


Internal Audit Unit  
MONTGOMERY COUNTY BOARD OF EDUCATION  
Rockville, Maryland

November 13, 2018

MEMORANDUM

To: Mrs. Julie A. Broyles, Acting Chair  
Centralized Investment Fund Advisory Council

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Fiscal Year 2018 Audit of the Centralized Investment Fund

We have audited the accompanying financial statements of the Montgomery County Public Schools (MCPS) Centralized Investment Fund (CIF) for the year ending June 30, 2018 (refer to attachment). These financial statements are the responsibility of CIF management. Our responsibility is to express opinions on these financial statements based on our audit.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CIF as of June 30, 2018, and the changes in its net assets.

Pertaining to the financial position of the CIF, the ending balance decreased \$495,546 from \$10,868,093 to \$10,372,547 while net interest income increased \$15,846 from \$38,560 to \$54,406 compared to the previous fiscal year.

The responsibility for CIF daily operational processes is the responsibility of the Division of Controller (DOC) staff. The DOC provides for separation of duties that strengthens the internal controls for safeguarding the fund's assets. The electronic transfer of funds between a school's CIF account and its checking account via the Automated Clearing House (ACH) reduces the workload for financial agents within the schools. MCPS continues to partner with Sandy Spring Bank to manage the investment of the CIF assets. Interest income and expenses are allocated to schools based on the average daily balance in the individual school's CIF account. Expenses allocated include administrative salaries, associated fringe benefits, and bank analysis fees.

At our November 15, 2018, meeting with you and the CIF advisory council, we discussed several issues that did not represent material internal control weaknesses. We appreciate the cooperation and assistance of you and staff in the Division of Controller including Mrs. Bei (Susan) Chen, controller; Mrs. Sheila M. Shifflett, staff accountant; and Mrs. Linda Bao, staff accountant. No response to this audit report is necessary.

RWP:BK:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. Smith

Dr. Navarro

Dr. Statham

Dr. Zuckerman

Dr. Johnson

Mr. Civin

Mrs. Camp

Mrs. Chen

Ms. Diamond

Mr. Tallur

Ms. Webb

**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
**CENTRALIZED INVESTMENTS FUND**  
**STATEMENT OF ASSETS AND LIABILITIES - AGENCY FUND**  
**JUNE 30, 2018 AND 2017**

<b>ASSETS:</b>	2018	2017
Cash and Investments:		
Sandy Spring Bank - Escrow	10,371,511	10,867,071
Sandy Spring Bank - Checking	1,036	1,022
Accounts Receivables - Bank Credit	0	0
Total	10,372,547	10,868,093

**LIABILITIES:**

Accounts Payables for salary expenses	1,035	922
Due to school groups	10,371,512	10,867,171
Total	10,372,547	10,868,093

MONTGOMERY COUNTY PUBLIC SCHOOLS  
CENTRALIZED INVESTMENTS FUND  
SUPPLEMENTAL INFORMATION  
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

<u>SOURCE OF INCOME</u>	<u>2018</u>	<u>2017</u>
Sandy Spring National Bank - Interest	58,604	42,538
Total	<u>58,604</u>	<u>42,538</u>
<u>CHARGES TO INCOME</u>		
Contractual Services	3,729	3,519
Sandy Spring Bank Fees	469	459
Total	<u>4,198</u>	<u>3,978</u>
<u>NET INTEREST INCOME</u>	<u>54,406</u>	<u>38,560</u>

# MONTGOMERY COUNTY PUBLIC SCHOOLS

## Centralized Investment Fund Notes to the Financial Statements Year Ending June 30, 2018

### **1. Accounting Policies and Statement Purpose**

The financial statements of the Centralized Investment Fund (CIF) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The statements and supplemental schedule are prepared for management purposes only.

### **2. Reporting Entity**

The CIF is included in the Comprehensive Annual Financial Report of Montgomery County Public Schools as an agency fund in the Statement of Fiduciary Net Assets.

### **3. Agency Funds**

Agency funds are used to account for assets held as an agent for organizations or other governmental units. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The CIF is held for the benefit of students, as defined by Independent Activity Fund processes.

### **4. Cash and Investments**

The policy for cash and investments complies with state law as set forth in State Finance and Procurement Article, §6-222, and Article 95, §22F of the Annotated Code of Maryland, and the accepted investment policy of Montgomery County.

### **5. Risk Management**

The CIF is exposed to various risks of loss; theft of or destruction of assets; errors and omissions; and natural disasters. MCPS participates in the Montgomery County Liability and Property Coverage Self-Insurance Program. In addition, assets are held in financial institutions that are federally insured.

### **6. Interest Income/Expense**

Effective February 17, 2011, MCPS entered into an agreement with Sandy Spring Bank (SSB) to maintain and operate an escrow management account for the CIF. SSB provides schools with access to read-only web-based accounts, posts monthly interest and expenses, and transfers funds between a school's CIF account and its checking account via the Automated Clearing House

(ACH). SSB also handles the investment of the funds tied to the return of two-year treasury notes while protecting the principal through collateralization. Interest income is allocated based upon the average daily balance in the individual CIF accounts. The interest income earnings rate for Fiscal Year 2018 increased to 84 basis points as compared to 38 basis points for Fiscal Year 2017. Expenses allocated include administrative salary, associated fringe benefits, and commercial checking bank account service charges.