


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

July 29, 2021

MEMORANDUM

To: Ms. Ann Hefflin, Principal
Glenallan Elementary School

From: Mary J. Bergstresser, Supervisor, Internal Audit Unit 

Subject: Report on Audit of Independent Activity Funds for the Period
July 1, 2018 through June 30, 2021

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 fund-raisers. They are responsible for ensuring that the IAFs are administered in accordance with Board of Education policies and 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 July 21, 2021, meeting with you and Mrs. Jennifer L. Hirst, school administrative secretary (secretary), we reviewed the prior audit report dated August 10, 2018, 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 management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures. We found that staff did not have adequate procedures in place for proper control and oversight of IAF. As a result, we noted a number of accounting transfers, journal entries, and other transactions to correct duplicate entries, account number errors, and voided checks and receipts. Many transactions lacked descriptions to fully explain the purpose

of the disbursement entry. Incorrect charts of accounts were used for school activities and some did not comply with the districtwide assigned account category. We also found that disbursement checks and receipts had been handwritten and not printed on preprinted check or receipt stock. We recommend that you work with your secretary to establish processes that will structure workflow to ensure control and appropriate oversight of IAF, monitor transaction activity in an effort to reduce the number of errors, and that activities are carried out as stated in financial procedures established by MCPS (refer to the *MCPS Financial Manual*, chapter 20, page 1).

Sponsors of school activities that involve the collection or disbursement of the IAF must be provided an account history report for each month in which transactions have been recorded in their account or the account has a balance (refer to the *MCPS Financial Manual*, chapter 20, page 11). We found that this essential internal control procedure was not being used. We recommend that sponsors be given a monthly statement of their accounts and be required to verify that all transactions affecting the account have been recorded correctly. After any discrepancies are resolved, the statements should be signed and dated by the sponsor to attest to their accuracy. A procedure should be established to ensure that all statements are reviewed and returned.

MCPS Form 280-54, *Independent Activity Funds Request For A Purchase*, is used to obtain principal approval to proceed with an intended purchase (refer to the *MCPS Financial Manual*, chapter 20, page 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 the IAF requirements. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt and then the secretary will mark the documentation as “paid.” In our sample of disbursements, we found instances in which MCPS Form 280-54 was signed by the principal after the purchase, documentation supporting purchases was not stamped or marked “paid,” and invoices were not annotated by the recipient to indicate purchased goods or services were satisfactorily received. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAFs. We recommend that MCPS Form 280-54 be prepared by staff and signed by the principal at the time verbal approval is sought and that complete documentation be attached to fully explain the reason for the purchase.

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 must review each cardholder’s transactions and approve them by the tenth of the following month, using the online reconciliation program. The principal’s card transactions are to be reviewed and approved by the respective director of learning, achievement, and administration, Office of Teaching, Learning, and Schools. We found that cardholders had not promptly prepared their monthly statements, provided their purchase receipts, or reviewed their transactions in the online reconciliation program. We also found that the principal 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.

In order to properly control receipts, cash and checks collected by sponsors for the IAF activities must be remitted promptly to the secretary together with MCPS Form 280-34, Independent Activity Fund (IAF) *Remittance Slip*. Cash must be counted in the presence of the remitter and a receipt that is supported by MCPS Form 280-34 must be issued promptly (refer to the *MCPS Financial Manual*, chapter 7, page 4). All funds collected by the secretary must be taken to the bank for prompt deposit to the school business account. We found instances in which there was a delay in the issuance of receipts, and MCPS Form 280-34 was not correctly prepared. Receipts must be attached to the corresponding remittance slips and attached to the deposit analysis form. We also found that the financial agent was holding funds collected from sponsors and not making a timely deposit to the school bank account. To improve controls, we recommend the adoption of the procedures stated above to safeguard school funds.

Fund-raisers at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-raiser*. Each fund-raiser must be approved by the principal in writing and the approval retained in the school office together with a completion report that analyzes the results (refer to the *MCPS Financial Manual*, chapter 20, page 13). We found that completion reports were not always prepared by the sponsors at the conclusion of the activities. We recommend that fund-raising sponsors be required to prepare completion reports at the conclusion of the activities in order to evaluate the results and the secretary review the report for accuracy and completeness.

Field trip sponsors must record cost and fee information for each field trip on MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and submit the data to the secretary when a trip is completed (refer to the *MCPS Financial Manual*, chapter 20, page 10). The record of the names of participants and funds collected, submitted by the sponsor, strengthens internal controls by enabling the reconciliation of these funds to the amounts recorded in the field trip account. Our review of field trip activities revealed that field trip sponsors are not providing completed financial information to the secretary at the completion of a trip. Also noted is that the secretary is not reviewing the submitted report to verify that funds collected were accurate by comparing sponsors' reports to actual collection posted to the school financial system. We recommend all sponsors be required to use MCPS Form 280-41, or equivalent, and follow the procedures outlined above.

Admission receipts for school events must be controlled according to MCPS Regulation DMB-RA, *Control of Admission Receipts*. These events must be controlled with serially numbered tickets, separation of duties, use of the required MCPS Form 280-50, *Tickets and Cash Report of Admissions Manager*, for tracking and reconciling sales, and perpetual inventory of tickets. We found that these procedures were not being followed. The secretary did not maintain a perpetual inventory of tickets, Form 280-50 was not used for ticketed events, and no evidence of review or audit of ticketed sales by the ticket auditor were found. We recommend compliance with the procedures outlined above.

Summary of Recommendations

- IAF must be managed in accordance with sound accounting practices and effective internal control procedures.

- Monthly account history reports must be provided to sponsors for affirmation of transaction correctness and returned to the secretary (**repeat**).
- Disbursements must be pre-approved in writing by the principal and properly documented (**repeat**).
- Funds collected by the secretary must be promptly deposited to the school bank account (**repeat**).
- Completion reports must be prepared for each approved fund-raising activity (**repeat**).
- Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to participate, and the secretary must complete a reconciliation of activity (**repeat**).
- All admission events must be controlled by pre-numbered tickets which are reconciled at the completion of the event (**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 action plan, 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. Sarah E. Sirgo, director of learning, achievement, and administration, Office of Teaching, Learning, and Schools, for written approval of your plan. Based on the audit recommendations, Dr. Sirgo will indicate whether she will conduct an electronic review of your action plan or schedule a time to meet in person with you and your financial Specialist to support you with developing a well-defined plan to address the findings.

MJB:BK:lsb
Attachment

Copy to:

Members of the Board of Education
Dr. McKnight
Mr. D'Andrea
Ms. Dawson
Ms. Reuben
Mrs. Williams
Mrs. Dyson
Mr. Reilly
Mrs. Chen
Mrs. Eader
Mr. Klausling
Dr. Sirgo
Mr. Tallur
Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date:	Fiscal Year:
School:	Principal:
OTLS Associate Superintendent:	OTLS Director:
<p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period _____, strategic improvements are required in the following business processes :</p>	

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence

OFFICE OF TEACHING, LEARNING, AND SCHOOLS (OTLS) REVIEW & APPROVAL	
<input type="checkbox"/> Approved	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments: _____ _____	
Director: _____ <i>Sarah Sirgo</i> _____	Date: _____