these voided checks.
- E. The principal, as the fiduciary agent of the school, must approve and sign all agreements and contracts entered into for all school activities.
- F. Two authorized signatures are required on all checks. The two standard check signers should be the Principal and the Bookkeeper in accordance with AP 4180, *School Bank Accounts*. The third signer must be a vice-principal or school administrator.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and staff. Approving purchases without adequate documentation could result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. SFEFs were accepted that were incomplete and/or lacked adequate support. The invoice and/or store receipts are not verified to ensure accuracy of payments prior to recording in the accounting system. Both the Principal and Bookkeeper indicated that they were not properly trained. Also, neither has read the APM. The school does not have three authorized check signers for the checking account.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Approving purchases without adequate documentation or failure to adequately approve expenditures could result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. The risk of insolvency is present when the available funds amounts are not determined prior to approval of purchases. Delinquent payments of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed. Failure to properly void checks could result in

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unauthorized negotiation of checks. When recipients of advances are not required to sign an acknowledgement, accountability is reduced for the funds received. When the principal who is the fiduciary agent of the school does not responsibly enter into contractual agreements on behalf of the school, the school's resources may be inappropriately obligated and the risk of insolvency increased. Misclassification of transactions generates inaccurate recording and reporting of the school's financial transactions.

Recommendation: The following must be performed 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 by staff. The principal should ensure all pre-approval details are provided on SFEFs prior to approving expenditures.
- B. The Principal must establish internal controls to ensure accurate recording and reporting the school's financial transactions. A reversing journal entry to correct check number 2875 in the amount of **\$652.50** that was erroneously recorded in the Special Events account must be done. ***It should be noted that this transfer will increase the deficit in the PSA account to (\$3,916.49).***
- C. Internal controls must be established to ensure vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- D. Internal controls to ensure that all voided checks are defaced, filed in check number order with cancelled check images, entered into the SFO accounting system and VCPS approved by the principal must be established. The principal should perform periodic oversight to ensure this process is performed.
- E. Internal controls must be established to ensure that the principal, as the fiduciary agent of the school, approves and signs all agreements and contracts entered into for all school activities.
- F. Internal controls to ensure that all checks have the required two authorized signatures must be established. In addition, Treasury Operations should be contacted to have a third authorized check signer added to the school's checking account.

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2018:02 Mismanagement of Funds Received

A total of **35** cash receipt transactions were randomly selected for review. The following exceptions pertaining to management of receipts were noted:

A. *Monetary Transmittal Form Documentation*

- 1) ***Receipts Supporting Documentation*** - There were **7** instances where cash receipts were not properly supported (incomplete MTF, no supporting documentation or no validated bank deposit ticket).
- 2) ***Classification of Receipts*** - There was **1** instance where receipts were not properly recorded in the accounting system.
- 3) ***Changes made to MTFs***- There were **6** instances where changes made to MTFs were not done according to the MTF instructions.

B. *Delinquent Deposit* - There were **11** instances where deposits were not made in a timely manner. The range of delinquency was **4** days to **120** days.

C. *Fundraiser Forms not completed* - Staff failed to complete the Fundraiser Authorization Forms, Fundraiser Completion Reports and the Annual Fund Raising Summary Reports for all fundraising events.

D. *Transfer of Funds Received* - There were **2** instances where transfers were not made in accordance with the requirements of the APM.

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 and properly supported with approved MTFs. All SAF is required to be deposited in the form received. Sections 1 and 2 of the MTF must agree and be completed. Transactions should be recorded in the most specific account relating to the activity. If transactions fit an established category but are expected to occur frequently, it is easier to monitor and track such transactions in a separate account. Changes and alterations made to MTFs require initials.

B. Student activity funds received are required to be deposited 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.

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- C. Clubs and organizations are required to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the principal or designee prepare annual reports summarizing fundraising events held during the school year. These documents must be maintained on file for public and auditor review upon request.
- D. Transfers should take place 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 available funds (e.g., fundraisers, unrestricted donations, prior year carryover, etc.).

BOE policies and procedures as established in the APM were not followed. Both the Principal and Bookkeeper indicated that they were not properly trained as it relates to SAF. Also, neither has read the APM and this has trickled down to the staff. The verification and maintenance of all MTFs and supporting documentation must be performed prior to accepting MTFs and making deposits. Funds were held by teachers, who failed to adhere to the same day remittance requirement, when multi-day collections were necessary. The requirement for completion of fundraiser forms was not communicated to fundraising sponsors. The principal did not perform or designate the summarization of fundraising activities for the audit period due to competing priorities.

Failure to adequately perform bookkeeping responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring all funds collected were subsequently remitted and deposited was not available. Delinquent deposits of funds impacts the accuracy 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 impacts the audit trail. Failure to complete 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 should be implemented for J. Frank Dent Elementary School receipts to be made in accordance with BOE policies and procedures:

- A. The principal should provide training to staff to 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. MTF's should not be accepted if changes are not initialed.
- B. The 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 informed that funds collected cannot be held overnight. The principal must provide the adequate

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time to verify that funds collected are as indicated on the MTFs submitted and that deposits are made with the bank timely. 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 staff completes the required fundraising forms for 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.

2018.03 Missing Funds

Missing funds were noted in the amount of **\$289.00**. During review of 4 MTF#'s **226972 - 226975**, it was determined that the supporting documentation substantiated that **\$1,011.25** was collected, however, only **\$722.25** was deposited. All MTF documents were signed by the bookkeeper indicating verification that the funds collected were as indicated. IA determined that the bookkeeper should be held accountable for restitution of **\$289.00** to the school.

The most significant roles of the principal include, ensuring physical control and security of cash and other assets and supervising the bookkeeper. The bookkeeper is responsible for accurately recording and reporting the school's financial transactions and to be a good custodian of funds.

Established internal controls relative to cash management were not followed. Verification of all supporting documentation as part of the cash collection process was not performed prior to remittance. The internal control weaknesses resulted in identified loss of funds to the school of approximately **\$289.00**. *These funds were recovered by the school on January 18, 2018.*

Recommendation: The principal should provide training to staff to ensure a thorough review of MTFs and funds remitted prior to validating SAF.

2018.04 Record Retention

Supporting documentation for **2** cash disbursements, **2** voided checks and **11** transfers could not be located.

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.

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An adequate filing system was not properly maintained and oversight was not provided by the principal. These actions caused the school to be non-compliant with BOE policies and procedures as established in the Accounting Procedural Manual.

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 be implemented to help ensure that financial documents have been filed properly for future review.

2018.05 Vending Machines

The following exceptions were noted regarding vending machine operations on the school premises:

- A current signed contract stipulating commissions due the school and frequency of commissions was not on file.
- A vending commission check for **\$84.00** dated June 13, 2016, had not been deposited in the school's bank account.

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 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. All funds received from the vendor were not deposited.

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. Additionally, these funds could be used to offset the deficit in the PSA account.

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. Also, the principal must contact LJGS Vending to receive a replacement check.

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2018.06 Excessive Spending in Restricted Accounts

The student activity fund has 7 restricted fund accounts with deficits totaling **(\$11,713.33)** as of November 30, 2017. The following is a listing of accounts with deficits:

- The Publick Playhouse account (Field Trip) has a deficit of **(\$760.00)**,
- The Fraudulent Checks-Bethea account has a deficit of **(\$7,401.00)**,
- The Restitution T. Brock account has a deficit of **(\$288.34)** and
- The Principal Sponsored Activities (PSA) account has a deficit of **(\$3,263.99)**.

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 SAF, the principal should ensure all accounts are solvent at all times.

During the previous audit, it was determined that a former recordkeeping staff manipulated the system of internal controls and defrauded the school. As a result, the school suffered a loss of funds of approximately **\$7,401.00**. This incident accounted for **63%** of the deficit. The former principal and the recordkeeping staff did not monitor SAF to ensure that restricted accounts maintained positive balances. BOE policies and procedures as established in the **APM** regarding the use of restricted funds were not followed. Students did not receive the maximum possible benefit of the resources that should have been available to them.

Recommendation: Corrective actions to discontinue excessive SAF spending must occur.

- A. All potential expenditures should be evaluated with regard to available resources and care must be exercised to ensure the resources are utilized for the maximum benefit of the students. Spending in these accounts must cease until the accounts' deficits are resolved.
- B. The principal should consider the following resolutions by forwarding requests to Accounting and Reporting:
 - a. Request that all field trip accounts be consolidated and
 - b. Request that funds from the Prior-Year (PY) Carryover account be used cover the Fraudulent Checks-Bethea account

2018.07 Monthly Reconciliation and Financial Reporting

Monthly Reconciliations and Financial Reporting by the 15th of each month is not done timely. There were **27** instances where the bank account was **not** reconciled timely. The range of delinquency was 1 day to 189 days.

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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 reconciliation should be completed within 7 days after receiving the statement from the bank. This process should be completed by the 15th of each month. The completed reconciliation should be returned to the Principal every month for review and approval.

Both the former and current principal did not exercise proper oversight to ensure that monthly reconciliations and financial reporting was completed by the 15th of each month. BOE policies and procedures as established in the **APM** regarding the use of restricted funds were not followed.

Up to date financial information was not ready available for administrators to make informed financial decisions. Untimely financial reporting was also a contributing factor to excessive spending in restricted accounts.

Recommendation: The principal must establish procedures to ensure that monthly bank reconciliations and other financial reports are prepared by the 15th of each month. The principal must perform a review of the monthly financial reporting package and evidence review by signature.

2018.08 Inappropriate Use of the Reimbursement Vendor Option

The bookkeeper inappropriately processed 9 refunds to parents totaling \$1,002.90 using the “Reimbursement Vendor” option.

The “*Reimbursement Vendor*” option was created to post reimbursable expenses to the staff and the “*Refund Vendor*” option was created to post refundable expenses to parents. .

BOE policies and procedures as established in SFO regarding the use of the “Reimbursement Vendor” option were not followed. The bookkeeper indicated that she had not been trained on how to use these accounts. As a result, the school’s financial records may not have been accurately stated. Failure to follow instructions for processing refunds places the school in a position of non-compliance with BOE policies and procedures.

Recommendation: The principal must establish procedures to ensure that all future cash disbursement transactions are accurately recorded in SFO. Additionally, correcting entries must be made for the improper postings to ensure accurate accounting of all transactions.

2018.09 Management Oversight

Proper management oversight was not exercised by the former principal during the administration of student activity funds during the audit period.

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The principal is the fiduciary agent for student activity funds. In this role, the principal is the person responsible for ensuring that these funds are administered in accordance with PGCPs policies and procedures and spent so as to provide the maximum benefit possible to the students. ***"It is also important that the principal, who is ultimately responsible for these funds, be aware that the success of the internal control system rests largely with them."***

The previous audit report for J. Frank Dent Elementary School was issued for the period ending September 30, 2013. During that time period, neither the current principal nor bookkeeper held those positions. Included in the findings reported in the previous audit, are 9 that were repeated this audit period. Based on the number of repeat noncompliance and reportable control weaknesses, the former principal did not follow BOE policies and procedures as established in the APM.

Recommendation: The current principal should carefully review the policies and procedures as defined in APM. She should be consistently involved in the daily operations as it relates to the administration of the school's resources. Improvement of the internal control environment should be emphasized by focusing on these four basic principles:

- ❖ Clearly defined lines of authority and responsibility;
- ❖ Segregation of duties;
- ❖ Maintenance of adequate documents and records;
- ❖ Limited access to assets, and
- ❖ Independent checks on performance

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for J. Frank Dent Elementary School was issued for the period ended September 30, 2013. During that period, the current principal and bookkeeper were not in their current positions. The previous audit report had 16 reportable conditions, of which 9 are repeated in the current audit. The following findings were noted as a result of the prior audit and the current status is indicated below:

- **Missing Funds** - Condition still exists. See **Finding 2018.03** regarding *Missing Funds*.
- **Delinquent Deposit** - Condition still exists. See **Finding 2018.02**, *Mismanagement of Funds Received*
- **Transactions not Properly Posted** - Condition still exists. See **Findings 2018.01 and 2018.02** regarding *Mismanagement of Disbursements and Mismanagement of Funds Received*.

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- **Principal Sponsored Activity (PSA) Account Deficit** - Condition still exists. See **Finding 2018.06** regarding *Excessive Spending in Restricted Accounts*
- **Payments to Vendors for Services Rendered** - Control appears to be working.
- **Insufficient Documentation for Disbursements** - Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Disbursements*,
- **Checks Issued with one Signature** - Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Disbursements*.
- **Delinquent Payment of Invoices** - Condition still exists. See **Finding 2018.01** regarding *Mismanagement of Disbursements*.
- **Gift Cards Purchased** - Control appears to be working.
- **Sales Taxes Paid and/or Reimbursed on Items Purchased** - Control appears to be working.
- **Sales Tax not Collected and Remitted to the State of Maryland** - Control appears to be working.
- **Parent Teacher Organization (PTO) Funds Collected and Deposited** - Control appears to be working.
- **Year-end Monetary Transmittal Forms not Returned** - Control appears to be working.
- **Lack of Property Inventory Documentation** - Control appears to be working.
- **Failure to Complete Fundraiser Reports** - Condition still exists. See **Finding 2018.02** regarding *Mismanagement of Funds Received*
- **Management Oversight**- Condition still exists. See **2018.09** regarding *Management Oversight*.

ACKNOWLEDGEMENT

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