


Internal Audit Unit  
MONTGOMERY COUNTY BOARD OF EDUCATION  
Rockville, Maryland

July 20, 2022

MEMORANDUM

To: Dr. Yong M. Kim, Principal  
Herbert Hoover Middle School

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

Subject: Report on Audit of Independent Activity Funds for the Period  
January 1, 2021, through May 31, 2022

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, 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 14, 2022 virtual meeting with you and Mrs. Susan B. Mapes, school financial specialist, we reviewed the prior audit report dated February 16, 2021, and the status of the 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 procurement of goods and services must adhere to Board of Education policy, MCPS regulations and guidelines, and the Procurement Unit's Procurement Manual. In addition, the procurement of goods and services must be approved in writing by the principal prior to staff proceeding with any intended purchase. This prior approval may be granted by the principal's signature on MCPS Form 280-54, *Independent Activity Funds Request for a Purchase*, or a budget prepared by the sponsor of a school activity. The budget must be approved by the principal and indicate projected revenue by source and projected expenditure by type of item for a period of time not to exceed a fiscal year. The sponsor cannot exceed the total amount of expenditures in the

approved budget without receiving prior written approval of the principal to amend the budget. The financial agent is responsible for monitoring all budgets to ensure revenues and expenditures conform to what the principal has approved. In review of purchases, we noted that the drama budgets for Fiscal Year (FY) 2021 and FY 2022 were not dated by the sponsor, financial agent, nor principal, therefore, we cannot tell if expenditures were pre-approved. We also noted some line items on both budgets had been overspent and no pre-approval had been given for these additional expenditures. We recommend that your drama sponsor prepare a detailed budget each year and that the approved budget is monitored and revised when needed. We also recommend that the sponsor, financial agent and principal, date the budgets when reviewing and signing.

MCPS Form 280-54 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 IAF requirements. In our sample of disbursements, we found instances where restaurant receipts were not always itemized to show what was purchased. We also found credit card transaction receipts were given to the financial agent for reimbursement with no itemized receipt/invoice attached. We noted some items were shipped to staff and non-staff members' home addresses instead of the school address. We recommend that all receipts show specifically what was purchased and that the financial agent ensures that the staff member who made the purchases provides adequate documentation to support payment such as an original itemized receipt or invoice with amount due prior to reimbursement. We also recommend that all items ordered for the school be shipped to the school address, and that non-staff members not be allowed to make purchases on behalf of the school, or have items shipped directly to their homes.

The use of personal credit cards for large purchases is discouraged (refer to the *MCPS Financial Manual*, chapter 20, page 8). In our sample of disbursements, we found that several staff and non-staff members spent their own personal funds, usually using debit/credit cards, and were reimbursed large amounts instead of making purchases through the Business Hub or with an MCPS purchasing card. We recommend issuing MCPS purchasing cards to MCPS staff members for small purchases and all large purchases be placed in the Hub.

Aggregate school expenditures of general funds for the procurement of refreshments in connection with meetings and staff appreciation items may not exceed \$60 per individual staff member, per fiscal year, without the prior written authorization of the Associate Superintendent of Finance (OOF) (refer to the *MCPS Financial Manual*, chapter 20, page 5). These expenditures must be appropriately recorded in accordance with the IAF chart of accounts. We found that you exceeded the total amount allowed in FY 2022, without approval of the OOF. We also found instances in which expenditures for these items were incorrectly classified and recorded in various accounts. Such commingling increases the time required to determine whether or not guidelines have been followed and decreases the value of your financial reports for decision making. We recommend that you adhere to the MCPS requirements, as well as correctly classify and record these transactions for more accurate accountability.

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

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 10th of the following month, using the online reconciliation program. In your action plan, you indicated that administration would remind cardholders to promptly review transactions in the online reconciliation program and the principal would approve all transactions by reviewing transactions online as required. We found that cardholders had not promptly reviewed their transactions in the online reconciliation program and not all transactions had been approved online. We also found that cardholders were not always printing the statement of account landscape reports timely and cardholder's online reviews of purchase card transactions did not always include the IAF account number, staff or students, or detailed description of what was purchased. We recommend that action be taken to correct these conditions and bring purchasing card usage into conformity with MCPS requirements.

### **Notice of Findings and Recommendations**

- Budgets must be signed and dated by the sponsor, financial agent, and principal.
- Purchase documentation must be adequate to support disbursements.
- Items ordered for the school must be shipped to the school.
- Personal funds used to make school purchases must be discouraged.
- Total combined expenditures for staff appreciation and meeting refreshments may not exceed \$60 per individual staff member, per fiscal year, without prior approval of the OOF.
- Staff appreciation and meeting refreshment expenditures must be correctly classified and recorded.
- Independent contractor payments must comply with MCPS Regulation DIA-RB.
- Purchase card transactions must be documented, reviewed by cardholders, and approved by the principal, and the statement of account landscape report must be printed timely (**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. Tamitha E. Campbell, acting director of school support and well-being, Office of School Support and Well-Being, for written approval of your plan. Based on the audit recommendations, Dr. Campbell 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:YSG:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. McKnight

Dr. Murphy

Mr. Stockton

Ms. Reuben

Mrs. Williams

Dr. Moran

Mr. Reilly

Dr. Campbell

Mrs. Chen

Ms. Eader

Mr. Klausling

Mrs. Ripoli

Ms. Webb

**FINANCIAL MANAGEMENT ACTION PLAN**

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

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

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

<b>OFFICE OF SCHOOL SUPPORT AND WELL-BEING (OSSWB)</b>	
<input checked="" type="checkbox"/> <b>Approved</b>	<input type="checkbox"/> <b>Please revise and resubmit plan by _____</b>
Comments: _____ _____	
Director: <u>    <i>Tamitha E. Campbell</i>    </u> <small>ovz</small>	Date: <u>    08/17/22    </u>