


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

June 6, 2018

MEMORANDUM

To: Ms. Renee D. Wallace-Stevens, Principal
North Chevy Chase Elementary School

From: Roger W. Pisha, Supervisor, Internal Audit Unit 

Subject: Report on Audit of Independent Activity Funds for the Period
April 1, 2015 through April 30, 2018

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 May 23, 2018, meeting with you and Ms. Christina H. Haynes, school administrative secretary, we reviewed the status of the conditions described in our prior audit report dated May 8, 2015, 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

School Finance Training, Part I, is recommended for principals every three years, and both Parts I and II are recommended for school administrative secretaries every three years (refer to *MCPS Financial Manual*, chapter 1, page 10). We noted that it has been more than three years since you and your school administrative secretary attended finance training. We recommend that you both

attend School Finance Training, Part I, and that your school administrative secretary also attend School Finance Training, Part II, as soon as possible.

The General Ledger Report should be prepared and given to you no later than the 20th day following the close of each month. Your review of these reports is critical to management of the IAF so that sound business decisions can be made when requests for purchases are submitted. Your review of reports should alert you to large negative balances, and prompt you to take timely corrective action to eliminate the cause of such negative balances (refer to *MCPS Financial Manual*, chapter 20, pp. 10 and 12). We found that many accounts had negative balances without a plan to determine and eliminate the cause of the negative balance. We recommend that you develop a plan for reducing the negatives balances and in the future only carry negative balances when a clear funding plan is in place so that reports accurately present the IAF financial position.

Transfers of funds between general ledger accounts may be made only after MCPS Form 281-46, *Independent Activity Funds – Transfer*, has been executed by both the account sponsor and the principal. Transfers must be fully documented and adhere to MCPS guidelines for allowable uses of funds (refer to *MCPS Financial Manual*, Chapter 20, page 10). We found instances where funds were transferred to inappropriate accounts or supporting documentation was not adequate. We recommend that transfers are reviewed to ensure that requests are supported by proper documentation, and that transfers meet requirements for appropriate use of funds, prior to presenting requests to the principal for approval.

MCPS Form 280-54, *Independent Activity Funds Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase. 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 the IAF requirements (refer to *MCPS Financial Manual*, chapter 20, page 4). In our sample of disbursements, prior approval was not consistently obtained. By requiring prior approval, the principal retains control over the expenditure of IAF funds. We recommend that MCPS Form 280-54 be prepared by staff and signed by the principal at the time verbal approval is sought.

If an independent contractor is not currently listed in School Funds Online (SFO) as a districtwide vendor, IRS Form W-9 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 in compliance with federal tax reporting requirement (refer to MCPS Regulation DIA-RB, *Payment for Services and Reimbursements for Expenses from School independent Activity Funds*). Among your disbursements, we found that payments for services to independent contractors 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 *MCPS Financial Manual*, chapter 20, page 15).

Controls over cash receipts need improvement. We noted that staff collecting funds for field trips were holding rather than remitting them timely to the school administrative secretary. We also noted that the school administrative secretary was not always making timely deposits and was holding money in excess of permitted amounts. Infrequent deposits increase the possibility of a

loss of funds, diminish the schools ability to fund activities, and are contrary to the *MCPS Financial Manual*. To minimize the risk of loss and provide assurance that available funds will be fully utilized to meet school needs, we recommend that all funds collected should be remitted to the school administrative secretary daily. We also recommend that the school administrative secretary make regular deposits to the bank whenever funds exceed the allowable limit, and before each weekend, each holiday and on the last day of the month (refer to *MCPS Financial Manual*, chapter 7, page 4).

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. We found that there was a lack of adherence to these guidelines. Following these internal control procedures provides for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event. We recommend that each fund raiser be approved by the principal in writing prior to the start of any fund-raising activity and the approval be retained in the school office. Financial activities for each fund-raising activity should be recorded in a separate account in the 7000 series and a completion report prepared that analyzes the results (refer to *MCPS Financial Manual*, chapter 20, page 13).

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips, and Student Organization Trips*. Trip approval forms signed by the principal, and the director of school support and improvement, when required, should be retained. Sponsors of field trips should have a complete class or club roster of student names to annotate the amount each student paid, date paid, eligible students who did not participate in the trip, and students who received waivers, scholarships, or reduced fees. This data together with a list of all chaperones and volunteers should be provided to the school administrative secretary at the completion of each trip, and compared to remittances recorded in the trip account history report (refer to *MCPS Financial Manual*, chapter 20, page 10). We found that not all sponsors are providing completed data at the conclusion of each trip, and that data is not being compared to the final account history report. We recommend that all sponsors be required to use MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and follow the procedures outlined above.

Summary of Recommendations

- Principal and school administrative secretary should attend refresher School Finance Training.
- IAF should be managed to reduce and eliminate negative account balances.
- Transfers between accounts should be fully documented and adhere to MCPS guidelines for allowable uses of funds.
- Purchase requests must be approved by the principal prior to procurement (**repeat**).
- Independent contractor payments must comply with MCPS Regulation DIA-RB.
- Funds must be promptly remitted by sponsors and promptly verified, receipted, and deposited in the bank by the school administrative secretary (**repeat**).
- Fund-raisers must be approved by the principal prior to advertising or conducting the activity and must conform to *Guidelines for Sponsoring an IAF Fund Raiser* (**repeat**).

- 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)**.

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 Ms. Cheryl L. Smith, director of school support and improvement of elementary schools. Based on the audit recommendations, Ms. Smith 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 agent to support you with developing a well-defined plan to address the findings.

RWP:SMY: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

Mrs. Dyson

Mr. Tallur


Mr. Ikheloa

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: 2018	Fiscal Year: 2018
School: North Chevy Chase ES - 415	Principal: Renee Wallace-Stevens
OSSI Associate Superintendent: Cheryl Dyson	OSSI Director:
<p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period <u>4/1/15 - 4/30/18</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
The principal and administrative secretary will sign up for and attend financial training refresher classes as soon as they are posted on PDO	admin. secty.	access to class	N/A	admin. secty. daily	waiting for classes to post
IAF accounts will be monitored and accounts with negative balances will be corrected and or removed	admin. secty. visiting bookkeeper	N/A	IAF reports	admin. secty., visiting bookkeeper principal performed monthly	IAF reports without negative reports
All transfers between accounts will have full and complete explanations for the transfers	admin. secty.	N/A	IAF report	admin secty., principal as needed	after meeting with auditor the admin. secty. started giving complete explanation for transers
Purchase request form #280-54 must be completed even when verbal approval is given by the principal in advance to the purchase being made.	admin secty, principal, staff mubr requesting purchase	form 280-54	N/A	admin secty, principal	receipts dated after dates on form 280-54

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Independent contractor payments will be made only after checking SFO and obtaining a W9 from the vendor and forwarding it to the DOC.	principal	N/A	SFO, W9's, IAF manual	principal, admin secty ad needed	ongoing
Sponsors will be reminded the importance of submitting funds collected for an IAF along with form 280-41 properly completed with date and signature to the admin secretary daily.	sponsors, administrative secretary	N/A	IAF reports	admin. secretary, principal, sponsors, VB...ongoing	Principal will check the deposit when signing for signatures and dates. VB will compare bank statement to deposits
Fund Raising done by school staff will only happen when all forms have been properly submitted to and signed by the principal. Advertising and request for purchases will not begin until the sponsor can show proper completed paperwork for fund raiser.	sponsors, admin secty, principal	Fund Raising Manual	N/A	Sponsor, admin secty, principal, VB	Fully completed fund raising forms and documents supporting the event
Field trip sponsors will complete updated request form including the total cost per student. Sponsor will also be responsible for reconciling all form 281-41 from teachers and verifying funds from teachers for students who are participating /participated.	FT sponsor, admin secty, principal	Updated MCPS FT guidelines	IAF report, form 281-41	sponsors, admin sectary, principal when needed	ongoing

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: 	Date: <u>7.9.2018</u>