


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

March 31, 2016

MEMORANDUM

To: Mr. Cabell W. Lloyd, Principal
Meadow Hall Elementary School

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
February 1, 2013, through January 31, 2016

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. 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. They are responsible for ensuring that IAFs are administered in accordance with MCPS policies, regulations, and procedures.

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 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.

In our meeting on March 24, 2016, with you, Mr. Bradley Watts, assistant principal, and Mrs. Paula McCord, administrative secretary, we reviewed the status of the conditions described in our prior audit report dated April 4, 2013, 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 principal is responsible for all monies received or disbursed within the school as well as the implementation of internal controls for achieving compliance with MCPS policies, regulations, and procedures pertaining to these funds. The principal has overall responsibility to ensure the maintenance and timely preparation of monthly financial reports (see MCPS Financial Manual, p. 20-8). Effective internal control includes the monthly receipt and review by the principal of the unopened bank statement, bank reconciliation report, and ledger report in a timely manner. Review of these important reports must be evidenced by the principal's signature and date. We could find no

indication that these important reviews were completed consistently during our audit period. We recommend you initiate a process that ensures this important internal control process occurs monthly (see MCPS Financial Manual, p. 20-9).

Checks that are not cashed by their payees are considered abandoned property and, by law, belong to the state. MCPS is required to remit uncashed checks to the state of Maryland through an annual escheat filing. A school's uncashed IAF checks must be reported to the Division of Controller (DOC) for inclusion in the annual filing (MCPS Financial Manual, pp. 18-1, 18-2). We noted several uncashed checks that had been voided rather than reported to the DOC. We recommend the procedures for escheatment, outlined in Appendix I of Chapter 20 of the MCPS Financial Manual and annual instructions, be followed.

MCPS Form 280-54, *Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase (see MCPS Financial Manual, p. 20-4). 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. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt, and stamped or marked "Paid." In our sample of disbursements, we found prior approval was not consistently obtained when required for several purchases. Invoices were still not signed by the receiver and documentation was not marked or stamped "Paid." By requiring written prior approval the principal retains control over the expenditure of IAF funds. We recommend that Form 280-54 be prepared by staff with an estimate of intended expenditure and signed by you at the time verbal approval is sought.

In order to properly control receipts, cash and checks collected by sponsors for IAF activities should be remitted promptly to the administrative secretary with MCPS Form 280-34, *Independent Activity Fund Remittance Slip*, on the same day they are received to minimize the risk of loss or theft. The funds should be verified in the presence of the remitter, and a receipt should be issued promptly. In the event funds cannot be verified immediately upon remittance, the remitter will seal the funds in an envelope in such a manner that tampering will be evident, and either place the sealed envelope in the business office safe or receive written acknowledgement that it was provided to the administrative secretary. Verification of these funds will be conducted in the presence of the remitter as soon as possible thereafter. We found that some sponsors were holding funds collected rather than remitting them to the administrative secretary on a daily basis. Also, there was no process for securing funds when the administrative secretary was unable to verify them. To improve controls, we recommend adoption of the procedures in the MCPS Financial Manual, pp. 7-3, 7-4. To reduce the workload of cash handling requirements for sponsors and administrative secretary, we further recommend using Online School Payments (OSP).

The review of field trip activities revealed that not all field trip sponsors are providing completed financial information to the administrative secretary at the completion of a trip. Sponsors should 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 administrative secretary when a trip is completed (see MCPS Financial Manual, p. 20-9). The record of names of participants and sums collected strengthens internal controls by enabling the reconciliation of receipts to sums recorded in the field trip account. We recommend all sponsors be required to use Form 280-41, or equivalent, and follow the procedures outlined above.

Summary of Recommendations

- Monthly financial reports must be reviewed, signed, and dated by the principal to indicate review;
- Uncashed checks must be remitted to the state, in accordance with the MCPS escheat process;
- Purchase requests must be approved by the principal prior to procurement;
- Invoices and receipts must be annotated as “Paid” to indicate disbursement was made (repeat);
- Purchaser must confirm receipt of goods or services prior to disbursement (repeat);
- Funds collected by sponsors must be promptly remitted with MCPS Form 280-34 to the administrative secretary;
- Cash handling by sponsors and administrative secretary can be reduced using OSP; and
- Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to participate, and to reconcile funds collected with cost of the trip (repeat).

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of your staff. In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, please provide a response to the Internal Audit office within 30 days of this report, with a copy to Mr. Pat Abrunzo, director of elementary schools. The Office of School Support and Improvement will follow up on this audit.

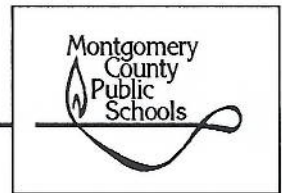
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Copy to:

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Meadow Hall Elementary School

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Office of the Principal

A respectful, safe, fun, and nurturing learning community that encourages innovative ideas, communicates effectively among all stakeholders, and provides consistently high expectations for academic achievement and well-prepared individuals who contribute to society.

April 27, 2016

MEMORANDUM

To: Mr. Pat D. Abrunzo, Director of Elementary Schools

From: Mr. Cabell W. Lloyd, Principal

Subject: Audit of Independent Activity Funds

I have received the audit of Meadow Hall's Independent Activity Funds for the period February 1, 2013 through January 31, 2016.

The procedures and actions to strengthen accountability were discussed with Mr. Alan Butler, Accountant, Mrs. Paula McCord, Administrative Secretary, Mr. Bradley Watts, Assistant Principal and myself and will be handled as follows:

- The bank statement goes to the Principal unopened when it is received in the mail. The bank reconciliation report and ledger report go to the Principal for review and signature once the bookkeeper completes them.
- Any checks that are not cashed will be reported to the Division of Controller (DOC). Procedures for escheatment outlined in Appendix 1 of Chapter 20 of the MCPS Financial Manual will be followed.
- MCPS form 280-54, *Request for a Purchase*. The purpose of each disbursement will be fully explained on the form to ensure that expenditures comply with the IAF requirements. All documentation will be marked "Paid" and invoices signed by the receiver.

- The procedures for collecting funds by sponsors and the use of MCPS Form 280-34 will be reviewed and enforced with the staff.
- Mrs. McCord, administrative secretary, has registered to take the SFO Online School Payments training to reduce the workload of cash handling requirements.
- Field trip procedures have been restructured to include MCPS Form 280-41, *Field Trip Accounting*. Sponsors will record cost and fee information for each field trip and submit the data to the administrative secretary when the trip is completed.

CWL:pmc

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Internal Audit