


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

June 25, 2018

MEMORANDUM

To: Mr. James N. D'Andrea, Principal
Northwest High School

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

Subject: Report on Audit of Independent Activity Funds for the Period
February 1, 2017, 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 meeting on June 15, 2018, with you, Ms. Kristen M. Range, assistant principal; Ms. Robin L. Wheeler, assistant principal; Mrs. Lori C. Knight, school business administrator; and Mrs. Kathy L. Serbin, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 15, 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.

Findings and Recommendations

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 IAF requirements (refer to *MCPS Financial Manual*,

chapter 20, page 4). In our sample of disbursements, we noted that prior approval was not consistently obtained. We further noted a disbursement made prior to receipt of the goods purchased, a disbursement made without adequate receipt documentation, and an advance of funds disbursed on February 22, 2017, for a purchase that was not settled until May 2, 2017. We recommend that MCPS Form 280-54 be prepared by staff and signed by you prior to procurement, disbursements do not occur prior to the receipt of goods purchased, and advance payments be monitored for timely return of unspent funds and original receipts to document purchases.

Timely reporting of accounting transactions as part of monitoring financial data is an important aspect of internal control. Deposits from Online School Payments (OSP) are made to individual school checking accounts on the 1st and 16th day of every month (refer to *MCPS Financial Manual*, chapter 20, page 39). Billing statements for iReceivables are generated on the 1st day of each calendar month (refer to *MCPS Financial Manual*, chapter 14, pages 5-6). We found that OSP receipts and iReceivable payments are being recorded late in the School Funds Online (SFO) IAF accounting system. We recommend that OSP and iReceivable transactions be posted timely in SFO so that IAF records more accurately reflect the actual balance of funds available in the school's checking account.

An ongoing business of baking and selling cookies to students during the school day has continued to be accounted for as a fund-raiser when this operation should be recorded as a business activity in a 2000 series SFO account with a profit and loss statement prepared annually. We found that MCPS procurement has not been involved in the purchase of the cookie dough, which averages \$18,453 per year. In accordance with MCPS Regulation JPG-RA, *Wellness: Physical and Nutritional Health*, food and beverages available for sale to students outside of the school meal program should make a positive contribution to the students' diet and promote health. We found that the cookie currently being sold is not compliant with nutritional guidelines contained in this regulation. We recommend contacting MCPS procurement to obtain guidance regarding the method for this level of purchase and seeking support from MCPS Division of Food and Nutrition Services regarding the selection of a compliant cookie.

If, in the calendar year, the total payment due to an independent contractor for project work is \$1,500 or more, a purchase order must be created (refer to *MCPS Financial Manual*, chapter 15, page 2). We noted that an independent contractor performing field maintenance is being paid an average of \$6,900 per year directly from IAF funds without creating a purchase order. We recommend compliance with MCPS requirements by creating a purchase order in the Financial Management System for independent contractor work that is \$1,500 or more in a calendar year.

MCPS Regulation DMB-RA, *Control of Admission Receipts*, sets forth procedures for the control of admission receipts for school events. The accounting for these events must be controlled with serially numbered tickets, separation of duties, use of the required MCPS Form 280-50, *Tickets and Cash Report of Admissions Manager*, for tracking and reconciling sales, and perpetual inventory of tickets (refer to *MCPS Financial Manual*, chapter 20, page 13). We noted an admission event in which money is collected, but tickets are not used. Due to invited attendees, who are not required to pay an admission, the cost of this event is supplemented with general IAF funds. We recommend that admission to all events be controlled in accordance with the above

cited regulation and a list of attendees not required to pay an admission be provided as part of documentation to account for the use of general IAF funds.

Summary of Recommendations

- Purchase requests must be approved by the principal prior to procurement (**repeat**).
- Purchase documentation must be adequate to support disbursements (**repeat**).
- Internal control processes must ensure that IAF underlying data and assets are complete, reliable, and timely.
- An ongoing business must follow MCPS procurement guidelines and use of a business account in IAF with a Profit and Loss statement prepared at fiscal yearend.
- Baking a food item requires compliance with MCPS Regulation JPG-RA.
- Contracted services exceeding \$1,500 annually are secured through an MCPS purchase order.
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA

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. Brian W. Scriven, director of school support and improvement of high schools. Based on the audit recommendations, Mr. Scriven 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:KMH:lsh

Attachment

Copy to:

Members of the Board of Education
Dr. Smith
Dr. Navarro
Dr. Statham
Dr. Zuckerman
Mr. Civin
Dr. Johnson
Dr. Williams
Mrs. Camp
Mrs. Chen

Ms. Diamond
Mr. Scriven
Mr. Tallur
Mr. Ikheloa

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: 2017-2018

Fiscal Year: 2017-2018

School: Northwest HS - 246

Principal: Jimmy D'Andrea

OSSI

Associate Superintendent: Darryl Williams

OSSI

Director: Brian Scriven

Strategic Improvement Focus:

As noted in the financial audit for the period 2/2017 - 4/2018, strategic improvements are required in the following business processes :

Approval and documentation of purchases; business activities during the school day; contracted services; and tickets for admissions events

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Continue to meet with those making purchases to review the required procedure for preapproval of purchases as well the necessary documentation to support purchases. Make sure documents are marked paid when the purchasing process is complete as well as collect change and receipts	Financial Specialist	Summary of processes to give to staff (part of NW business office handbook)	All purchases will be pre-approved. All purchases will have adequate documentation to support disbursements.	School Business Administrator (Monthly) Principal (Quarterly)	Preapproved check requests with required attachments. Preapproval memos and budgets will continue to be implemented.
Check the bank statement on a daily basis and post OSP (Online School Payments) receipts and iReceivable payments on a regular basis prior to reconciling the bank statement.	Financial Specialist	Bank Statement Online School Payments (OSP)	OSP and iReceivable payments will be posted in a timely manner.	School Business Administrator (Monthly) Principal (Quarterly)	OSP and iReceivable Postings
Contact procurement to obtain quotes from various cookie vendors, and contact food services to verify compliance with regulation JPG-RA. Funds will be transferred to a business account.	School Business Administrator Financial Specialist	Quotes from Vendors Reg JPG-RA	A cookie will be selected through procurement, and the cookie will be compliant with Reg JPG-RA. Also, the funds will be maintained in a business account.	Principal August 15, 2018	Cookie account will be moved from the 7530 series to the 2000 series. Nutritional information for the new cookie will be kept on file.
Meet with athletic director to review the field maintenance needs for the upcoming school year to determine if contractor will be paid in excess of \$1500 again. If so, create a purchase order.	Financial Specialist	Athletic Director	A purchase order will be created if field maintenance is expected to cost more than \$1500 for the school year.	School Business Administrator August 15, 2018	Services will be encumbered on a purchase order along with Form #280-49a if total for the year is over \$1500.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Tickets for the Top 25 Dinner will be sold in accordance with regulation DMB-RA.	Event Sponsor School Business Administrator	Tickets	Tickets will be sold beginning in February 2019.	Principal March 2019	Top 25 Dinner will be accounted for using Form #280-50 and MCPS tickets.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input checked="" type="checkbox"/> Approved Comments:	<input type="checkbox"/> Please revise and resubmit plan by _____
Director: <u></u>	Date: <u>6/27/2018</u>