

Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

June 16, 2021

MEMORANDUM

To: Ms. Lisa S. Seymour, Principal
Bethesda Elementary School

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

Subject: Report on Audit of Independent Activity Funds for the Period
September 1, 2017, through March 31, 2021

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 fund-raisers. 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 June 11, 2021, virtual meeting with you; Ms. Ann C. Macuch, school administrative secretary (secretary), and Ms. Pamela Dunn, visiting bookkeeper, we reviewed the prior audit report dated October 19, 2017, 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

The correct use of Independent Activity Fund accounts needs to be followed as defined by the chart of account descriptions (refer to the *MCPS Financial Manual*, chapter 20, Appendix A). Account 0013.0000 is to be used for staff development expenditures, as these are considered restricted disbursements and can only be funded with non-student sources. We found staff development disbursements recorded in Parent-Teacher Association (PTA) accounts. We

recommend all training related to staff development be recorded in the correct IAF account 0013.0000 with transfers from a PTA account(s) used to record PTA-specific training grants or budgeted training funds.

No IAF payment should be made to an independent contractor without first verifying that the vendor is set up as a districtwide vendor in School Funds Online (SFO). If the vendor is not a districtwide vendor, IRS Form W-9, *Request for Taxpayer Identification Number and Certification*, must be submitted to MCPS Procurement. We found two instances of paying for independent contractors without processing a Form W-9. This resulted in paying employees directly by IAF check instead of payment through the payroll system. In accordance with MCPS Regulation DIA-RB, *Payments for Services and Reimbursements for Expenses from School Independent Activity Funds*, payments to MCPS employees must be processed through the MCPS payroll system to ensure compliance with federal tax requirements regarding the reporting of income and the withholding of taxes. We recommend following all steps to process payments to independent contractors. If an MCPS employee is hired, they must be paid by following payroll procedures published by the Employee and Retiree Service Center.

Notice of Findings and Recommendations

- Accounting transactions must conform to the IAF standard districtwide chart of accounts.
- Independent contractor payments must include processing Form W-9.
- Payments to MCPS employees must be processed through the MCPS payroll system.

Other matters were discussed and satisfactorily resolved. We appreciate the cooperation and assistance of your staff. In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, using the attached action plan, 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. Sean P. McGee director of learning, achievement, and administration, Office of Teaching, Learning, and Schools, for written approval of your plan. Based on the audit recommendations, Mr. McGee 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 secretary to support you with developing a well-defined plan to address the findings.

MJB:kmh:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. McKnight

Mrs. Ferrell

Dr. Wilson

Mrs. Williams
Mrs. Morris
Mrs. Chen
Mr. Klausling
Mr. Marella
Mr. McGee
Mr. Reilly
Mr. Tallur
Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: FY20-21	Fiscal Year: FY20-21
School: Bethesda ES - 401	Principal: Lisa S. Seymour
OTLS Associate Superintendent:	OTLS Director: Sean McGee
<p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period <u>9-1-17 3-31-21</u>, 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
Use Staff Development (0013.0000) for assigning training expenses waiting reimbursement from PTA. Then transfer to appropriate PTA 0025.0030 or other accounts.	Principal/Administrative Secretary	MCPS Financial Chapter 20	Review 280-45 prior to assigning IAF accounts	Principal/Administrative Secretary at point of signing. Visiting Bookkeeper to review monthly.	Staff Development training expenditures are traceable.
Secure W-9 or request for Tax Identification Number and Certification then submit to Procurement.	Administrative Secretary	SFO for W-9 Status of vendors	IRS W-9	Administrative Secretary as needed and Visiting Bookkeeper to review monthly.	Independent contractors to be paid according to Federal and MCPS Regulations
Determine if visiting independent contracts are MCPS employees and secure W-9s.	Administrative Secretary	SFO for W-9	IRS W-9	Administrative Secretary as needed and Visiting Bookkeeper to review monthly.	MCPS Employees/independent contractors will be paid through the MCPS's Lawson payroll system.

