


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

February 10, 2017

MEMORANDUM

To: Ms. Casey B. Crouse, Principal
Eastern Middle School

From: Roger W. Pisha, Supervisor, Internal Audit Unit 

Subject: Report on Audit of Independent Activity Funds for the Period
March 1, 2015, through December 31, 2016

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 fund-raisers. They are responsible for ensuring that the IAFs are administered in accordance with MCPS policies, regulations, and procedures.

The 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 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 there is compliance with MCPS policies, regulations, and procedures, and that any significant errors or omissions in the financial records are detected.

At our meeting on February 1, 2017, with you, and Ms. Elizabeth R. Wilhelm, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 27, 2015, 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

MCPS Form 281-46: *Independent Activity Funds Transfer*, is used to obtain principal approval to move funds between accounts in the School Funds Online (SFO) software accounting records (refer to *MCPS Financial Manual*, chapter 20, page 12). The purpose of each transfer must be fully explained on this form in order to properly record adjustments in appropriate accounts and to ensure that transfers comply with the IAF requirements. In our sample of transfers, we found the

movement of funds recorded in SFO without principal approval and without adequate explanation for the account transactions. We recommend that MCPS Form 281-46 be prepared with adequate information to back-up and explain the transfer prior to your approval.

MCPS Form 280-54: *Independent Activity Funds Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase (refer to *MCPS Financial Manual*, chapter 20, page 4). The purpose of each disbursement must be fully explained on this form in order to properly record expenditures in appropriate accounts and to ensure that expenditures comply with the IAF requirements. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. In our sample of disbursements, we found prior approval was not consistently obtained when required, and invoices were not always signed by the purchaser. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. We recommend that MCPS Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought and that purchasers confirm receipt of goods or services prior to disbursement.

MCPS Form 281-53: *Restricted Independent Activity Fund (IAF) Purchases Request for the Chief Operating Officer's Approval*, is used to obtain authorization to make purchases that require a higher level of approval from the chief operating officer (COO). In addition, the form must also cite the SFO account number(s) for the source of funds to be used (refer to *MCPS Financial Manual*, chapter 20, pp. 5-6). We found an MCPS Form 281-53 dated August 29, 2016, requesting to purchase a promethean board to be used in a math classroom that cited SFO account numbers 0047.0000, calculator obligations, and 0047.0001, calculator deposits, as the sources of funds. The COO denied the request indicating on this form: "*calculator deposits must be returned to students upon return of calculators.*" On September 6, 2016, funds were transferred in SFO from the two calculator accounts into the math department account number 6011.000. A second MCPS Form 281-53 dated September 6, 2016, was then submitted citing the math department account as the funding source that was approved by the COO. Further investigation indicated that the surplus of calculator deposit funds was due to student obligations for non-returned calculators not being properly recorded and that refunds of calculator deposits were not being issued. We recommend that MCPS Form 281-53 contain accurate detailed information related to the origin of funds cited for the requested purchase.

If operating budget funds are not available and the principal determines that the IAF is to be used for any staff development expenditure, the source of the funds may not be student generated (refer to *MCPS Financial Manual*, chapter 20, page 10). We found that you used student funds to support staff development. We recommend that you adhere to the MCPS requirement for the source of funds to support staff development.

Summary of Recommendations

- IAF transfers must be prepared with adequate explanation and approved by the principal.
- Purchase requests must be approved by the principal prior to procurement.
- Purchaser must confirm receipt of goods or services prior to disbursement.

- When a restricted IAF purchase request is required, the origin of funds must be transparent with appropriate detailed information related to the original source of the funds in order to justify their use for the purchase.
- Staff development expenditures must be funded from non-student revenue sources **(repeat)**.

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*, please provide a response to the Internal Audit Unit within 30 calendar days of this report, with a copy to Mrs. Diane D. Morris, director of school support and improvement of middle schools. In your response, please share a detailed plan for addressing these issues including appropriate staff training and support. The Office of School Support and Improvement will follow up on this audit.

RWP:KMH:lsh

Copy to:

Members of the Board of Education

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FINANCIAL MANAGEMENT ACTION PLAN

School: Eastern Middle School

Principal: Casey Crouse

Fiscal Year: 2016-2017

Associate Superintendent: Dr. Darryl Williams

Director: Mrs. Diane Morris

Strategic Improvement Focus:

As noted in the financial audit for the period March 1, 2015 – December 31, 2016, strategic improvements are required in the following business processes :

- IAF transfers must be prepared with adequate explanation and approved by the principal.
- Purchase requests must be approved by the principal prior to procurement.
- Purchaser must confirm receipt of goods or services prior to disbursement.
- When a restricted IAF purchase request is required, the origin of funds must be transparent with appropriate detailed information related to the original source of funds in order to justify their use for purchase.
- Staff development expenditures must be funded from non-student revenue sources.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
<p><i>IAF transfers must be prepared with adequate explanation and approved by the principal.</i></p> <p>School Financial Secretary (SFS) will prepare 281-46 (IAF Transfer), for all IAF transfers, supply adequate explanation, and obtain approval by the principal prior to transfer.</p>	SFS	Form 281-46, including explanation of transfer	Monthly folder of journal entries contains the 281-46 transfer forms along with explanation for each journal entry.	Principal will review journal entry folder periodically.	All transfers will show form 281-46 completed prior to transfer, with adequate explanation.
<p><i>Purchase requests must be approved by the principal prior to procurement.</i></p> <p>Form 280-54 (IAF Request for Purchase), will be prepared and signed by the requestor, SFS, and principal prior to procurement. SFS will send a reminder email to staff regarding this procedure and will update pre-service training and materials to emphasize this expectation.</p>	Requester, SFS, and principal	Form 280-54	Form 280-54's, showing approval date prior to procurement date	Ongoing, by SFS and principal	Completed Form 280-54,with documentation of purchase and receipt of purchase.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
<p><i>Purchaser must confirm receipt of goods or services prior to disbursement.</i></p> <p>Receivers will confirm all items purchased were received in good order. All packing slips signed by by the receiver will be attached to purchase request prior to disbursement. In the event that a packing slip is not available, as is the case for many Amazon orders, SFS will confirm receipt of all goods with receiver, and indicate such on the purchase request with signature and date. SFS will send a reminder email to staff regarding this procedure and will update pre-service training and materials to emphasize this expectation.</p>	Receiver, SFS, principal	Purchase request, order placed, packing slip	Original order must be compared with packing slip and what is actually received to ensure accurate shipment of goods.	Ongoing, by receiver, SFS, and principal.	Documentation to 280-54 will be properly annotated to indicate satisfactory receipt of goods.
<p><i>When a restricted IAF purchase request is required, the origin of funds must be transparent with appropriate detailed information related to the original source of funds in order to justify their use for purchase.</i></p> <p>SFS and principal will ensure that original source of funds is detailed to justify their use when an IAF restricted purchase request is made.</p>	SFS, principal	Request for Restricted IAF Purchase form, SFO account history documenting appropriate funds available	SFO account history and rationale for fund use	As needed, by SFS and principal	Origin of funds for restricted IAF purchase will be transparent.
<p><i>Staff development expenditures must be funded from non-student revenue source.</i></p> <p>Only non-student revenue source will be used to fund staff development expenditures.</p>	SFS, principal	SFO account histories, MCPS Financial Manual, Chapter 10, page 20	Consult as needed with MCPS Financial Manual and/or auditors to ensure appropriate sources for staff development funds.	Ongoing, by SFS and principal	Staff development expenditures are funded appropriately

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL

Approved **Please revise and resubmit plan by _____**

Comments: _____

Director: _____ Date: _____