


Internal Audit Unit  
MONTGOMERY COUNTY BOARD OF EDUCATION  
Rockville, Maryland

August 18, 2017

MEMORANDUM

To: Mr. James G. Fernandez, Principal  
Albert Einstein High School

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

Subject: Report on Audit of Independent Activity Funds for the Period  
May 1, 2016, through April 30, 2017

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 and are 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 August 2, 2017, meeting with you; Mrs. Michelle E. Schultze, director of school support and improvement of secondary schools; Dr. Tiffany N. Awkard, assistant principal; Mr. Nathaniel Collins, assistant principal; Mr. Michael G. Plank, school business administrator; and Mr. Juan F. Ramos, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated June 17, 2016, and the status of present conditions. It should be noted that Mr. Plank assumed his responsibilities on July 1, 2016. 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

In your role as fiduciary agent, you are responsible for ensuring compliance with the guiding principles for administering the IAF (refer to *MCPS Financial Manual*, chapter 20, page 1). An essential element of this responsibility includes the monitoring of monthly reports for any negative account balances. If any are noted, prompt action should be taken to determine the cause and develop a plan to eliminate such balances to preclude potential financial insolvency of your IAF. Financial insolvency occurs if the subtraction of restricted memorial fund, club, class, and other school sponsored activity account balances from the combined total of checking and Centralized Investment Fund savings account balances results in a negative dollar amount. Each succeeding fiscal year since 2008, your end-of-year IAF balances reflected an insolvent financial condition. In addition, we noted that the balance in your checking account was not sufficient to pay invoices due prior to June 30, 2017. We recommend that you meet with your school business administrator on a regular basis to review and discuss implementation strategies to improve the school's IAF financial condition.

We also found that business practices and internal controls of school financial activities that sometimes did not align with MCPS policies, regulations, and procedures (refer to *MCPS Financial Manual*, chapter 20, page 1). Fund-raiser and field trip activities were sometimes approved without considering possible cost savings, cancellation deadlines, or assurance that total receipts would be sufficient to pay expenses. Purchases of food items did not always comply with MCPS wellness policy guidelines approved by the administration for consumption by students during the school day, or less than 30 minutes after the end of the school day (refer to MCPS Regulation JPG-RA, *Wellness: Physical and Nutritional Health*). In addition, the school entered into a contract for the yearbook in excess of three years, without the approval of the chief operating officer. To strengthen the approval process, we recommend that the relevant MCPS policies, regulations, and other guidance distributed to schools by memorandum be reviewed with staff responsible for approving school activities.

MCPS Form 280-54: *Independent Activity Fund 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 record expenditures in appropriate accounts and to ensure that they comply with IAF requirements. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. In our sample of disbursements, we found items that are prohibited from being purchased with IAF funds, such as gift cards for staff members and the paid admission fee for a staff member's child who participated in a school-sponsored field trip. We recommend reviewing IAF purchasing guidelines with staff, and that only disbursements complying with MCPS requirements are approved.

Cash and checks collected for IAF activities by sponsors and other authorized individuals must be remitted with MCPS Form 280-34: *Independent Activity Fund (IAF) Remittance Slip*, to the school financial specialist on the day the funds are received. Funds not promptly remitted and deposited become susceptible to loss or theft, and are not available to pay for school requirements. We found instances in which staff collecting fines and late fees in the media center were holding funds, rather

than remitting them promptly to the school financial specialist. To minimize the risk of loss or theft, and to make available funds to meet school needs, we recommend that all funds collected should be promptly remitted to the school financial specialist for prompt deposit in the bank (refer to *MCPS Financial Manual*, chapter 7, page 4).

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. In our sample, we noted that some fund-raisers began before approval was obtained. For other fund-raisers, request forms did not reflect actual quantities of items to be purchased, and completion reports did not include detailed information needed to complete a reconciliation of the activity. A completion report for an activity involving the sale of items should include the total number of items for sale, selling prices, a count of damaged/unsalable items, and any remaining inventories to determine whether all funds collected were remitted to the school financial specialist. We recommend implementing internal control procedures to provide for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the activity (refer to *MCPS Financial Manual*, chapter 20, pp. 12 - 13).

A student may be charged course fees for materials used to create a product consumed by the student, a product that becomes the property of the student, or items that become the personal property of the student for reasons of personal hygiene or industry requirements. We noted that course fee funds were used to purchase cleaning and storage supplies. In addition, we noted a few instances where fees collected were not spent. Secondary school guidelines for course fees have been updated for Fiscal Year 2018 (refer to attached memorandum dated May 11, 2017, *Secondary Course-Related Fees*). We recommend that you review this memorandum with appropriate staff to ensure compliance with the MCPS guidelines.

### Summary of Recommendations

- Implement strategies to improve IAF financial condition.
- IAF activities should be approved in accordance with MCPS policies, regulations, and other administrative guidance.
- IAF may not be used for prohibited disbursements.
- Funds collected by sponsors must be promptly remitted to the school financial specialist.
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund Raiser*.
- Secondary school course-related fee activity must comply with MCPS guidelines.

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 through Mrs. Michelle E. Schultze, director of school support and improvement of secondary 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.

Attachment

Copy to:

Members of the Board of Education

Dr. Smith

Dr. Navarro

Dr. Statham

Dr. Zuckerman

Mr. Civin

Dr. Johnson

Dr. Williams

Mrs. Camp

Mrs. Chen

Ms. Diamond

Mrs. Schultze

Mr. Tallur

Mr. Ikheloa

Fiscal Management Action Plan – September, 2017

School: Albert Einstein High School

Approved by community superintendent: 

Principal:  James G. Fernandez

Date of approval: 9-28-17

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
<p>Each succeeding fiscal year since 2008, your end-of-year IAF balances reflected an insolvent financial condition.</p>	<p>We are aware of the balance in the IAF account that reflects an insolvent financial condition and we will meet on a regular basis to review this account and to look for ways to manage this situation. We will investigate reducing expenditures while applying funds earned from our cell phone tower to this negative IAF balance. Please note that we were able to reduce this negative balance during the past school year and we are making this one of our highest priorities to further-reduce this negative balance. We must monitor, evaluate and amend a spending plan appropriately in light of student needs and targeted deficit reduction. In addition to income derived from our cell phone tower lease, we will evaluate other sources of funds to identify opportunities to increase income. We will continue to meet regularly to discuss and implement strategies to reduce this negative balance.</p>	<p>Immediate</p>	<p>Reduction in the negative balance of the IAF account</p>
<p>The balance in your checking account was not sufficient to pay invoices due prior to June 30, 2017.</p>	<p>An invoice was received by a staff member who did not submit this invoice until 20 June 2017. We had funds in our savings account to pay the invoice but have had not transferred funds into our checking account. We have met with the staff member and instructed her on the proper procedures.</p>	<p>Immediate</p>	<p>Staff members will follow MCPS regulations and submit invoices immediately.</p>
<p>Fund-raiser and field trip activities were sometimes approved without considering possible cost savings, cancellation deadlines, or assurance that total receipts would be sufficient to pay expenses. Purchases of food items did not always comply with MCPS wellness policy guidelines approved by the administration for consumption by students during the school day, or less than 30</p>	<p>During our pre-service training sessions, Mr. Ramos and Mr. Plank stressed to the teachers and staff the importance of following all MCPS guidelines regarding field trips, the purchase and sale of food items and the collection and documenting of cash and checks for IAF activities. We have prepared and distributed training material with specific instructions and references to on-line guidance. We recommend an on-going training and retraining program while holding staff accountable for reading and following all MCPS guidelines. This includes reporting all violations to the</p>	<p>Immediate</p>	<p>All field trip requests will be submitted and reviewed in a timely fashion.</p>

<p>minutes after the end of the school day (refer to MCPS Regulation JPG-RA, <i>Wellness: Physical and Nutritional Health</i>).</p>	<p>Principal or Assistant Principal.</p>		
<p>The school entered into a contract for the yearbook in excess of three years, without the approval of the chief operating officer.</p>	<p>It is important to stress that a staff member does not have the authority to enter into a contract such as the three-year yearbook commitment. The yearbook sponsor has been informed of the proper procedure and we will stress following the proper guidelines in the future.</p>	<p>Immediate</p>	<p>All contracts will be reviewed by the SBA and Principal before execution.</p>
<p>We found items that are prohibited from being purchased with IAF funds, such as gift cards for staff members and the paid admission fee for a staff member's child who participated in a school-sponsored field trip.</p>	<p>The finding in which a staff member paid an admission fee for his child who participated in a school-sponsored activity was approved by an Assistant Principal. We have spoken to both staff members and will use this as a lesson learned to instruct our staff to properly use the IAF account properly.</p>	<p>Immediate</p>	<p>IAF purchasing guidelines with staff, so that only disbursements complying with MCPS requirements are approved</p>
<p>We found instances in which staff collecting fines and late fees in the media center were holding funds, rather than remitting them promptly to the school financial specialist.</p>	<p>The collection of funds for IAF-approved activities and the transfer of these funds to the Financial Specialist in a timely fashion is of the utmost importance, and is an ongoing training and reminder exercise. We approached the media specialist and emphasized the importance of depositing funds correctly and timely based on our previous financial audit. Keeping fines and late fees, however small the amount of money, and storing these funds in a locked desk is not acceptable and we have discussed the proper procedures to follow. We have reminded and will continue to remind the media specialist the importance of this issue. The Financial Specialist and SBA have instituted a procedure with specific instructions to follow if the Financial Specialist is out of the building and I am responsible or making daily bank deposits.</p>	<p>Immediate</p>	<p>Funds will not be kept over-night and will be given promptly to the Financial Specialist</p>
<p>We noted that some fund-raisers began before approval was</p>	<p>In order to properly conduct a fund raiser, the staff member must be properly trained to follow each and</p>	<p>Immediate</p>	<p>Evidence of proper training, immediate follow up and close supervision implementing strict adherence to</p>

<p>obtained. For other fund-raisers, request forms did not reflect actual quantities of items to be purchased, and completion reports did not include detailed information needed to complete a reconciliation of the activity.</p>	<p>every guideline and to refer to the format presented by MCPS. There have been instances in which a staff member did not properly submit either the correct documents or presented documents that were not correctly completed; sometimes at the last minute. In order to avoid negative future audit reviews it is our responsibility to train staff members correctly and to reinforce the best practices. This reinforcement must be consistent throughout the management chain.</p>		<p>MCPS guidelines.</p>
<p>We noted a few instances where fees collected were not spent.</p>	<p>In cases in which fees were collected but not spent, we will investigate this further and plan to institute a satisfactory review process.</p>	<p>Immediate</p>	<p>Self explanatory.</p>

*Note: A copy of the approved plan is to be sent to the Internal Audit Office, URSC suite 3380*