

Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

February 18, 2026

MEMORANDUM

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

From: Melvin A. Phillips, Supervisor, Internal Audit Unit 

Subject: Report on Audit of Independent Activity Funds for the Period
December 1, 2023, through September 30, 2025

Background

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. Principals are responsible for ensuring that the IAFs are administered in accordance with:

- Board Policy
- MCPS Regulation DIA-RA
- MCPS Financial Manual
- MCPS Business Center Memoranda and Tools

Herbert Hoover Middle School is located in Potomac, Maryland and is part of the Churchill Cluster. Elementary students may continue the Chinese immersion experience at Herbert Hoover Middle School's Chinese Immersion Program. Herbert Hoover MS offers a range of academic and extracurricular programs, including instrumental music, drama, and Student Service Learning (SSL) opportunities. Herbert Hoover MS has a long-standing theatre program that performs a range of junior adaptations of popular musicals. The drama program is a core part of the school's performing arts department. This program aims to provide students with opportunities to engage in live performances and develop skills in theatre production. The ending balance of Herbert Hoover MS drama club's IAF account as of September 30, 2025, was \$30,034 from ticket sales and student participation fees. This balance represents funds accumulated from year to year or over multiple fiscal years, highlighting a sustained effort in fundraising and financial management by the program. At the time of this audit, Herbert Hoover MS reported total IAF assets of \$192,624. Of this balance, \$116,213 is in the Centralized Investment Fund (CIF), which pays a 3.28 percent annual interest rate. The school received annual commissions from the Interagency Coordinating Board (ICB) and student pictures. For the fiscal year ending June 30, 2025, the school reported total receipts of \$285,456 and total disbursements of \$292,243, resulting in a deficit of \$6,787.

Audit Objective

The Internal Audit Unit (IAU) uses generally accepted auditing principles to provide an audit opinion on the school's financial activity by evaluating the adequacy of internal controls and compliance with Board of Education (Board) policies and MCPS regulations and procedures. Specifically, the audit seeks to obtain reasonable assurance that:

- Evidence of fraud was not identified within the IAF.
- Funds are safeguarded against loss, misappropriation, or misuse.
- Transactions are accurately recorded and fairly reported in the school's financial records.
- Receipts and disbursements are appropriate, properly documented, and consistent with the intended purpose of the funds.
- Instances of misappropriation, misreporting, or waste, if they exist, are identified and evaluated for materiality.

The IAU is free from organizational impairments to independence. The IAU administratively reports directly to the chief of staff of the Office of the Board of Education and functionally reports to the Montgomery County Board of Education's Fiscal Management Committee.

Methodology

The audit is not designed to examine every transaction but instead relies on risk-based sampling and other generally accepted audit procedures to provide reasonable assurance. Audit procedures include interviews with key staff, a review of prior audit findings and the status of related action plans, testing of transaction samples, and an on-site assessment of internal controls and procedures.

Audit Opinion:

Needs improvement – Moderate Risk

Based on the results of our audit, we noted that IAF is generally well managed, with no evidence of fraud or material misappropriation, misreporting, or waste. However, some deviations from policy and opportunities for improvement were noted. These items are not considered high-risk when evaluated collectively.

In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, using the attached action plan template to provide a written response, approved by the school's director of school leadership and improvement, to the IAU within 30 calendar days of this report.

Repeat Finding from Prior Audit:

Prior audit report dated January, 29, 2024, was conducted for the audit period June 1, 2022, through November 30, 2023, and noted:

Finding 1 [Moderate-Risk]: Non-Compliance with Policies for Staff and Non-Staff Expense Reimbursements.

The use of personal credit cards for large purchases is discouraged (refer to the *MCPS Financial Manual*, chapter 20, page 9). In our sample of disbursements, we found that the principal, the drama sponsor and a non-staff member spent their own personal funds, usually using credit cards, and were reimbursed excessive 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 Business Hub.

New Findings and Recommendations:

Finding 2 [Moderate-Risk]: Inadequate Supporting Documentation and Failure to Document Verification of Receipt of Goods and Services in Independent Activities Fund (IAF) Disbursements.

Prior to the disbursement of any IAF, the financial agent will ensure that they have received the appropriate authorization documentation to support the procurement of the goods and services for which the disbursement is to be made. The financial agent also will ensure that the staff member who made the purchase provides adequate documentation to support payment such as original itemized receipt or invoice and written indication that goods and services were received in the quantity and quality required (refer to the *MCPS Financial Manual*, chapter 20, page 6). In our sample of disbursements, we found that the school is processing disbursements from the IAF without adequate supporting documentation and a review of check requests revealed instances where detailed invoices or receipts were missing entirely. In addition, IAF and purchasing card invoices were not always marked by the requester to indicate satisfactory receipt of goods or services.

We recommend that the school must establish and strictly enforce internal control procedures to ensure that all disbursements from IAF are supported by complete, accurate, and verified documentation before any payment is processed and that the designated staff member or requester must sign, date, and annotate the invoice or receipt to explicitly confirm satisfactory receipt of all items or services.

Finding 3 [Moderate-Risk]: Non-Compliance with 1099 Vendor Setup in School Funds Online (SFO).

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). We found that the school did not pay the drama videography vendor as a 1099 vendor.

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).

Finding 4 [High-Risk]: Non-Compliance with Documentation Requirements for Contractual Services, MCPS Form 280-49A.

Independent contractors or consultants working in schools must comply with all laws and MCPS requirements set forth in the Procurement Manual. MCPS Form 280-49A, *Authorization for Consultant/Independent Contractor (Vendor) Services Paid with Independent Activity Funds (IAF)*, is used to document authorization/approval for all consultant/independent contractor services paid with IAF. We found that MCPS Form 280-49A had not been completed for all payments to independent contractors during our audit period.

We recommend that the project manager initiate MCPS Form 280-49A to document the authorization and approval to pay a consultant/independent contractor with IAF (refer to *MCPS Financial Manual*, chapter 15, page 2).

Finding 5 [Moderate-Risk]: Unauthorized Hotel Stay Within MCPS Prohibited Radius and The Use of General IAF Funds to Pay for the Expenditure.

For staff out-of-town travel and local travel requiring lodging for one or more nights, the approval requirements of MCPS Regulation DIE-RA, *Travel for Montgomery County Public Schools (MCPS) Purposes*, apply. Any overnight travel request requires the additional submission of MCPS Form 281-1, *Request/Accounting for Nonlocal Travel Funds*. Regardless of the source of funds, IAF cannot be used to pay for overnight lodging within the 50-mile commuting radius of MCPS (refer to MCPS Regulation DIE-RA). We found that an employee stayed at a hotel within the restricted 50-mile radius without obtaining the required approval from the designated authorized personnel. The school also reimbursed the staff member using General IAF funds.

We recommend that the school follows internal controls to ensure strict adherence to MCPS Regulation DIE-RA regarding travel and lodging expenses.

Finding 6 [Moderate-Risk]: Failure to Reimburse MCPS for related IAF Substitute Costs.

Teachers and other staff members who accompany students on field trips report the time as Professional Leave, (PRO) and receive approval on MCPS Form 430-94, *Professional Leave*, citing the Independent Activity Fund (IAF) field trip account as the funding source. Substitute costs are to be built into the cost of the field trip and remitted to the Division of Controller using MCPS Form 203-2A, *School Reimbursement for MCPS Field Trip Substitute Coverage* (refer to *MCPS Financial Manual*, chapter 13, page 15). We found that the school did not reimburse MCPS

for substitutes that were used for teachers that requested Professional Leave to attend an IAF school's activity or field trip.

We recommend that the school use MCPS form 203-2A, as a worksheet to reimburse MCPS for substitute charges using the Business Hub iPayment process.

Finding 7 [Moderate-Risk]: Improper Separation of Duties in Cash/Checks Remittance Processing and Failure to Provide Receipts to Sponsors for Funds Collected.

The teacher/sponsor will document remittance of funds to the financial agent using MCPS Form 280-34, *Independent Activity Fund Remittance Slip*. The financial agent will count the remitted funds in the presence of the remitter. A pre-numbered receipt shall be completed by the financial agent, and the original shall be given to the person who remitted the funds. This establishes documentary evidence for both parties that provides a written record of the source and amount of the funds for accounting purposes (refer to *MCPS Financial Manual*, chapter 7, pages 3 and 4). We found that the financial agent was completing MCPS Form 280-34 on behalf of the sponsors and that the sponsors were not always receiving a receipt generated by SFO.

We recommend that the school enforce proper separation of duties in the cash receipting process. Activity sponsors must be responsible for accurately completing and signing their own remittance slips prior to submitting funds to the financial agent for processing. The financial agent role should be limited to verifying the completeness of the documentation, counting the funds in the sponsor's presence, and subsequently recording the deposit in SFO. We also recommend that the financial agents provides an SFO receipt to each of the sponsors remitting funds to the business office.

Exit Conference:

At our December 4, 2025, exit conference with Dr. Yong M. Kim, principal; and Mrs. Martha L. Ballon, school financial specialist, we reviewed the prior audit report dated January 29, 2024, and the status of the current conditions. We discussed that the IAF funds were generally well-managed, with effective oversight of field trips, fundraisers, and the receipt and disbursement of funds, ensuring compliance with Board policies and MCPS procedures, with only minor inconsistencies noted.

You received a comprehensive report outlining each finding, best practices, and items not reportable in the audit. This audit report presents the findings and recommendations resulting from our examination of the IAF records and financial accounts for the school for the period designated.

We thank you for your cooperation. Based on the **Needs improvement** status of your IAF audit, an action plan must be completed. Prior to returning your completed audit action plan, please contact Dr. Alana D. Murray, director of school leadership and improvement, Division of School Leadership and Improvement, for written approval of your plan. Based on the audit recommendations.

MAP:YSG:rg
Attachment

Copy to:

Members of the Board of Education

Dr. Taylor

Mrs. Alfonso-Windsor

Ms. McGuire

Dr. Moran

Ms. Seabrook

Dr. Campbell

Mr. Francois

Mrs. Chen

Dr. Murray

Mrs. Ripoli

Mr. Santos Rodriguez

Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: 02/18/2026	Fiscal Year: 2025-2026
School or Office Name: Herbert Hoover Middle School	Principal: Dr. Yong-Mi Kim
DSLI Associate Superintendent: Dr. Peter Moran	DSLI Director: Dr. Alana Murray

Strategic Improvement Focus:

As noted in the financial audit for the period 12/01/23-09/30-2025, 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
<p>Non-Compliance with Policies for Staff and Non-Staff Expense Reimbursements:</p> <p>Small purchases will be made using MCPS purchasing cards and all large purchases will be placed in the Hub.</p>	Dr. Kim Ms. Ballón	N/A	Usage of purchasing card Hub Receipts	Ms. Ballón - ongoing	
<p>Inadequate Supporting Documentation and Failure to Document Verification of Receipt of Goods and Services in Independent Activities Fund (IAF) Disbursements</p> <p>All disbursements will be supported by complete, accurate and verified documentation before any payment is processed and the designated staff member or requester will sign, date, and annotate the invoice or receipt to confirm satisfactory receipt of all items or services.</p>	Dr. Kim Ms. Ballón	N/A	Professional Development – Emails, Slides for Staff and Sponsors Request for Purchase Form Invoices will be marked “receipt”	Ms. Ballón - ongoing	
<p>Non-Compliance with 1099 Vendor Setup in School Funds Online</p> <p>Payments for personal services will be made and reported in compliance with the applicable regulations and procedures.</p>	Dr. Kim Ms. Ballón	N/A	Division of Controller will set up new 1099 Vendors	Ms. Ballón - ongoing	

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
<p>Non-Compliance with Documentation Requirements for Contractual Services, MCPS Form 280-49A.</p> <p>Project manager will initiate MCPS Form 280-49A to document authorization and approval to pay a consultant/independent contractor with IAF.</p>	Dr. Kim Ms. Ballón	N/A	Form 280-49A will be sent to Procurement	Ms. Ballón - ongoing	
<p>Unauthorized Hotel Stay Within MCPS Prohibited Radius and The Use of General IAF Funds to Pay for the Expenditure.</p> <p>This was a one-time occurrence, and it won't happen again.</p>	Dr. Kim Ms. Ballón	N/A	Travel expenses of this nature will not be approved	Ms. Ballón - ongoing	
<p>Failure to Reimburse MCPS for related IAF Substitute Costs</p> <p>SFS will ensure MCPS is reimbursed for substitute charges</p>	Dr. Kim Ms. Ballón	N/A	Form 203-2A, School Reimbursement for MCPS Field Trip Substitute Coverage	Ms. Ballón - ongoing	
<p>Improper Separation of Duties in Cash/Checks Remittance Processing and Failure to Provide Receipts to Sponsors for Funds Collected</p> <p>SFS will verify the completeness of the documentation, counting the funds in the sponsor's presence, and will subsequently record the deposit in SFO. SFS will provide an SFO receipt to each of the sponsors remitting funds to the business office.</p>	Dr. Kim Ms. Ballón	N/A	Professional Development – Emails; Slides Sponsor to complete and sign Remittance Slip form	Ms. Ballón - ongoing	

DIVISION OF SCHOOL LEADERSHIP AND IMPROVEMENT (DSL I)	
<input checked="" type="checkbox"/> Approved	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments:	
Director: <u>Alana D. Murray, PhD</u>	Date: <u>3/5/26</u>