

Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

September 1, 2026

MEMORANDUM

To: Miss Elizabeth J Merino, Principal
Eastern Middle School

From: Melvin A. Phillips, Supervisor, Internal Audit Unit 

Subject: Report on Audit of Independent Activity Funds for the Period
April 1, 2024, through April 31, 2026

Background

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. Principals are responsible for ensuring that the IAFs are administered in accordance with:

- Board Policy
- MCPS Regulation DIA-RA
- MCPS Financial Manual
- MCPS Business Center Memoranda and Tools

Eastern Middle School is located in East Silver Spring, Maryland. It is part of the Downcounty Consortium. Eastern MS is a community school. As of November 31, 2025, Eastern MS reported total IAF assets of \$135,258. Of this balance, \$103,478 is in the Centralized Investment Fund (CIF), which pays a 3.28 percent annual interest rate. The school received annual commissions from the Interagency Coordinating Board (ICB), vending machines, and student picture sales. The school has a Humanities Magnet program to serve highly gifted and motivated learners with a particular interest in reading, writing, world studies, communication, and media. For the fiscal year ending June 30, 2025, the school reported total receipts of \$211,213 and total disbursements of \$207,832, resulting in a surplus of \$3,381.

Audit Objective

The Internal Audit Unit (IAU) uses generally accepted auditing principles to provide an audit opinion on the school's financial activity by evaluating the adequacy of internal controls and compliance with Board of Education (Board) policies and MCPS regulations and procedures. Specifically, the audit seeks to obtain reasonable assurance that:

- Evidence of fraud was not identified within the IAF.
- Funds are safeguarded against loss, misappropriation, or misuse.
- Transactions are accurately recorded and fairly reported in the school's financial records.
- Receipts and disbursements are appropriate, properly documented, and consistent with the intended purpose of the funds.
- Instances of misappropriation, misreporting, or waste, if they exist, are identified and evaluated for materiality.

The IAU is free from organizational impairments to independence. The IAU administratively reports directly to the chief of staff of the Office of the Board of Education and functionally reports to the Montgomery County Board of Education's Fiscal Management Committee.

Methodology

The audit is not designed to examine every transaction but instead relies on risk-based sampling and other generally accepted audit procedures to provide reasonable assurance. Audit procedures include interviews with key staff, a review of prior audit findings and the status of related action plans, testing of transaction samples, and an on-site assessment of internal controls and procedures.

Audit Opinion:

Unsatisfactory Opinion – High Risk

Based on the results of our audit, significant deficiencies in internal controls and financial management practices were identified within the IAF. These deficiencies create a high risk of fraud, material misappropriation, misreporting, or waste. The issues observed were pervasive and indicate that the school is not in compliance with Board policies and MCPS procedures.

In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, use the attached action plan template to provide a written response, approved by the school's director of school leadership and improvement to the IAU within 30 calendar days of this report.

New Findings and Recommendations:

Finding 1 [High-Risk]: Financial Records Missing or Incomplete for FY 2025 and FY 2026.

IAF records must be filed logically and retained for five years or until all audit requirements have been met, whichever is longer (refer to the *MCPS Financial Manual*, chapter 20, pp 11 and 17). Our review disclosed that financial records were misplaced and not all were available, including disbursement packets, deposit packets, field trip records, and fundraiser records. Supports for November 2025 receipts were not located, and supports for April 2026 deposits were incomplete or absent.

We recommend that IAF records be reconstructed to the extent possible for the audit period and that a filing and retention procedure be established and enforced immediately so that all records are prepared, filed, and retained in accordance with the *MCPS Financial Manual*.

Finding 2 [High-Risk]: Principal's Monthly Review and Sponsor Account History Distribution Not Performed Since November 2025.

The principal must receive and review the monthly bank statement, bank reconciliation, and ledger reports, evidenced by signature and date; sponsors must receive a monthly account history report for each account with activity or a balance (refer to *MCPS Financial Manual*, chapter 20, pages 9-10). We found that bank statements were not printed for the principal and bank reconciliations were not performed since November 2025, and monthly account history reports were not provided to sponsors since August 2025.

We recommend that the principal establish a monthly review process, completed with the financial specialist by the 20th of each following month, that produces a signed and dated bank statement, Centralized Investment Fund (CIF) statement, bank reconciliation, ledger, and cleared checks packet, and that sponsors receive, sign, and return their monthly account history reports each month.

Finding 3 [High-Risk]: Improper Cash Handling: Excess Cash Held and Expenses Paid Directly from Collections.

All cash and checks must be remitted daily and intact to the school financial specialist, verified in the presence of the remitter, receipted on MCPS Form 280-34, *Independent Activity Fund (IAF) Remittance Slip*, and deposited before each weekend, holiday, or end of month (refer to the *MCPS Financial Manual*, chapter 7, pages 3–5). The financial specialist was not always making timely deposits and was holding funds in excess of permitted amounts. Some expenses were paid directly from cash collections rather than being remitted intact and disbursed by check as required.

We recommend that all cash and checks collected be remitted intact daily, deposited before each weekend or holiday, and disbursed only by check drawn on the IAF

Finding 4 [High-Risk]: Monthly Purchase Card Statements and Reconciliation Packets Not Prepared Since November 2025.

Use of the MCPS purchasing card (P-Card) must be in accordance with the *MCPS Purchasing Card User's Guide*: by the fifth business day of the following month, cardholders must print and provide the principal with a monthly statement (or Statement of Account Landscape report) with all receipts and invoices attached. We found that no monthly PCard packets have been prepared or approved by the principal since November 2025.

We recommend that all cardholders reconcile and submit their monthly P-Card packets by the fifth business day of the following month, that the principal review and approve each cardholder's packet, and that missing packets from November 2025 forward be reconstructed.

Finding 5 [High-Risk]: Vendor Contracts and Commissions Not Managed by the Principal.

Only the principal or acting principal may obligate the school by contract for goods or services, and contracts must specify commission, rebate, bonus, and free-item terms (refer to the *MCPS Financial Manual*, chapter 20). The Fiscal Year (FY) 2025 and FY26 student-picture contracts were not signed by the principal; a \$1,041.45 picture commission check was not deposited by the school; and the FY26 commission check is being held by the vendor pending payment of a yearbook invoice. The FY26 yearbook contract was signed by the sponsor rather than the principal; the yearbook sponsor was collecting sale proceeds directly and holding funds before remitting them to the school financial specialist; and no MCPS Form 281-25, *Yearbook Analysis*, was prepared for FY25.

We recommend that all vendor contracts be executed exclusively by the principal or acting principal, that commission checks be deposited immediately upon receipt, that yearbook proceeds be remitted to the school financial specialist by the sponsor on the day of collection, and that MCPS Form 281-25 be prepared at year-end for every yearbook activity.

Exit Conference:

At our June 30, 2026, exit conference with Mrs. Lisa N. Shorts, principal; Miss Elizabeth J. Merino, principal intern; and Mr. Willy Ngembi Njeh, school financial specialist, we reviewed the prior audit report dated June 3, 2024, and the status of the current 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. It should be noted that Mr. Njeh's assignment as school financial specialist was effective February 9, 2026.

We thank you for your cooperation. Based on the **Unsatisfactory Opinion** status of your IAF audit, an action plan must be completed. Prior to returning your completed audit action plan, please contact Ms. Aricka R. Porter, director of school leadership and improvement, Division of School Leadership and Improvement, for written approval of your plan. Based on the audit recommendations.

MAP:GK:rg

Attachment

Copy to:

Members of the Board of Education

Dr. Taylor

Mrs. Alfonso-Windsor

Ms. McGuire

Dr. Moran

Ms. Seabrook

Mr. Francois

Ms. Sosik

Mrs. Chen

Ms. Porter

Mrs. Ripoli

Mr. Santos Rodriguez

Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: September 1, 2026

Fiscal Year: FY 2027

School or Office Name: Eastern Middle School

Principal: Elizabeth J. Merino

DSLI

Associate Superintendent: Dr. Donna Redmond Jones

DSLI

Director: Aricka Porter

Strategic Improvement Focus:

As noted in the financial audit for the period 4/1/26 - 4/30/26, strategic improvements are required in the following business processes :
financial recordkeeping and retention; monthly principal financial review and sponsor account reporting; cash collection, remittance, and deposit procedures; purchasing card re

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Reconstruct missing FY25–FY26 records and maintain complete, organized monthly financial files.	Principal SFS	Financial Manual and financial records	Monthly file checklist to include: deposits, disbursements, field-trip/fundraiser files, and record-retention files.	Principal & SFS: initial reconstruction immediately; thereafter review weekly & monthly	Reconstructed FY25/FY26 files, complete monthly financial files, signed monthly checklist, documentation available & no missing documents.
Complete monthly reconciliation and principal review which will include a distribution of account histories to account sponsors.	Principal SFS Activity Sponsors	Monthly financial reports	Monthly bank/CIF statements, reconciliation reports, ledger reports, cleared-check reports, and sponsor account-history reports	Principal & SFS: Signed reconciliation reports. Account Sponsors: Signed sponsor reports	Signed monthly bank reconciliations by 20th of every month. Signed Account Sponsor reports at the end of every month.
Provide/reinforce cash-handling procedures with all staff and activity sponsors. Require all cash and checks to be remitted intact to the School Financial Specialist on the day collected and verified in the presence of the remitter using MCPS Form 280-34.	Principal SFS Activity Sponsors School Staff	Form 280-34, cash-handling procedures/training, & deposit documentation	Remittance slips, deposit records, collection dates compared with remittance/deposit dates, monthly spot-checks of collection activities	SFS: Daily Principal: Monthly review and periodic spot-checks	Daily intact remittances documented; deposits completed within required timelines; completed Form 280-34s. No excess cash held at school overnight
Reconstruct all missing P-Card reconciliation packets from November 2025 forward, Establish a monthly P-Card reconciliation calendar, Require each cardholder to print/reconcile the monthly statement and attach all receipts/invoices, Principal will review, approve, sign/date, and return incomplete packets for immediate correction.	Principal SFS P-Card Holders	Statement of Account/Landscapes reports, receipts/invoices, & recon. checklist	P-Card reconciliation packet, receipts/invoices, Principal approval dates, and monthly P-Card tracking log.	Cardholders & SFS: fifth business day monthly, Principal: immediately following submission monthly	100% of monthly P-Card packets submitted, reconciled, supported by receipts/invoices, & approved

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Require all vendor contracts to be reviewed and executed exclusively by the Principal before services begin. Establish a central contract file and contract/commission tracking log. Ensure all commission checks are remitted to and deposited by the SFS immediately upon receipt.	Principal SFS	Vendor contracts, MCPS Form 281-25, checks from commissi	Contract tracking log, principal-signed contracts, commission log, deposit documentation, completed form 281-25	Principal: prior to every contract and quarterly contract review, SFS: upon receipt of commissio	100% of contracts signed by Principal, all commissions deposited promptly, no funds held by sponsors/vendors.
Ensure the yearbook contract is reviewed and signed by the Principal. Require all yearbook proceeds to be remitted to the SFS on the day collected. Complete MCPS Form 281-25, Yearbook Analysis, annually and reconstruct the FY25 analysis to the extent possible.	Principal SFS Yearbook Sponsors	Yearbook contract, MCPS Form 281-25	Remittance records and the Yearbook Analysis	Principal & SFS: On-going and year-end Yearbook Sponsor: Year-End	Timely remittances, signed contract by Principal, and completed Form 281-25, no funds held by Yearbook sponsors.

DIVISION OF SCHOOL LEADERSHIP AND IMPROVEMENT (DSLII)	
☒ Approved Comments: . ☐ Please revise and resubmit plan by _____ Director: <u> Aricka Porter </u> Date: <u>09/30/26</u>	