


Internal Audit Unit  
MONTGOMERY COUNTY BOARD OF EDUCATION  
Rockville, Maryland

November 13, 2018

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, 2017, through August 31, 2018

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. They are responsible for ensuring that the IAFs are administered in accordance with Board of Education policies, MCPS regulations, and procedures.

The IAF audits are conducted regularly to evaluate compliance with 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 any significant errors or omissions in the financial records are detected.

At our October 22, 2018, meeting with you; Dr. Cynthia M. Webb, assistant principal; Mrs. Betty PierreSaint-Walla, assistant principal; Ms. Shanay A Snead, 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 August 18, 2017, 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

As fiduciary agent, the principal is responsible for ensuring compliance with the guiding principles for administering the IAF. In reviewing the monthly financial reports, the principal shall be aware of any negative balances in IAF accounts, investigate to determine the cause to preclude

recurrence, and take timely corrective action to eliminate such negative balances to avoid potential financial insolvency of your IAF (refer to *MCPS Financial Manual*, chapter 20, pp. 1 and 12). Financial insolvency occurs if the combined total of restricted memorial fund, club, class, and other school sponsored activity account balances exceeds the combined total of checking and Centralized Investment Fund savings account balances. Although we noted an improvement in your IAF's financial position since the end of Fiscal Year 2017, the balance in your checking account was not sufficient to pay invoices due prior to June 30, 2018. We recommend that you continue to meet with your school business administrator on a weekly basis to review account balances and to implement strategies to improve the school's financial position.

MCPS Form 280-54, *Independent Activity Funds Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. Should a school require membership in more than one organization for staff development purposes paid by IAF, the principal should seek approval from the Office of School Support and Improvement (OSSI) (refer to *MCPS Financial Manual*, chapter 20, pp. 4 and 6). In our sample of disbursements, we found instances in which documentation was not annotated by the recipient to indicate purchased goods or services were satisfactorily received and that OSSI approval was not obtained for additional organizational memberships for staff development purposes. We recommend that IAF purchasing guidelines be reviewed with staff and that disbursements are approved only after assurance that spending meets MCPS requirements.

Use of the MCPS purchasing card must be in accordance with the requirements of the *MCPS Purchasing Card User's Guide*. By the fifth business day of the following month, cardholders must use the online reconciliation program to identify, describe, and review transactions. Monthly statements must be printed and provided to the principal, with all purchase receipts and invoices attached. The principal or principal delegate must review each cardholder's transactions and approve them by the 10th calendar day following cardholder's review, using the online reconciliation program. We found that some cardholders had not promptly reviewed their transactions in the online reconciliation program. We also found that the principal and principal designee had not approved all transactions online. We recommend that action be taken to correct these conditions and bring purchasing card usage into conformity with MCPS requirements.

To minimize the risk of loss and provide available funds to meet school needs, all funds collected should be remitted to the school financial specialist daily (refer to *MCPS Financial Manual*, chapter 7, page 4). We noted staff collecting funds for field trips, media center, ticket sales, and apparel sales were holding, rather than remitting them, timely to the school financial specialist. We recommend that staff collecting funds be reminded that cash and checks should not be held and must be remitted to the school financial specialist on the day received from students.

Retail sales tax must be collected by the school and remitted to the State of Maryland on the sales of all taxable merchandise. Taxable merchandise includes yearbooks, fundraiser items, and other items that become the personal property of the individual making the purchase (refer to *MCPS Financial Manual*, chapter 18, page 2). We found that sales tax was not collected and remitted on items that become the personal property of the individual making the purchase such as apparel

sold by the dance club and music department. We recommend that the school financial staff work with sponsors to determine activities for which sales tax must be collected and ensure that prices are set appropriately to include the tax so that activities do not operate at a loss.

#### Summary of Recommendations

- IAF should be managed to reduce and eliminate negative account balances (**repeat**).
- Purchaser must confirm receipt of goods or services prior to disbursement.
- OSSI must approve more than one organizational membership for staff development.
- Purchase card activity must comply with the MCPS *Purchasing Card User's Guide*.
- Funds collected by sponsors must be promptly remitted to the school financial specialist (**repeat**).
- Retail sales tax must be collected and remitted to the State of Maryland on sales of all taxable merchandise.

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*, using the attached form, please provide a written response to the Internal Audit Unit within 30 calendar days of this report. In your response, please share a detailed plan for addressing these issues, including appropriate staff training and support.

Prior to returning your completed audit action plan, please contact Dr. Peter O. Moran, director of learning, achievement, and administration, Office of School Support and Improvement. Based on the audit recommendations, Dr. Moran will indicate whether he will conduct an electronic review of your action plan or schedule a time to meet in person with you and your school financial agents to support you with developing a well-defined plan to address the findings.

RWP:HT:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. Smith

Dr. Navarro

Dr. Statham

Dr. Zuckerman

Mr. Civin

Dr. Johnson

Mrs. Dyson

Mrs. Camp

Mrs. Chen

Ms. Diamond

Dr. Moran

Mr. Tallur

Ms. Webb

**FINANCIAL MANAGEMENT ACTION PLAN**

<b>Report Date:</b> 2018	<b>Fiscal Year:</b> 2018
<b>School:</b> Albert Einstein HS - 789	<b>Principal:</b> James G. Fernandez
<b>OSSI Associate Superintendent:</b> Mrs. Dyson	<b>OSSI Director:</b> Dr. Moran

**Strategic Improvement Focus:**

As noted in the financial audit for the period 5/1/17 to 8/31/18, strategic improvements are required in the following business processes :

1. IAF negative account balance 2. Receipt of goods/services 3. Organizational membership 4. PC activity 5. Collection of funds 6. Collection/remittance of retail sales tax

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
1. On a regular basis, Mr. Fernandez, Mr. Plank and Mr. Ramos will meet to review the current status of the negative balance in the IAF account.	Mr. Fernandez Mr. Plank Mr. Ramos	FMS reports.	FMS reports	Mr. Fernandez Mr. Plank Mr. Ramos	The negative balance in the Einstein High School IAF will continue to decrease.
		Plan to use resources available to apply to the negative balance.			
2. Mr. Plank will regularly review that all goods/services purchased by staff members will be properly received into FMS	Mr. Plank,	FMS statements	Mr. Plank will review the FMS reports and respond to MCPS accounts receivable reports.	Mr. Plank Mr. Ramos	Reports will indicate that goods/services are properly documented and accounted for.
3. OSSI must approve the membership of ASCO and Phi Delta Kappa for staff development.	Mr. Fernandez	Membership application	Proof of membership	Mr. Fernandez	Certificate

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
4. Mr. Plank will meet monthly with all P Card holders to train the holders and review the Morgan Stanley reports to ensure that they confirm the receipt of the goods/services after properly acknowledging that they have reviewed them.	Plank/Ramos/Lancaster/Gooley/Blessing/D'Asciano/Smeallie	Morgan Stanley Statements	Monthly reports	Mr. Plank and Mr. Ramos will review reports generated by Morgan Stanley	The reports will indicate that the P Card users have designated that their statements have been reviewed and explained.
5. Funds collected by sponsors must be promptly remitted to the school financial specialist (repeat).	Mr. Plank, Mr. Ramos and all school sponsors	Accurate records of all school sponsored activities	Review of monies collected verifying that funds are remitted within the proper time period.	Mr. Plank and Mr. Ramos at the time of monies given to Mr. Ramos.	Deposit slips will be dated within the proper time period of monies collected and presented to Mr. Ramos.
6. Retail sales tax will be collected and remitted to the State of Maryland on sales of all taxable merchandise.	Mr. Plank, Mr. Ramos, School sponsors	Sales Records	Review of all retail purchase receipts of goods and services.	Mr. Plank and Mr. Ramos at the time of submission of receipts for reimbursement.	All employees making purchases will be aware that the MD tax exempt certificate will be presented when making purchases.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input checked="" type="checkbox"/> <b>Approved</b>	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments:	
Director: 	Date: <u>1/3/19</u>