


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

March 23, 2018

MEMORANDUM

To: Mr. Evan H. Bernstein, Principal
Forest Knolls Elementary School

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

Subject: Report on Audit of Independent Activity Funds for the Period
September 1, 2014, through January 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 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 March 13, 2018, meeting with you and Ms. Holli B. Swann; assistant principal, and Mrs. Ana M. Pineda, school administrative secretary, we reviewed the status of the conditions described in our prior audit report dated October 9, 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

The IAF chart of accounts provides a standardized account structure for consistency in recording transactions (refer to *MCPS Financial Manual*, chapter 20, page 10). We found instances of transactions that were not classified properly to ensure recording in appropriate accounts. For example, field trip expenses were recorded in the general account and staff vending revenue was

recorded directly into the staff appreciation account. Such commingling renders it difficult to evaluate the results of activities and may allow a loss to go undetected. We recommend that the school's accounts be brought into compliance with the standard chart of accounts, and that guidelines for uses of funds be reviewed.

If an independent contractor is not currently listed in School Funds Online (SFO) as a districtwide vendor, IRS Form W-9, *Request for Taxpayer Identification Number and Certification*, must first be obtained and forwarded to the Division of Controller (DOC) prior to making any payment. The DOC annually reviews payments made to all districtwide vendors for issuance of IRS Forms 1099-MISC, *Miscellaneous Income*, in compliance with federal tax reporting requirements (see MCPS Regulation DIA-RB, *Payments for Services and Reimbursements for Expenses from School Independent Activity Fund*). Among your disbursements, we found that payments for services to independent contractors did not follow these procedures. We recommend that payments for personal services be made and reported in compliance with the Internal Revenue Code as well as applicable MCPS regulations and procedures (refer to MCPS Financial Manual, chapter 18, pp. 3-5 and chapter 20, page 15).

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 administrative secretary on the day the funds are received. We found instances in which staff collecting funds for trips were holding funds rather than remitting them timely to the school administrative secretary. Remittances received should, in turn, be promptly deposited into the school's bank account. Large and infrequent deposits increase the possibility of loss of funds as well as decrease the school's ability to pay for activities. We recommend that all staff who collect funds for school activities be reminded of remittance requirements. In addition, all remittances on hand must be deposited in accordance with MCPS policy and procedures (refer to MCPS Financial Manual, chapter 7, page 3).

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. Although sponsors are submitting a fund-raiser request form for your approval to conduct an activity, most are not submitting a completion report at the conclusion of the activity so that results could be evaluated. A completion report for an activity involving the sale of items should include the total number of items for sale and cost of each, selling prices, and any remaining inventories to determine whether all sums collected were remitted to the school administrative secretary. Following internal control procedures provides for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the activity. We found that you are not closing out many of your fund-raisers at completion, and that you had fund-raisers to benefit charities but did not disburse the funds to these organizations in a timely manner. We recommend that you follow the guidelines outlined above.

Sponsors of field trips should record cost and fee information for each trip on MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and submit the data to the school administrative secretary when a trip is completed. The record of names of participants and funds collected strengthens internal controls by enabling the reconciliation of receipts to funds recorded in the field trip account. In addition, the school administrative secretary should perform a reconciliation

of the activity at its conclusion (refer to *MCPS Financial Manual*, chapter 20, page 10). Our review of field trip activities revealed that not all trip sponsors are providing completed financial information to the school administrative secretary at the completion of a trip. We recommend that all sponsors be required to use MCPS Form 280-41, or equivalent, and follow the procedures outlined above.

Summary of Recommendations

- Accounting transactions must conform to the IAF chart of accounts.
- Independent contractor payments must comply with Internal Revenue Code and MCPS Regulation DIA-RB.
- Funds collected by sponsors must be promptly remitted to the school administrative secretary and deposited according to MCPS policy (**repeat**)
- Fund-raising must conform to *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*.
- Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to participate, and to reconcile funds collected with costs of the trip (**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*, 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 Mr. Matthew A. Devan, director of school support and improvement of elementary schools. Based on the audit recommendations, Mr. Devan 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 agent to support you with developing a well-defined plan to address the findings.

RWP:GWB:lsh

Attachment

Copy to:

Members of the Board of Education
 Dr. Smith
 Dr. Navarro
 Dr. Statham
 Dr. Zuckerman

Mr. Civin
 Dr. Johnson
 Dr. Kimball
 Mrs. Camp
 Mrs. Chen

Ms. Devan
 Mr. Diamond
 Mr. Reilly
 Mr. Tallur
 Mr. Ikheloa

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: March 23, 2018	Fiscal Year: 2018
School: Forest Knolls ES	Principal: Evan Bernstein
OSSI Associate Superintendent: Dr. LaVerne Kimball	OSSI Director: Mr. Matt Devan

Strategic Improvement Focus:
 As noted in the financial audit for the period September 1, 2014-January 31, 2018, strategic improvements are required in the following business processes:

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
All transactions i.e., field trip expenses and all other account transactions will be brought into compliance, according to MCPS' standardized account structure, by properly classifying all transactions into correct accounts. Sponsors will identify correct account names for transactions to be entered on the IAF Remittance Slip (280-34).	Admin Secretary Sponsors	SFO Chart of Accounts	Sponsors will get a copy of the monthly sponsor reports to review for accuracy of correct account.	Principal will review when signing monthly reports by bookkeeper	Transactions will be entered in correct accounts to evaluate results of activities.
Vendors will be informed that 1099 (W9) information must be provided to the school before a check will be issued to independent contractors. Also, will inform independent contractors they will need to be set up with controller's office prior to a check being issued. This will comply with MCPS Regulation DIA-RB.	Admin Secretary	List of Independent Contractors set up with Controller MCPS Financial Manual, chapter 18, pp.3-5 and chapter 20, page 15	Independent Contractors Folder with copy of 1099.	Admin Secretary Visiting Bookkeeper (as needed)	Appropriate W9 forms to indicate their tax status will be provided by the vendors and retain as evidence.
Monitor staff appreciation/meeting refreshments and expenses from Giant, Target etc. Set up other accounts as necessary i.e. staff development (013).	Admin Secretary	Monthly IAF Reports	Monthly IAF Reports	Admin Secretary/ Principal	Monthly IAF Reports 0130 Set Up

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
<p>Sponsors will collect funds, complete and sign MCPS Form 280-34 – <i>IAF Remittance Slip</i>, and submit to the administrative secretary promptly on a daily basis. All cash collected will be counted in front of the receiver for accuracy and a receipt will be issued. All cash collected will be deposited on a daily basis to include on the last working day each month and before each weekend and/or holiday.</p>	<p>Sponsors Admin Secretary</p>	<p>Bank Account SFO MCPS Form 280-34</p>	<p>Bank Statements Dated Remittance Slips from Sponsors to Admin Secretary Dated Receipts to Sponsors from Admin Secretary Bank Deposit Slips</p>	<p>Visiting Bookkeeper (as needed) Principal (periodic review-memo to sponsors not submitting form)</p>	<p>Completed Remittance Slip (Form 280-34) Bank deposit receipts and Bank statements.</p>
<p>Approved fund-raiser activities submitted by sponsors will submit completion reports at the conclusion of the activity so results can be evaluated. Sponsors will include items for sale, cost of each, selling prices, and any remaining inventories to determine whether all sums collected were submitted to the administrative secretary.</p> <p>Administrative secretary will follow up at the end of a fundraiser event to make sure sponsor submits completion reports at the conclusion of the activity.</p> <p>Administrative secretary will insure all fund-raisers to benefit charities and other organizations receive payments in a timely manner.</p>	<p>Fundraiser Sponsor Admin Secretary</p>	<p>Guidelines for Sponsoring and Independent Activity Fund Fund-Raiser Fundraiser completion form</p>	<p>Fundraiser Completion Forms Sponsor Reports and Monthly IAF Reports</p>	<p>Admin Secretary Principal (end of events)</p>	<p>Fundraiser Activity Reports completed for loss and profit Monthly Reports will show all transactions</p>
<p>Sponsors will request a field trip by submitting the field trip calculator information to be reviewed by the administrative secretary and principal to ensure student fees are appropriate. Sponsors will complete MCPS Form 280-41 – <i>Field Trip Accounting</i> for all field trips to keep a record of money collected from all students. Sponsors will provide information for any waivers or scholarships for students who will not be paying or students who will not be attending the field trip. Sponsors will submit Form 280-41 at the end of the Field Trip to reconcile funds collected for costs of the trip with account history report.</p>	<p>Sponsors Principal Admin Secretary</p>	<p>Field Trip Calculator MCPS Financial Manual, chapter 20, page 10</p>	<p>IAF Monthly Files Field Trip file for each individual field trip will show completed Field Trip Accounting (280-41) at end of all field trips</p>	<p>Admin Secretary Visiting Bookkeeper (as needed)</p>	<p>Completed Form 280-41 and any additional documents relevant to each trip.</p>

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
School's check signers signature card was last updated in 2014. Bank signers signature card will be updated when new administrative secretary position is selected with all current signers.	Principal	Bank signature card		Principal (when new admin is selected)	New signature bank card will be on file with Suntrust.
When checking account balance is high – funds will be submitted to CIF Account.	Admin Secretary Principal	CIF Account	CIF Account	Admin Secretary Principal	Funds will be submitted to CIF
Grant received from the MCPS Educational Foundation will follow the guidelines and requirements set forth in MCPS Form 280-60.	Admin Secretary	Guidelines for Grants MCPS Form 280-60	MCPS Form 280-60	Admin Secretary Principal (IAF reports)	Guidelines will be followed
No disbursements should be made directly out of the Picture and Cell Tower Accounts – these are commission only accounts. Principal will notify where these disbursements should be transferred.	Admin Secretary Principal		IAF Monthly Reports	Principal	IAF Monthly Reports will show activity from these accounts
Voided Checks and Receipts will be marked void and properly attached.	Admin Secretary	Voided Checks and Receipts	Check and Receipts	Admin Secretary	Voided checks and receipts will be properly attached to documents
Bookkeeper will review IAF records with action steps on this report quarterly to ensure bookkeeping is in compliance with MCPS policies and procedures.	Bookkeeper	Monthly IAF Records	Monthly IAF Records	Admin Secretary Principal Bookkeeper	IAF files and bookkeeping will be in compliance with MCPS Procedures and Policies

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

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

Comments: _____

Director: Madhu Ben Date: 4/19/18