

Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

March 3, 2021

MEMORANDUM

To: Mr. Evan J. Pinkowitz, Principal
Belmont Elementary School

From: Mary J. Bergstresser, Supervisor, Internal Audit Unit 

Subject: Report on Audit of Independent Activity Funds for the Period
January 1, 2018, through December 31, 2020

Independent Activity Funds (IAFs) of Montgomery County Public Schools (MCPS) are established to promote the general welfare, education, and morale of students, as well as to finance the recognized extracurricular activities of the student body. School principals are the fiduciary agents for the IAFs charged with determining the manner in which funds are raised and expended for activities such as field trips, admission events, and fundraisers. They are responsible for ensuring that the IAFs are administered in accordance with Board of Education policies and MCPS regulations and procedures.

The IAF audits are conducted regularly to evaluate compliance with policies, regulations, and procedures, and to review processes for continuous improvement. Generally accepted audit procedures guide the work of the auditors who examine samples of the IAF records and financial accounts selected from documentation of various activities to verify their accuracy, as well as to assess the effectiveness of financial control procedures. An IAF audit does not review every transaction or school activity, but seeks to provide reasonable assurance that any significant errors or omissions in the financial records are detected.

At our January 25, 2021, virtual meeting with you; Mrs. Carol A. Kelly, visiting bookkeeper; and Ms. Monika C. Roberts, substitute school administrative secretary (secretary), we reviewed our prior audit report dated March 15, 2018, and the status of present conditions. This audit report presents the findings and recommendations resulting from our examination of the IAF records and financial accounts for your school for the period designated above.

Findings and Recommendations

Documents supporting the IAF reports are part of the financial records and should be maintained in the school office and filed logically to be readily available for audit or other purposes. IAF records shall be retained for five years after the close of the year to which they apply and until all audit requirements have been met, whichever is longer, and then destroyed (refer to the *MCPS Financial Manual*, chapter 20, page 16). Our review disclosed that many financial records were

miss filed and not available for reviews such as bank statements, bank reconciliations, year-to-date reports, picture/yearbooks contracts, grant records, disbursements, and receipts. We recommend that IAF records be properly filed and retained to be available for audit.

Effective internal control includes the receipt and review by the principal of the unopened monthly bank statement, bank reconciliation report, and ledger reports promptly. Review of these important reports must be evidenced by the principal's signature and date (refer to the *MCPS Financial Manual*, chapter 20, page 9). Although these reports were prepared monthly by the school's visiting bookkeeper, reconciliation reports for fourteen months of the audit period (1/1/2018-12/31/2020) could not be located. We recommend that you initiate a process that ensures adequate maintenance and retention of monthly reconciliation reports in the IAF financial records.

The management of the IAF must be by good business practices that include sound accounting and internal control procedures (refer to the *MCPS Financial Manual*, Chapter 20, page 1). We found that staff did not have adequate procedures in place for proper control and oversight of the IAF. As a result, we noted checks and receipts often out of sequence, check or receipt numbers entered in the accounting system that did not always match numbers preprinted on checks and receipts, and misprinted checks and receipts were not always properly voided. We recommend that you work with your secretary to establish processes that will structure workflow to ensure control and appropriate oversight of the IAF and to monitor transaction activity to reduce the number of errors.

Transfers of funds between general ledger accounts may be made only after MCPS Form 281-46, *Independent Activity Funds – Transfer*, has been executed by both the account sponsor and the principal. Transfers must be fully documented and adhere to MCPS guidelines for allowable uses of funds. We found that transfers of funds were executed without completion of MCPS form 281-46. Also, we found that descriptions used on transfers did not convey the nature of the fund's movement. To improve internal controls, the secretary must be instructed to execute transfers only according to requests approved by the principal, or acting principal, on MCPS form 281-46 and that transfer description be clear to convey to the sponsor what was transferred (refer to the *MCPS Financial Manual*, chapter 20, page 12).

Sponsors of school activities that involve the collection or disbursement of IAF must be provided an account history report for each month in which transactions have been recorded in their account, or account has a balance. We found this essential internal control procedure was not being used. We recommend sponsors be given a monthly statement of their accounts and be required to verify that all transactions affecting the account have been correctly recorded. After any discrepancies are resolved, the statements must be signed and dated by the sponsor to attest to their accuracy. A procedure should be established to ensure that all statements are reviewed and returned (refer to the *MCPS Financial Manual*, Chapter 20, page 10).

MCPS Form 280-54, *Independent Activity Funds Request for a Purchase*, is used to obtain the principal's approval to proceed with an intended purchase. After the acquisition, the purchaser must submit the invoice or documented evidence of purchase, annotated to indicate the

satisfactory receipt of the goods or services, to the secretary. Upon disbursement, the documentation is to be stamped or marked “paid” to preclude duplicate payment (refer to the *MCPS Financial Manual*, chapter 20, page 6). In our sample of disbursements, we noted inadequate record keeping. Checks were issued and signed without the receipts attached to the approved requests for purchase. Invoices were not annotated by purchasers to indicate that purchased goods or services were satisfactorily received, and documentation supporting purchases were not consistently stamped or marked “paid.” By requiring prior approval, the principal retains control over the expenditure of IAF funds. We recommend that MCPS Form 280-54 be prepared by staff with an estimate of expected expenditure and signed by the principal at the time verbal approval is sought.

To properly control funds, all cash and checks collected by sponsors for IAF activities must be remitted promptly to the secretary. These funds must then be verified in the presence of the remitter and a receipt that is supported by MCPS Form 280-34, *Independent Activity Fund (IAF) Remittance Slip*, must be issued promptly (refer to the *MCPS Financial Manual*, chapter 7, page 5). We found the secretary did not consistently sign and date remittances received from sponsors and School Funds Online (SFO) receipt numbers were not recorded on MCPS Form 280-34 when completing deposits. Bank deposit slips were not attached to deposits. To minimize the risk of loss and provide availability of funds to meet school needs, all funds collected must be remitted daily to the school administrative secretary for prompt deposit.

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. Each fund-raiser must be approved by the principal in writing and the approval retained in the school office. Financial activities for each fund-raising activity must be recorded in a separate account in the 7000 series and a completion report prepared that analyzes the results (refer to the *MCPS Financial Manual*, chapter 20, page 13). We found that there was a lack of adherence to these guidelines. We recommend following these internal control procedures to provide for accountability of funds raised as well as the opportunity to evaluate the results after the event.

Notice of Findings and Recommendations

- The IAF must be managed in accordance with sound accounting practices and effective internal controls that include safeguarding financial records until required audits are completed (**repeat**).
- Transfers between fund accounts should be fully documented (**repeat**).
- Monthly account history reports must be provided to sponsors for affirmation of transaction correctness and returned to the financial agent.
- Purchase documentation must be adequate to support disbursements.
- Purchaser must confirm receipt of goods or services prior to disbursement.
- Purchase invoices must be annotated as “paid” to indicate disbursement was made.
- Purchase card transactions must be timely reviewed by the cardholder and approved by the principal in the online purchase card reconciliation system. (**repeat**).

- MCPS Forms 280-34 and any other source documentation must accompany every remittance and be filed in accordance with Chapter 7 of the *MCPS Financial Manual (repeat)*.
- Remitted funds must be promptly verified, receipted, and deposited in the bank by the school administrative secretary **(repeat)**.
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund Raiser (repeat)*.

Other matters were discussed and satisfactorily resolved. We appreciate the cooperation and assistance of your staff. By MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, using the attached form, please provide a written response to the Internal Audit Unit within 30 calendar days of this report. In your response, please share a detailed plan for addressing these issues, including appropriate staff training and support.

Prior to returning your completed audit action plan, please contact Mr. Eric A. Wilson, director of learning, achievement, and administration, Office of Teaching, Learning and Schools. Based on the audit recommendations, Mr. Wilson will indicate whether he will conduct an electronic review of your action plan or schedule a time to meet in person with you and your school administrative secretary to support you with developing a well-defined plan to address the findings.

MJB:ABP:lsh

Attachment

Copy to:

Members of the Board of Education
Dr. Smith
Dr. McKnight
Ms. Stratman
Dr. Wilson
Mrs. Williams
Mr. Koutsos
Mrs. Chen
Mr. Klausling
Mr. Marella
Mr. Reilly
Mr. Tallur
Mr. Wilson
Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date:	Fiscal Year:
School:	Principal:
OTLS Associate Superintendent:	OTLS Director:
<p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period _____, strategic improvements are required in the following business processes :</p>	

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence

OFFICE OF TEACHING, LEARNING, AND SCHOOLS (OTLS) REVIEW & APPROVAL	
<input type="checkbox"/> Approved	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments: _____ _____	
Director: <u>Eric Wilson</u>	Date: _____