



July 3, 2018

**MEMORANDUM**

To: Tasheka Green, Instructional Director  
Cluster 11

Nicholas A. Ohlson, Principal  
Samuel Chase Elementary School

From: Michele Winston, CPA, Director  
Internal Audit

Re: Financial Audit for November 1, 2015 through December 31, 2017

An audit was conducted of the financial records of **Samuel Chase Elementary School** for the period November 1, 2015 through December 31, 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](mailto: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](mailto:deborah.smalls@pgcps.org).

Enclosure

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

**Internal Audit Report**

**Samuel Chase 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 Samuel Chase Elementary School for the period November 1, 2015 through December 31, 2017. Samuel Chase 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,*
- *Mismanagement of Funds Received,*
- *Check Writing,*
- *Record Retention*
- *Vending Machines*
- *Excessive Spending in Restricted Accounts*
- *Delinquent Monthly Reconciliation and Financial Reporting*
- *Use of the Advance, Reimbursement and Refund Vendor Accounts*
- *Administration of the Parent Teacher Association*
- *Management Oversight*

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 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 Samuel Chase Elementary School for the period November 1, 2015 through December 31, 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.

**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 November 1, 2015 through December 31, 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**

The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Approval and Incomplete School Funds Expenditure Forms (SFEF)*** - There were **8** instances where expenditures were not adequately approved and **6** instances where the SFEFs were ***not*** completed
  
- B. ***Classification of Disbursements*** - There were **15** instances where expenditures were not properly recorded in the accounting system. These transactions were recorded in the account number **512.00** described as “SPMT-Fundraiser” (School Planning and Management Team). (*Refer to Ancillary Issues* )
  
- C. ***Delinquent Vendor Payment*** - There were **3** instances where expenditures were not processed in a timely manner. An invoice was paid **123** days delinquent in the most significant instance.
  
- D. ***Voided Checks*** - During the review of the school’s voided checks, the following exceptions were noted:
  - 1. There were **4** instances where voided checks could not be located in the school’s files to determine appropriate processing.
  
  - 2. There was **1** instance where a voided check was properly defaced with the signature line removed; however, the signature line was attached to the voided check.
  
  - 3. There were **4** instances where voided checks were not properly approved by the principal.
  
- E. ***Contracts*** – There were **2** instances where contracts against which purchases were made did not include the principal’s signature. The event sponsor (staff member) signed the contract.
  
- F. ***Sales Tax***: There was **1** purchase made by the school that was not treated as sales tax-exempt.

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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. Purchases made by schools and PGCPs are sales tax-exempt, if used in the conduct of school business. After the Principal pre-approves a School Funds Expenditure Request Form, a copy of the certificate is provided to the individual for presentation to the vendor when making the school purchase.

SFEFs were accepted that were incomplete and/or inadequately supported. Invoices and/or store receipts were not verified to ensure accuracy of payments prior to recording in the accounting system. Both the principal and recordkeeping staff indicated that they were not properly trained. Also, neither has read the APM.

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 unauthorized negotiation of checks. 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 the school's

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financial transactions. Payment of sales taxes for exempt purchases reduces the amount of funds available to benefit the student body.

**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 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. The bookkeeper must do reversing journal entries to correct all transactions posted to account number **512.00** described as "SPMT-Fundraiser" for FY 2018. If needed, contact the school activity fund support specialist for assistance
- C. The bookkeeper must ensure vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- D. The principal must establish 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. The principal should perform periodic oversight to ensure this process is being performed.
- E. The principal must establish internal controls to ensure, as the fiduciary agent of the school, he signs all agreements and contracts obligating the school.
- F. The principal must establish internal controls to ensure that all purchases made by school are sales tax-exempt, if used in the conduct of school business. After the principal pre-approves a SFEF, a copy of the certificate should be provided the staff member for presentation to the vendor when making the school purchase.

**2018:02 Mismanagement of Funds Received**

The following exceptions pertaining to management of receipts were noted:

A. **Monetary Transmittal Form Documentation**

- 1) There were **6** instances where collections were not properly supported (incomplete MTF, no supporting documentation or no validated bank deposit ticket).



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- 2) ***Classification of Funds Received*** - There were **4** instances where funds received were not properly recorded in the accounting system. Funds received for donations and Claire's fundraiser were classified as "SPMT fundraiser."
  - 3) ***Changes Made to Monetary Transmittal Forms*** - There were **4** instances where changes made to MTFs were not initialed in accordance with MTF instructions.
- B. ***Delinquent Deposit*** - There were **5** instances where deposits were not made in a timely manner. The delinquency ranged from **4** days to **6** days.
- C. ***Fundraiser Forms Not Completed*** - Staff failed to complete the Fundraiser Authorization Forms, Fundraiser Completion Reports and Annual Fund Raising Summary Reports for all fundraising events held during the audit period.
- D. ***Transfer of Funds Received*** - There were **2** instances where approval was not obtained prior to processing of transfer journal entries as required by 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 to the bookkeeper 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. 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.
- C. Clubs and organizations are required to complete the Fundraiser Request and Authorization Forms and Fundraiser Completion Reports and the principal or designee is required to 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. Transfer journal entries 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.).

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Reportedly, the principal and recordkeeping staff were not properly trained as it relates to the administration of SAF. Also, neither has read the APM. As such compliance with the requirement for verification of all MTFs and supporting documentation prior to acceptance did not occur prior to making deposits and recording cash receipt transactions. Funds were held by teachers, who failed to adhere to the same day remittance requirement, prior to remittance to the bookkeeper. 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 accounting responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM.

Audit evidence for ensuring that all funds collected were subsequently remitted and deposited was not available or inadequate. 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 fraudulent reporting the school's financial transactions.

**Recommendations:** The following corrective actions should be implemented for Samuel Chase Elementary School funds received to be processed in accordance with BOE policies and procedures:

- A. The recordkeeping staff must ensure that all MTF documentation is complete by verifying that all supporting documentation is attached along with the MTF prior to acceptance and deposit of funds. MTFs should not be accepted if changes are not initialed.
- B. The recordkeeping staff must be reminded that all funds collected and remitted should be deposited every other day or on a day if collection of funds exceed **\$250.00**. Teachers must be informed 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 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.

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- D. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal.
- E. All staff must be held accountable for adherence to the internal controls.

**2018.03 Check Writing**

The following exceptions pertaining to check writing were noted:

- A. There were **3** instances where manual checks were generated as an alternative to printing from SFO.
- B. There were **2** instances where checks were written to non-approved active vendors in *School Funds Online* (SFO).

The APM provides the following guidelines regarding check writing:

- A. No manual checks should be generated. All checks should be printed from *SFO*.
- B. All checks must be written to an Approved/Active vendor in *School Funds Online*. The only exceptions are for staff reimbursements and parent refunds. A one-time Vendor Request Form for charities (only) can be submitted to Business Operations for approval. All one-time vendor accounts become inactive one week after approval. At no time should "REIMBURSEMENT" OR "REFUND", be used to pay unapproved vendors in *SFO*.

Established internal controls relative to check writing were not followed. These practices were allowed under the former principal. Failure to follow instructions for processing checks places the school in a position of non-compliance with BOE policies and procedures.

**Recommendation:** The principal must establish internal controls to ensure that all checks are printed from SFO and all checks must be written to an Approved/Active vendor in *School Funds Online* with only exceptions being for staff reimbursements and parent refunds.

**2018.04 Record Retention**

Supporting documentation was not provided for **2** cash disbursements, **4** voided checks and **10** transfers during the audit.

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,

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disbursement authorities, Monetary Transmittal Forms, School Funds Expenditure Forms, cancelled checks and contracts.

An adequate filing system was not properly maintained by the recordkeeping staff and oversight was not provided by the principal. Failure to make financial records available for an 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 recordkeeping staff or principal, financial documents would be retrievable for future review.

#### **2018.05 Vending Machines**

Samuel Chase Elementary School was not in compliance with the requirement administration of vending machines. A current signed 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 these commissions are required to be 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 absence 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 may not be available for student needs.

**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.

#### **2018.06 Excessive Spending in Restricted Accounts**

The student activity fund has 2 restricted fund accounts with deficits totaling **(\$399.57)** as of December 31, 2017. The following is a listing of accounts with deficits:

- The Scholastic News account has a deficit of **(\$246.95)**
- The Music Recorders account has a deficit of **(\$152.62)**

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for those activities. However, if restricted accounts exceed the available cash,

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the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure all accounts are solvent at all times.

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

Students are not receiving the maximum possible benefit of the resources that should have been available to them.

**Recommendation:** All potential expenditures should be evaluated with regard to available resources and care must be exercised to ensure the resources are used for the maximum benefit of the students. Spending in these accounts must cease until the accounts deficits are resolved.

**2018.07 Delinquent Monthly Bank Reconciliations and Financial Reporting**

Monthly bank reconciliations and financial reports preparation were not performed timely. There were **12** instances where the school's bank account was **not** reconciled by the 15<sup>th</sup> of the subsequent month. The range of delinquency was 19 to 99 days.

According to the APM, the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the recordkeeping staff for reconciliation. The reconciliation should be completed by the bookkeeper within 7 days after receiving the statement from the bank. This process should be completed by the 15<sup>th</sup> of each month. The completed bank reconciliation should be returned to the Principal every month for review and approval.

The former and current principal did not exercise proper oversight to ensure that monthly reconciliations and financial reporting was complete by the 15<sup>th</sup> of each month following the month reconciled. BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed.

Current financial information was not readily available to support expenditure approval. This has contributed to excessive spending in restricted accounts.

**Recommendation:** The principal must establish procedures to ensure that monthly reconciliations and financial reporting is performed by the 15<sup>th</sup> of the subsequent month. The recordkeeping staff must be held accountable for meeting this deadline.

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**2018.08 Use of the Advance, Reimbursement and Refund Vendor Accounts**

The following exceptions pertaining to use of the Advance, Reimbursement and Refund options were noted:

- The bookkeeper inappropriately processed 14 reimbursements to staff members that totaled \$2,053.75 using the “Refund Vendor” option.
- The bookkeeper inappropriately processed 4 payments to active BOE approved vendors totaling \$5,132.45 and 2 payments to unapproved vendors totaling \$291.82 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. The “*Advance Vendor*” option was created to post reimbursement expenses for staff when the exact amount is not known. At no time should the “Advance”, “Reimbursement” or “Refund” vendor option be used to pay unapproved vendors in SFO.

BOE policies and procedures as established in SFO regarding the use of the “Advance”, “Reimbursement” and “Refund” vendor option were not followed. Reportedly, the recordkeeping staff had not been trained on how to use these accounts.

As a result, the school’s financial records may not have been accurately stated. Also, unapproved vendors were being paid via SFO. Failure to follow instructions for processing advances, refunds and reimbursements places the school system 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 to ensure accurate accounting of all transactions.

**2018.09 Administration of the Parent Teacher Association Accounts**

The treasurer and check signer of the Parent Teacher Association (PTA) bank account is a BOE employee that works in the capacity of a physical education teacher at the school.

According to Administrative Procedure (AP) 3350, *PTA, PTSA, PTO*, Section E, *Prohibited Acts*, “School Based employees should not manage the funds of the PTA or PTO at the school where they work.”

Reportedly, neither the principal nor the recordkeeping staff was familiar with AP 3350, *PTA, PTSA, PTO*. This situation could create competing interests or loyalties for the physical education teacher thus creating a conflict of interest.

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**Recommendation:** The physical education teacher must be required to resign as the PTA Treasurer and check signer to ensure compliance with AP 3350, *PTA, PTSA, PTO*.

**2018.10 Management Oversight**

Proper management oversight was not exercised by the former and current principal during the administration of SAF during the audit period.

The principal is the fiduciary agent for SAF. 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 Samuel Chase Elementary School was issued for the period ended October 31, 2015. During that period, neither the principal nor the recordkeeping staff held their current positions. Of the 9 findings previously reported, 7 were repeated this audit report.

Based on the number of repeat noncompliance and 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

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**STATUS OF PRIOR AUDIT FINDINGS**

The previous audit report for Samuel Chase Elementary School was issued for the period ended October 31, 2015. During that period, the principal and bookkeeper were not in their current positions. The previous audit report had 9 reportable conditions, of which 7 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:

- **Mismanagement of Funds Received** - Condition still exists– See Finding 2018.02 regarding *Mismanagement of Funds Received*.
- **Mismanagement of Disbursements** - Condition still exists– See Finding 2018.01 regarding *Mismanagement of Disbursements*.
- **Segregation of Duties** – Controls appear to be working.
- **Fundraiser Forms-** Condition still exists– See Finding 2018.02 regarding *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*.
- **Deficit in Principal Sponsored Activities (PSA) Fund Account** - Controls appear to be working.
- **Noncompliance with Policies for Disbursing Funds and Recording Disbursement** - Condition still exists– See Finding 2018.01 regarding *Mismanagement of Disbursements and Mismanagement of Funds Received*.
- **Financial Reporting** - Condition still exists– See Finding 2018.07 regarding *Delinquent Monthly Reconciliation and Financial Reporting*.
- **Record Retention** - Condition still exists– See Finding 2018.04 recording *Record Retention*.



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**ANCILLARY ISSUE**

PGCPS transitioned from *QuickBooks Enterprise Solutions (QBES)* to *School Funds Online (SFO)*, published by Technology Resource Associates (TRA) School Software, in 2015. Since that time, Samuel Chase Elementary School has used account number 512.00 described as SPMT-Fundraiser (School Planning and Management Team) to account for **\$20,888.40** in collections and **\$15,919.50** in funds disbursed for a variety of events/activities as of December 31, 2017. These events/activities include but are not limited to: Donations, movie nights, fundraisers, field trips, principal sponsored activities and school maintenance. The recording of the transactions in this account has led to receipts and disbursements not properly recorded in the accounting system. The information gathered indicates that this has been the practice was conducted for the past 9 years.

The reporting noncompliance was discussed with the principal and the recordkeeping staff. A decision was made to work concertedly to accurately record financial transactions in the school's accounting system.

**ACKNOWLEDGEMENT**

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