


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

June 29, 2016

MEMORANDUM

To: Mr. Peter J. Cahall, Principal
Thomas Edison High School of Technology

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
November 1, 2014, through March 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 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 June 16, 2016, with you and Ms. Barbara Balisles, financial specialist, we reviewed the status of the conditions described in our prior audit report dated December 4, 2014, 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

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 the principal. They must be fully documented and adhere to MCPS guidelines for allowable uses of funds. Although Forms

281-46 were routinely signed by the principal, we found instances where funds were transferred to inappropriate accounts or supporting documentation was not adequate. Surplus balances in accounts were often transferred to other accounts without first determining the reason for the surplus balance. We recommend that transfers are reviewed to ensure that requests are supported by proper documentation, and that transfers meet requirements for appropriate use of funds, prior to presenting requests to the principal for approval (see MCPS Financial Manual, p. 20-10).

MCPS Form 280-54, *Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase (see MCPS Financial Manual, p. 20-4). 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 IAF requirements. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. In our random sample, the explanation for disbursements often was not sufficient to enable the financial specialist to record the expenditures in appropriate accounts. Invoices were not always signed by the receiver, and sometimes expenses were charged to accounts with available funds, rather than to the account related to the activity. We noted that a bus for an internship program, a guest speaker, and expenses for Military Day were disbursed from cell tower and vending revenue accounts, rather than accounts related to these programs. In addition, we noted that the one-time vendor feature in the accounting system was used to pay a contractor, rather than using a districtwide vendor established by the Division of Controller. We recommend that staff adhere to IAF purchasing procedures and fully explain the reason for purchases so that the financial specialist has sufficient information to correctly record transactions.

The management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures. We found weaknesses in procedures that limited proper control and oversight of IAF activities. Many transactions lacked descriptions to fully explain the accounting entry. We found that staff were sometimes unaware of school policies with regard to preapproval of purchases, and sometimes used funding sources inefficiently. It did not appear that MCPS reimbursement accounts were routinely reconciled, and balances were not always supported by receivable documentation. Transfers were often needed to correct transactions posted to incorrect accounts. We recommend that you work with the financial specialist to establish processes that will structure workflow to ensure control and appropriate oversight of IAF, and to monitor transaction activity in an effort to reduce the number of errors and provide greater accountability (see MCPS Financial Manual, Chapter 20-1).

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. A copy of the trip's approval form, signed by the principal and associate superintendent when required, should be on file in the finance office. Sponsors of field trips should have a complete class or club roster of student names and annotate how much each student paid, students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. This data should be submitted to the finance office at the completion of each trip, and compared to remittances recorded in the trip account history report. The data should also be used to estimate future trips. MCPS must be

reimbursed for substitutes used for trips, and trip accounts should be closed in a timely fashion. We noted a lack of adherence to guidelines. Only two trips had final, comprehensive student fee information, records were not on file to show how student fees were calculated, and trips had not been reconciled by the financial specialist. It appeared that most trips had shortfalls and funds were transferred from other accounts to alleviate negative balances without determining the reason for the losses. We recommend trip sponsors use MCPS Form 280-41, *Field Trip Accounting*, or its equivalent, and provide complete data at the conclusion of each trip. This data must be reconciled with remittances recorded in activity accounts. We further recommend compliance with field trip internal controls (see MCPS Financial Manual, p. 20-12).

Summary of Recommendations

- Transfers between accounts should be fully documented and meet requirements for allowable uses of funds;
- Disbursement procedures must be in accordance with MCPS guidelines;
- The management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures; and
- Field trip accounting must be in compliance with all internal controls established for field trips.

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. Debra Munk director of high schools. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:sd

Copy to:

Dr. Zuckerman
Dr. Statham
Dr. Navarro
Dr. Williams
Mrs. Chen
Mrs. DeGraba
Mrs. Milwit
Dr. Munk

Fiscal Management Action Plan

School: Thomas Edison High School of Technology
 Approved by: _____

Principal: Peter J. Cahall
 Date of approval: _____

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
Transfers between accounts should be fully documented and meet requirements for allowable uses of funds.	Financial Specialist will provide the proper documentation.	Starting as of July 1, 2016.	
Disbursement procedures must be in accordance with MCPS guidelines;	Financial Specialist and principal will ensure increased descriptions and reimbursements are processed through the proper accounts.	Starting as of July 1, 2016.	
The management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures; and	Financial Specialist will monitor the activities more closely to ensure are in accordance with MCPS policy. It will be stressed in pre service with staff how the pre-approval process is followed.	August 2016	
Field Trip accounting must be in compliance with all internal controls established for field trips.	Financial Specialist will discuss at pre-service week with staff members that if a field trip is required they will meet with specialist one on one and then follow the MCPS procedures and policy.	August 2016	