


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

February 8, 2018

MEMORANDUM

To: Mrs. Donna M. Sagona, Principal
Laytonsville 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 October 31, 2017

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 January 31, 2018, meeting with you and Mrs. Cynthia E. Hustek, 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

Effective internal control includes the receipt and review by the principal of the monthly bank statement, bank reconciliation report, and ledger reports in a timely manner. Review of these important reports must be evidenced by the principal's signature and date (refer to *MCPS Financial Manual*, chapter 20, page 9). We found that reports were not consistently prepared and

signed each month during our audit period. We recommend that you initiate a process that ensures this important internal control process occurs monthly.

The financial agent shall execute a transfer of funds between accounts using MCPS Form 281-46, *Independent Activity Funds – Transfer*, signed by the account sponsor and principal (refer to *MCPS Financial Manual*, chapter 20, page 12). We found instances when transfers of funds were executed with either no MCPS Form 281-46, or the forms not signed as required. To improve internal controls, we recommend that the school administrative secretary be instructed to execute transfers only according to requests approved by the account sponsor and principal.

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 *MCPS Financial Manual*, chapter 20, page 4). Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. In our sample of disbursements, we found instances in which controls over purchases were weakened that included documentation missing or not adequate to assure the school benefited from the purchase, and documentation not annotated by the recipient to indicate purchased goods or services were satisfactorily received. We recommend that purchase documentation be adequate to support disbursements, and the purchaser confirms receipt of the goods or services.

If an independent contractor is not currently listed in the School Funds Online (SFO) accounting system 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 (refer to *MCPS Financial Manual*, chapter 20, pp. 6 and 15). Among your disbursements, we found that a payment had been made for services to an independent contractor that did not follow these procedures. We recommend that payments for personal services be made and reported in compliance with the applicable regulations and procedures.

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 (refer to *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 by the school administrative secretary of these funds to the amounts recorded in the field trip account. Review of field trip activities revealed that not all field 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.

Contracts for school pictures shall specifically state the terms of the contract including commissions, rebates, bonuses, and free items provided by the contractor. Once the contract is approved by the principal, it must be monitored to ensure compliance. We discovered that a signing bonus had not been received. We recommend that financial staff contact the vendor and request that the bonus be sent to the school. Also, we recommend that you establish a process for

monitoring contract activity to ensure that all statements are received and filed, commissions due are received, and other terms such as free items and signing bonuses have been met.

Summary of Recommendations

- Monthly financial reports must be prepared, signed, and dated by the principal to indicate review.
- Transfers of funds between accounts should be approved by the sponsor and the principal.
- Purchase documentation must be adequate to support disbursements.
- Purchaser must confirm receipt of goods or services prior to disbursement (**repeat**);
- Independent contractor payments must comply with MCPS and IRS requirements.
- 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**).
- Contracts should be monitored to ensure compliance.

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. Eric A. Wilson, director of school support and improvement of elementary schools. Based on the audit recommendations, Mr. Wilson 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:DKH: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. Diamond
Mr. Reilly
Mr. Tallur
Mr. Wilson
Mr. Ikheloa

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: February 22, 2018	Fiscal Year: February 22, 2018
School: Laytonsville ES - 051	Principal: Donna Sagona
OSSI Associate Superintendent:	OSSI Director: Eric Wilson
<p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period <u>9/1/14-10/31/17</u>, 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
Principal shall review and sign all bank statements and reconciliation reports upon receipt from the bookkeeper	Donna Sagona	Statement/Reports	Review and signature	Monthly between financial agent and principal	Signed and reviewed statements in a timely manner.
MCPS form 281-46 will be completed by financial agent and signed at the time by the principal as they occur, rather than at the end of the fiscal year.	Cindi Hustek Donna Sagona	Form 281-46	Review and signature	Each time a transfer takes place	Signed and reviewed at time of funds transfer
Form 280-54, there will be documentation attached to each funds request. Reimbursement will not occur without sufficient documentation.	Cindi Hustek	Form 280-54	Deny purchase requests without proper documentation. Do not remit payment until such is received.	When necessary by financial agent and principal	Documentation will be required and authorization will not be given without said documentation
All independent vendors shall be documented by W9 or 1099-MISC if not already listed as such.	Cindi Hustek	W-9	No independent contractors will be employed without prior documentation of W-9.	Each time a contractor is used. Cindi Hustek	All independent contractors will have current W-9 status or 1099 on file.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Teachers will submit 280-41 or equivalent at the conclusion of each trip with the names and payments for all students properly recorded	Staff	280-41	Financial agent will be certain that all forms are submitted at the conclusion of each trip/activity with backing of principal	financial agent	All trips/activities will have proper documentation at the conclusion
More detailed information needed from the picture company including when bonuses, etc will be received and the contract should be negotiated yearly. This will ensure timely receipt of all commission owed to school	Freed Photography	Documentation of monies, etc. to school	Financial agent will use documentation to support the timely receipt of funds due to the school	Freed Photography Financial Agent	Monies owed/received will be complete and accurate.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input checked="" type="checkbox"/> Approved	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments:	
Director: <u>Eric Wilson</u>	Date: <u>6-5-18</u>