


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

September 23, 2019

MEMORANDUM

To: Mr. Christopher A. Wynne, Principal
Dr. Martin Luther King, Jr. Middle School

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

Subject: Report on Audit of Independent Activity Funds for the Period
November 1, 2017, through June 30, 2019

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. They are responsible for ensuring that the IAFs are administered in accordance with Board of Education policies, 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 September 13, 2019, meeting with you and Ms. Denia M. Ramos, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated December 12, 2017, 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. It should be noted that the prior school financial specialist last day worked was May 8, 2019, and she is currently on long-term leave. It also should be noted that Ms. Ramos' assignment was effective July 19, 2019.

Findings and Recommendations

Effective internal control includes the receipt and review by the principal of the ledger reports and the bank reconciliation report to determine the agreement between these reports indicating accurate financial reporting and fiscal management of the IAFs. We found that the month end file contained

ledger reports that did not reflect the balances contained in the bank reconciliation report as prepared by the prior school financial specialist. We recommend examination and comparison of ledger reports with the bank reconciliation report to determine they are in balance and accurate as part of the important month end internal control process (refer to *MCPS Financial Manual*, chapter 20, page 9).

Reconciliation of the school's monthly bank checking account statement must be completed by a person independent of daily accounting transaction input. We found no clear evidence that the reconciliation was completed independent of the prior school financial specialist between September 2018 and April 2019. We recommend that a staff member be designated to perform the bank reconciliation each month as soon as all entries through the last day of the month have been recorded by the school financial specialist (refer to *MCPS Financial Manual*, chapter 20, page 9).

Dual control of the check and receipt stock had been established by having inventory stored in the front office with no access by the school financial specialist except through request to the administrative secretary. We found that when the prior school financial specialist ordered check stock for a change in banks (August 2018), the inventory was stored in the school financial specialist's office, weakening internal control. There also was a gap in the use of receipt numbers due to the prior school financial specialist ordering receipt stock without using the stock that had been stored with the administrative secretary. We recommend that blank check and receipt stock not in use by the financial agent to conduct daily business be adequately secured in a locked cabinet or safe to which the financial agent does not have access. Each box of blank stock not currently in use should be labeled and sealed so that any tampering would be obvious (refer to *MCPS Financial Manual*, chapter 20, page 7). A log should be maintained by the school financial specialist in order to use all stock in numerical order without gaps.

In order for the principal to make informed decisions on IAF fiscal management, it is important that expenses are correctly recorded. We found that the prior school financial specialist was using payable accounts to record purchase card expenses prior to the disbursement of IAFs to MCPS as repayment. At the time of repayment, there were incidents when the expense accounts were charged a second time instead of clearing the payables account. This caused overstated expenses in the IAF accounts. We recommend discontinuing the use of advanced expense reporting prior to disbursement unless there is a process in place that monitors the payable accounts for accurate follow-up transactions in order to reflect correct availability of IAF resources.

Summary of Recommendations

- Monthly bank statement review must include comparison to the ledger balances for agreement.
- There must be clear evidence that the bank reconciliation is completed by a person independent of daily accounting transaction input.

- Blank check and receipt stock, not in use by the financial agent to conduct daily business, is adequately secured in a locked cabinet or safe to which the financial agent does not have independent access.
- IAF must be managed in accordance with sound accounting practices.

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 Mrs. Michelle E. Schultze, director of learning, achievement, and administration, Office of School Support and Improvement. Based on the audit recommendations, Mrs. Schultze 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 school financial specialist to support you with developing a well-defined plan to address the findings.

MJB:KMH:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. Smith

Dr. McKnight

Dr. Navarro

Dr. Statham

Dr. Zuckerman

Mr. Civin

Dr. Johnson

Mr. Koutsos

Mrs. Camp

Mrs. Chen

Ms. Diamond

Mr. Tallur

Mrs. Schultze

Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

| | |
|---|---|
| Report Date: FY20 | Fiscal Year: FY20 |
| School: Martin Luther King MS - 107 | Principal: Christopher Wynne |
| OSSI Associate Superintendent: James Koustos | OSSI Director: Michelle Schultze |
| <p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period <u>11/1/17-6/30/19</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 |
|---|--|--|--|--|--|
| Ensure monthly bank statements review includes comparison to the ledger balances for agreement including the following steps: School Financial Specialist (SFS) will print the year to date report; Report will be submitted to principal for review; Principal will review the Year to Date Report and approve; Principal will confirm with SFS. | Principal and School Financial Specialist | -School Funds Online System Year to Date (Monthly Report) | Signed Year to Date (Monthly Report) by the Principal | Monthly by the Principal and School Financial Specialist | Signed Year to Date (Monthly Report) by the Principal |
| Ensure bank reconciliation is completed by the administrative secretary which is independent of daily accounting transaction input before submitting to the principal. | School Administrative Secretary School Financial Specialist | -Bank Statements -School Funds Online System | Monthly Review of statements by the administrative secretary Principal Monthly Review of statements and signature | Monthly by the Principal and School Financial Specialist | Bank reconciliation completed by the administrative secretary prior to principal submission for review |
| COMPLETED Secure blank check and receipt stock is secured in a locked cabinet which is located in the secured testing office which the financial agent does not have independent access. | School Administrative Secretary School Financial Specialist | -Secure Location-locked testing office. -Check Sign Out Log | Check Sign Out Log located in the secured testing office | Monthly by the Principal School Administrative Secretary | Check Sign Out Log |
| Processes established will structure work flow to ensure control and appropriate oversight of IAF and monitor transactions activity in order to ensure transactions are recorded accurately. The use of MCPS accounts payable has been discontinued effective: September 16, 2019. | Principal and School Financial Specialist | -IAF Transfer Form 286-41 | Transfer Form Bi-Weekly meetings with the Principal and School Financial Specialist | Monthly by the Principal and School Financial Specialist | IAF transfer form reviewed and signed by the principal. The discontinued use of MCPS accounts payable. |

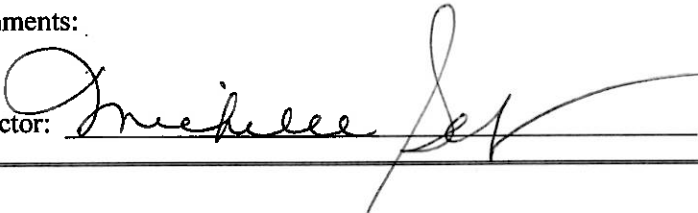
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OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL

Approved

 Please revise and resubmit plan by _____

Comments:

Director: 

 Date: 10-10-19