


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

September 24, 2013

MEMORANDUM

To: Mr. Martin J. Barnett, Principal
Cold Spring Elementary School

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
February 1, 2011, through June 30, 2013

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. 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 IAFs are administered in accordance with MCPS policies, regulations, and procedures.

IAF audits are conducted regularly to evaluate compliance with MCPS 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 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 there is compliance with MCPS policies, regulations, and procedures, and that any significant errors or omissions in the financial records are detected.

In our meeting on September 19, 2013, with you, and Ms. Ann Myers, substitute administrative secretary, we reviewed the status of the conditions described in our prior audit report dated March 31, 2011, 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

Effective internal control includes the receipt and review by the principal of the unopened monthly bank statement, bank reconciliation and ledger reports in a timely manner. Review must be evidenced by the principal's signature and date. Again, evidence was not found to indicate reviews had been completed consistently during the audit time period. We recommend you initiate a process that ensures this important internal control process is completed monthly (see MCPS Financial Manual, p. 20-8).

Transfers of funds between general ledger accounts may be made only after MCPS Form 281-46, *IAF – Transfer*, has been executed by both the account sponsor and principal. We again found instances when transfers were made without required signatures on Form 281-46, and other instances when transfers were made without preparation of the form. To improve internal controls, we recommend the administrative secretary transfers funds only upon proper execution of Form 281-46 (see MCPS Financial Manual, p. 20-10).

Sponsors of school activities which involve the collection or disbursement of IAF should be provided an account statement for each month in which transactions have been recorded in their account. However, we again found this essential internal control procedure was not being used. We recommend sponsors be given a monthly statement of their accounts to verify for accuracy and resolve any discrepancies. The statements should then be signed and dated by the sponsors to attest to their accuracy. A procedure should be established to ensure that all statements are reviewed and returned to the administrative secretary (see MCPS Financial Manual, p. 20-9).

Disbursement of IAF must be controlled in a number of ways. All purchases must be approved in advance and in writing using MCPS Form 280-54, *Request for a Purchase*. After the purchase is completed, the purchaser should submit the invoice or documented evidence of purchase, annotated to indicate the satisfactory receipt of the goods or services, to the administrative secretary. This documentation must be stamped or marked as "Paid" upon processing for disbursement. A check may then be drawn that must bear two signatures, one of which is that of the principal. In our sample of disbursements, we again found prior approval was not obtained when required for most purchases. Many disbursements also did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not stamped or marked as "Paid", or signed by the receiver. We also found some checks with only the signature of the administrative secretary. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. We recommend that Form 280-54 be prepared by staff and signed by you when verbal approval is sought, complete documentation be attached to fully explain the reason for the purchase, and other actions stated above be implemented to comply with purchasing requirements (see MCPS Financial Manual, p. 20-5).

MCPS purchasing card members must record purchases on transaction logs and submit them monthly with invoices and receipts attached for review and approval by the principal. Monthly summary reports from American Express are to be reviewed, signed and dated by the principal to ensure that purchases are appropriate and within established limits. We found that logs were not being prepared or reviewed by principal for most cardholders, and that many of the receipts were missing, as well as monthly summary reports. We recommend purchasing card members be required to comply with the requirements of the *MCPS Purchasing Card Users Guide*.

We again found staff collecting funds were holding rather than remitting them timely to the administrative secretary. Also, the previous administrative secretary was not always making timely deposits that resulted in money on hand exceeding permitted amounts. In order to properly control receipts, they should be remitted promptly to the administrative secretary, counted in the presence of the remitter and a receipt issued. Checks should be restrictively endorsed immediately upon receipt. We found instances in which staff members were not being issued receipts, remittance advices did not always match the receipts, and checks were not restrictively endorsed, or sometimes not even

deposited. To minimize the risk of loss, all funds collected should be remitted daily for prompt deposit to the bank. To improve control of cash, we recommend adoption of the procedures in the MCPS Financial Manual, pp. 7-3, 7-4.

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. Trip approval forms signed by the principal (and associate superintendent, when required), should be retained. We found these records could not be located. Review of field trip activities again revealed that although sponsors are providing cost and fee information as funds are collected and remitted, not all field trip sponsors are providing comprehensive financial information to the administrative secretary at the completion of a trip. The comprehensive information should include the student names of all who are eligible to participate in the trip annotated with the amount each student paid, date paid, those students who did not participate, and students who received waivers, scholarships or reduced fees to provide assurance that all field trip fees have been remitted. Sponsors should record cost and fee information for each field trip on MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and submit the data to the administrative secretary when a trip is completed. The administrative secretary should establish a separate account in the IAF for each trip. We recommend all sponsors be required to use Form 280-41, or equivalent, and follow the procedures outlined above. We further recommend that the process for calculating the cost of future trips be reviewed so that fees charged to participants align more closely with the actual cost of the trips (see MCPS Financial Manual, p. 20-9).

IAF financial records must not be removed from the school premises. There should never be a circumstance when financial records are unavailable during normal working hours (see MCPS Financial Manual, p. 20-15). We were notified that the previous administrative secretary had taken home the checkbook and receipt books. As a result, many records, such as prior receipt books, deposit slips, remittance slips, American express records, disbursement documentation and monthly reports could not be located during our audit. We recommend all IAF financial records be maintained in the school office for access by authorized staff and to be readily available for audit (see MCPS Financial Manual, p. 20-9).

Summary of Recommendations

- Monthly financial reports must be reviewed and approved by the principal (repeat);
- Funds should not be transferred without the principal's approval, or from a sponsor's account without the sponsor's approval (repeat);
- Monthly account transaction statements must be provided to sponsors for affirmation of correctness and returned to the financial agent (repeat);
- Expenditure of funds must be approved by the principal prior to procurement (repeat);
- Invoices and receipts must be annotated as paid to indicate disbursement was made (repeat);
- Adequate documentation must be provided to support disbursements;

- Checks will bear two signatures, one of which must be that of the principal;
- Purchase card activity must be in compliance with the MCPS *Purchasing Card User's Guide*;
- Funds collected by sponsors must be promptly remitted using MCPS Form 280-34 to the financial agent (repeat) for timely deposit to the bank;
- The financial agent should restrictively endorse checks immediately upon receipt;
- Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to participate, and to reconcile funds collected with costs of the trip (repeat);
- Field trip planning should be reviewed to ensure established fees are commensurate with trip expenses (repeat); and
- Financial records must not be removed from the school premises.

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of your staff. In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, please provide a response to the Internal Audit office within 30 days of this report, with a copy to Dr. Donna S. Hollingshead, associate superintendent of elementary schools. The Office of School Support and Improvement will follow up on this audit.

RWP:MJB:sd

Copy to:

Mr. Bowers
Dr. Statham
Dr. Schiavino-Narvaez
Mr. Sanderson
Dr. Hollingshead
Mrs. DeGraba
Mrs. Milwit
Mrs. Chen

**Response to Memorandum from Mr. Roger Pisha, Internal Auditing
Re: Audit Findings 2011-2013, Cold Spring Elementary School**

On September 19, 2013, Ms. Bergstresser met with myself and Ms. Ann Myers, long term administrative substitute since February, 2013, in the absence of my administrative secretary, Ms. Debbie Plakas, who has been on long term leave since mid-January 2013. At that time, we reviewed the status of the conditions described in the prior audit report dated March 31, 2011 and the present conditions of the audit for April 2011 through June 2013.

Below, I will address your findings as stated in your memorandum.

Findings and Recommendations

Effective internal control includes the receipt and review by the principal of the unopened monthly bank statement, bank reconciliation and ledger reports in a timely manner. Review must be evidenced by the principal's signature and date. Again, evidence was not found to indicate reviews had been completed consistently during the audit time period. We recommend you initiate a process that ensures this important internal control process is completed monthly (see MCPS Financial Manual, p. 20-8).

A clear process has been established to ensure all reports and unopened bank statements are reviewed, signed, and dated by the principal. Also, effective since February 2013, the principal is meeting with the visiting bookkeeper and substitute administrative secretary each month when ledger reports, etc. are printed to review and sign.

Transfers of funds between general ledger accounts may be made only after MCPS Form 281-46, *IAF – Transfer*, has been executed by both the account sponsor and principal. We again found instances when transfers were made without required signatures on Form 281-46, and other instances when transfers were made without preparation of the form. To improve internal controls, we recommend the administrative secretary transfers funds only upon proper execution of Form 281-46 (see MCPS Financial Manual, p. 20-10).

Before any transfer is made, the administrative secretary will ensure that Form 281-46 is submitted to the principal for approval and signature.

Sponsors of school activities which involve the collection or disbursement of IAF should be provided an account statement for each month in which transactions have been recorded in their account. However, we again found this essential internal control procedure was not being used. We recommend sponsors be given a monthly statement of their accounts to verify for accuracy and resolve any discrepancies. The statements should then be signed and dated by the sponsors to attest to their accuracy. A procedure should be established to ensure that all statements are reviewed and returned to the administrative secretary (see MCPS Financial Manual, p. 20-9).

Since April 2013, the substitute administrative secretary is now printing receipts for sponsors of activities and monies received. In addition, she is checking that teachers are now signing, dating and verifying receipts for accuracy prior to filing.

Disbursement of IAF must be controlled in a number of ways. All purchases must be approved in advance and in writing using MCPS Form 280-54, *Request for a Purchase*. After the purchase is completed, the purchaser should submit the invoice or documented evidence of purchase, annotated to indicate the satisfactory receipt of the goods or services, to the administrative secretary. This documentation must be stamped or marked as "Paid" upon processing for disbursement. A check may then be drawn that must bear two signatures, one of which is that of the principal. In our sample of disbursements, we again found prior approval was not obtained when required for most purchases. Many disbursements also did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not stamped or marked as "Paid", or signed by the receiver. We also found some checks with only the signature of the administrative secretary. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. We recommend that Form 280-54 be prepared by staff and signed by you when verbal approval is sought, complete documentation be attached to fully explain the reason for the purchase, and other actions stated above be implemented to comply with purchasing requirements (see MCPS Financial Manual, p. 20-5).

Effective February 2013, signature cards are now in place at Sun Trust for 3 staff members: principal, administrative secretary (until position is permanently filled), and the attendance secretary.

Form 280-54 is now being signed in advanced by all staff before making a purchase. The principal also has established limits approved for some staff who will then submit receipts for reimbursements before a check is written.

All 280-54 are now being marked PAID as well as any bills.

MCPS purchasing card members must record purchases on transaction logs and submit them monthly with invoices and receipts attached for review and approval by the principal. Monthly summary reports from American Express are to be reviewed, signed and dated by the principal to ensure that purchases are appropriate and within established limits. We found that logs were not being prepared or reviewed by principal for most cardholders, and that many of the receipts were missing, as well as monthly summary reports. We recommend purchasing card members be required to comply with the requirements of the MCPS *Purchasing Card Users Guide*.

The staff development, reading specialist and administrative secretary are authorized to have AMEX purchasing cards. A log book was maintained by the staff development teacher and reading specialist but not by the administrative secretary. Currently in place since February 2013, is a record log of AMEX purchases and payments, receipts attached by the substitute administrative secretary and other cardholders. In addition, monthly statements are being reviewed and signed by the principal when received and then returned to the substitute administrative secretary.

We again found staff collecting funds were holding rather than remitting them timely to the administrative secretary. Also, the previous administrative secretary was not always making timely deposits that resulted in money on hand exceeding permitted amounts. In order to properly control receipts, they should be remitted promptly to the administrative secretary, counted in the presence of the remitter and a receipt issued. Checks should be restrictively endorsed immediately upon receipt. We found instances in which staff members were not being issued receipts, remittance advices did not always match the receipts, and checks were not restrictively endorsed, or sometimes not even deposited. To minimize the risk of loss, all funds collected should be remitted daily for prompt deposit to the bank. To improve control of cash, we recommend adoption of the procedures in the MCPS Financial Manual, pp. 7-3, 7-4.

To resolve the issues of staff collecting funds and holding them etc. substitute administrative secretary and principal met with all staff during the August 2013 pre-service week to explain the IAF procedures. Items discussed included timely manner of collecting funds and sending to the office and explaining all the proper forms i.e., remittance forms and accounting form, to be used by staff collecting money.

Secondly, the substitute administrative secretary deposits money as soon as possible; however, it should be noted that the beginning of school is always difficult with respect to the daily deposits. Presently, deposits are being made at least every other day if/when monies are collected. Receipts are being issued before checks can be written and receipts are given to staff that have turned in money.

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. Trip approval forms signed by the principal (and associate superintendent, when required), should be retained. We found these records could not be located. Review of field trip activities again revealed that although sponsors are providing cost and fee information as funds are collected and remitted, not all field trip sponsors are providing comprehensive financial information to the administrative secretary at the completion of a trip. The comprehensive information should include the student names of all who are eligible to participate in the trip annotated with the amount each student paid, date paid, those students who did not participate, and students who received waivers, scholarships or reduced fees to provide assurance that all field trip fees have been remitted. Sponsors should record cost and fee information for each field trip on MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and submit the data to the administrative secretary when a trip is completed. The administrative secretary should establish a separate account in the IAF for each trip. We recommend all sponsors be required to use Form 280-41, or equivalent, and follow the procedures outlined above. We further recommend that the process for calculating the cost of future trips be reviewed so that fees charged to participants align more closely with the actual cost of the trips (see MCPS Financial Manual, p. 20-9).

Currently, the substitute administrative secretary has a process in place for field trips and other monies collected by teachers and staff. Each teacher was given a pendeflex folder during pre-service week which includes: all IAF forms they will use; sample remittance slips and accounting forms; request for checks; money bags to collect money; and a place to keep all receipts given to them etc. In addition, there is a designated file cabinet in the principal's office which contains a notebook of all monthly ledgers and reports by the bookkeeper with principal's signature; a file for all field trips and accounts; a monthly IAF folder made by the substitute administrative secretary which has everything that occurred for that month (checks written for the month, receipts for the month, transfers for the month, other deposits for the month and iReceivables for the month) that can be reviewed at any time by the principal. Therefore, when the bookkeeper comes to run reports - all information for that month is readily available.

With regard to field trips, staff has been trained to use the Field Trip Calculator which is submitted to the office for review and signed by the principal to approve the field trip. Busses are then requested and monies are collected by the teacher for the trip. Currently, there is a financial assistance fund if students should need assistance; however, that is rarely used. At the end of each field trip or event, the field Trip Accounting form is turned in to the office to the sub administrative secretary who adds it to the file in the principal's office. Lastly, a field trip notebook is kept of all field trips.

IAF financial records must not be removed from the school premises. There should never be a circumstance when financial records are unavailable during normal working hours (see MCPS Financial Manual, p. 20-15). We were notified that the previous administrative secretary had taken home the checkbook and receipt books. As a result, many records, such as prior receipt books, deposit slips, remittance slips, American express records, disbursement documentation and monthly reports could not be located during our audit. We recommend all IAF financial records be maintained in the school office for access by authorized staff and to be readily available for audit. (see MCPS Financial Manual, p. 20-9).

During this audit period, as the principal, I was not aware of financial records being removed from the school by the previous administrative secretary. The box the administrative secretary said had the missing year receipt book, etc., was not found. Currently, all IAF records, files and account information are maintained by the substitute administrative secretary and kept in a locked file cabinet in the principal's office.

In response to the summary of Recommendations we currently have in place the following:

1. Monthly reports are being reviewed currently and approved by the principal.
2. Funds are not transferred without the principal's knowledge and signature of Transfer form.
3. Monthly account transaction statements are now submitted to sponsors to sign and review accuracy.
4. Expenditure of funds are approved in advanced by the principal.
5. Invoices and receipts are noted as PAID to prevent duplication.
6. Documentation is provided and attached for all disbursements.
7. Checks have two signatures, 3 signatures are in place with the bank.
8. Purchase Card activity is in compliance with MCPS regulations.
9. Funds are being collected by sponsors in a timely manner but will increase with staff not holding money.
10. The substitute administrative secretary is endorsing checks upon receipt.
11. Field trip records are being prepared by sponsors using appropriate forms.
12. Field trip planning calculator is reviewed by substitute administrative secretary before permissions slips are sent for the appropriate amount of money to be collected.
13. All financial records are being kept/stored on school premises.

Every effort would be made to implement the above procedures throughout each fiscal year in order to comply with all MCPS Fiscal and Audit guidelines.

Respectfully submitted,
Martin J. Barnett
Principal
Cold Spring ES