

Office of Shared Accountability  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

November 18, 2013

MEMORANDUM

To: Mr. Edward K. Owusu, Principal  
Shady Grove Middle School

From: Roger W. Pisha, Supervisor, Internal Audit *RP*

Subject: Report on Audit of Independent Activity Funds for the Period  
November 1, 2011, through August 31, 2013

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 November 6, 2013, with you and Mrs. Sharon Buyukcan, financial specialist, we reviewed the status of the conditions described in our prior audit report dated December 2, 2011, 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 monitoring of cash operations by the financial staff. We found a serious lack of control over these operations that included sponsors of accounts not signing transfer forms when needed, sponsor account reports not always signed and returned by



sponsors, transactions that had been altered after checks or receipts had been printed, and improper resolution of errors without researching the cause of the discrepancy. We recommend you initiate a monitoring processes to ensure that financial staff review MCPS regulations, financial manual, and other publications to ensure that cash operations are in compliance (see MCPS Financial Manual, p. 20-1).

In a similar manner, we found that bank reconciliations did not conform to the prescribed procedure, and as a result, accounting errors sometimes went undetected. At first glance, bank reconciliations appeared to be in balance, but further examination revealed an unrelated transaction had been recorded or an existing transaction adjusted to force reconciliations to balance. A monthly bank statement reconciliation must be performed by a staff member independent of financial operations. We recommend that you review the bank reconciliation process to assure the monthly reconciliations are completed independently, and that any discrepancies are appropriately resolved (See MCPS Financial Manual, pp. 20-9).

MCPS Form 280-54, *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. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. In our sample of disbursements, we found that many disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. In addition, we found numerous errors including duplicate and overpayments. By requiring complete documentation and review of invoices by the financial specialist before issuing checks, the principal retains control over the expenditure of IAF funds. Action is needed to correct these conditions and bring purchasing into conformity with MCPS requirements (see MCPS Financial Manual, p. 20-5).

In order to properly control receipts, account sponsors should promptly remit funds to the financial office accompanied by MCPS Form 280-34, *MCPS Remittance Slip*. Funds should be jointly counted with the financial specialist, and a pre-numbered receipt issued to the remitter. If a sponsor is unable to jointly count funds at the time they are remitted, cash and checks should be securely sealed in a manner as to prevent tampering, and then unsealed and counted in the presence of the financial specialist and sponsor as soon as possible on the next business day. We again found that staff collecting funds for field trips and other activities were holding funds rather than remitting them timely to the financial specialist. Proceeds from evening ticketed events were remitted by administrators to the financial specialist, who counted the funds without the sponsor present. We found that the financial specialist often made pen and ink changes to amounts and dates collected by sponsors on remittance forms without the concurrence of the sponsor, and the financial specialist often completed and signed remittance forms for sponsors. The cash section of bank deposit slips was frequently corrected, and we found two instances where cash deposited to the school's bank account was less than amounts remitted by sponsors.



To improve controls, we recommend adoption of the procedures in the MCPS Financial Manual, pp. 7-3, 7-4.

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. Although most sponsors are submitting fund-raiser request forms and completion reports that are being signed by the financial specialist and you, the correct forms were not in use. Most of the forms being used were not properly completed to indicate evidence that results had been analyzed by financial staff to ensure that all funds due to the school had been remitted, remaining inventories had been accounted for and secured, and any losses or discrepancies explained. We recommend following internal control procedures to provide for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event.

The yearbook sponsor is required to keep detailed records of the number of books sold, the price charged, and the number of books distributed free of charge (see MCPS Financial Manual, p. 20-11). These records should be submitted to the financial office for reconciliation of the activity. Our review of the yearbook activity found that although the vendor had issued a credit to the school that resulted from online sales transactions from the vendor's web site, the school did not pursue an additional credit for the return of unsold books, even though the school had sustained an overall loss due to insufficient sales. Since you now have a new sponsor for the current yearbook activity, we recommend that you review responsibilities and expectations with this new sponsor to ensure effective control of the activity.

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 financial specialist when a trip is completed. The financial specialist should compare this data to actual receipts and resolve any differences with the sponsor. The record of the names of participants and sums collected provides assurance that all field trip fees have been remitted. Review of field trip activities revealed that sponsors provided cost and fee information as funds were collected and remitted, but we found final comprehensive financial information on file for only two of four trips reviewed, and those did not appear to have been analyzed by the financial specialist. Many trips appeared to have been subsidized from other school accounts, but it is unclear if the subsidies were planned, or if they were necessary due to unexpected shortfalls. We recommend all sponsors be required to use Form 280-41, or equivalent, and follow the procedures outlined above. In addition, we recommend that the financial specialist complete a reconciliation of field trip activity as soon as the final comprehensive data is received from the sponsor (see MCPS Financial Manual, p. 20-9).

MCPS Regulation DMB-RA, *Control of Admission Receipts*, provides requirements for the accounting for sales of admission tickets. In our review of admission events, we found control weaknesses including an incomplete perpetual inventory of tickets that did not correspond to any of the ticket rolls found in the financial office, and use of reserved tickets for drama productions that were not printed until after sales were completed. Also, we found that MCPS Form 280-50,



*Tickets and Cash Report of Admissions Manager*, was not signed by the ticket controller with a copy given to the admissions manager when tickets were issued, and was used merely to list tickets sold and not as a reconciliation of tickets issued to tickets returned and recorded receipts. We recommend that admission to all events be controlled in accordance with the above cited regulation.

#### Summary of Recommendations

- Effective internal control includes monitoring of cash operations by the financial staff;
- Account sponsors should review and sign transfer forms and monthly sponsor reports;
- Manage IAF in accordance with sound accounting practices and effective internal control procedures;
- Bank reconciliations should be performed by staff independent of financial operations;
- Disbursements must be fully documented and support amounts paid;
- Receipt of goods or services must be confirmed prior to disbursement;
- Posting errors and out-of-balance situations must be appropriately researched and resolved;
- Receipts must be remitted promptly by account sponsors (repeat) and counted jointly with the financial specialist;
- Discrepancies in remittances must be resolved with account sponsors, and changes to remittance forms initialed by sponsors prior to recording of receipts and deposit of funds to the bank;
- Fundraiser completion reports prepared by sponsors must provide sufficient information to analyze results and ensure all funds due to the school have been remitted;
- Yearbook activity must be properly analyzed;
- 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; and
- Admission activities must adhere to the MCPS regulation.

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 Dr. Darryl L. Williams, associate superintendent of middle schools. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:sd

Copy to:

Mr. Bowers  
Dr. Statham  
Dr. Schiavino-Narvaez  
Mr. Sanderson  
Dr. Williams  
Mrs. DeGraba  
Mrs. Milwit  
Mrs. Chen




“Give your best every day and your best will come back to you.”

December 12, 2013

MEMORANDUM

To: Mr. Roger W. Pisha, Supervisor Internal Audit

From: Mr. Edward Owusu, Principal 

Subject: Response to Report on Audit of Independent Activity Funds for the Period  
November 1, 2011, through August 31, 2013

CC: Dr. Darryl Williams, Community Superintendent

As a result of findings from the Report on Audit of Independent Activity Funds for the Period November 1, 2011, through August 31, 2013, Independent Activity Fund (IAFs) reporting procedures have been revised and reviewed with staff.

As discussed with and noted by Ms. Dena Horton, the internal auditor, at the exit conference, significant and consistent improvements will be made from this point forward. My thanks to Ms. Horton for her thoroughness in her report and for taking the time to meet with several staff members to explain policies and procedures and the reasoning behind them.

The findings and recommendations of the report are addressed in the order they appear on the attached Fiscal Management Action Plan.

Thank you for your support and assistance in my efforts to keep Shady Grove Middle School on firm fiduciary reporting ground. Although I was disheartened by the initial report I am pleased by the burgeoning implementation of significant improvements of management and accountability. I hope to continue to be able to call upon you and the services of your office to further improve the handling of Shady Grove's IAF reporting.

If you have any additional questions or need clarification, please let me know.

Copy to:

Mr. Bowers  
Dr. Statham  
Dr. Schiavino-Narvaez  
Mr. Sanderson  
Dr. Williams  
Mrs. DeGraba  
Mrs. Milwit  
Mrs. Chen



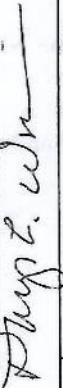
Fiscal Management Action Plan

School: Shady Grove Middle School

Principal: Edward Owusu

Approved by associate superintendent: Dr. Darryl Williams

Date of approval: 12/12/13



| Findings and Recommendations of School's Financial Report  | Description of Resolution And Person(s) Responsible   | Timeline  | Evidence of Completion   |
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| <p><b>Findings:</b> Lack of control over operations that included sponsors of accounts not signing transfer forms when needed, sponsor account reports not always signed and returned by sponsors, transactions that had been altered after checks or receipts had been printed, and improper resolution of errors without researching the cause of the discrepancy.</p> <p><b>Recommendations:</b> Initiation of a monitoring processes to ensure that financial staff review MCPS regulations, financial manual, and other publications to ensure that cash operations are in compliance</p> | <ul style="list-style-type: none"> <li>Financial Specialist will provide written correspondence via email and in print, requiring sponsors to sign and return transfer forms within 48 hours during the school day.</li> <li>Sponsors will review MCPS guidelines and process map.</li> <li>Monthly, sponsors are provided a report of their accounts. All sponsors have been reminded of their responsibility to review the report and return promptly. Written correspondence reminders are sent out to sponsor end of the month. Financial Specialist will create an internal monitoring process map and continue to monitor and collect reports in a timely manner.</li> <li>Sponsors will be required to complete form 280-34 (Independent Activity Fund Remittance Slip) within Financial Office.</li> <li>Financial Specialist has been required to retake School Finance Basic Training course for School Financial Agents.</li> <li>Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be</li> </ul> | <ul style="list-style-type: none"> <li>By the 5<sup>th</sup> of every month</li> <li>Ongoing</li> <li>By the 5<sup>th</sup> of every month</li> <li>Ongoing</li> <li>In Process</li> <li>Ongoing</li> </ul> | <p>Completed and ongoing ~ Monthly email reminders communicated to sponsors and administration.</p> <p>Monthly email reminders communicated to sponsors and administration. Report log will be updated monthly to track sponsor review of reports.</p> <p>Training has been scheduled for Feb 2014.</p> <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p> |

|  | included as part of follow-up or Action Items)  |  |  |
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| <p><u>Findings:</u> Bank reconciliations did not conform to the prescribed procedure, and as a result, accounting errors sometimes went undetected. At first glance, bank reconciliations appeared to be in balance, but further examination revealed an unrelated transaction had been recorded or an existing transaction adjusted to force reconciliations to balance. A monthly bank statement reconciliation must be performed by a staff member independent of financial operations.</p> <p><u>Recommendation:</u> We recommend that you review the bank reconciliation process to assure the monthly reconciliations are completed independently, and that any discrepancies are appropriately resolved</p> | <ul style="list-style-type: none"> <li>• Administrative Assistant has now been trained in SFO (School Funds Online) and will complete bank reconciliations as per procedures.</li> <li>• Financial Specialist has been required to retake School Finance Basic Training course for School Financial Agents.</li> <li>• Financial Specialist has been required to visit and monitor recommended Financial Specialist.</li> <li>• Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</li> </ul> | <ul style="list-style-type: none"> <li>• Completed</li> <li>• In Process</li> <li>• In Process</li> <li>• On Going</li> </ul>    | <p>Administrative Assistant has been trained on SFO and will complete monthly reconciliations.</p> <p>Training has been scheduled for Feb 2014.</p> <p>Shadowing/mentoring opportunity has begun. Visits have been scheduled to occur during the 2014 year.</p> <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p> |
| <p><u>Findings:</u> Disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. Numerous errors including duplicate and overpayments.</p> <p><u>Recommendation:</u> Require complete documentation and review of invoices by the Financial Specialist before issuing checks.</p>   | <ul style="list-style-type: none"> <li>• An internal process map will be created to allow for greater detail which will be required for all disbursement/expenditures.</li> <li>• Invoices shall be signed by receiver.</li> <li>• Financial Specialist has been required to retake School Finance Basic Training course for School Financial Agents.</li> <li>• Financial Specialist has been required to visit and monitor recommended Financial Specialist.</li> </ul>   | <ul style="list-style-type: none"> <li>• In Process</li> <li>• In Process</li> <li>• In Process</li> <li>• In Process</li> </ul> | <p>Process map will be initialed and verified by Financial Specialist and Principal.</p> <p>All invoices will be reviewed and signed by receiver.</p> <p>Training has been scheduled for Feb 2014</p> <p>Shadowing/mentoring opportunity has begun. Visits have been scheduled to occur during the 2014 year.</p>  |



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| <p><b>Findings:</b> Staff collecting funds for field trips and other activities were holding funds rather than remitting them timely to the financial specialist. Proceeds from evening ticketed events were remitted by administrators to the financial specialist, who counted the funds without the sponsor present. We found that the financial specialist often made pen and ink changes to amounts and dates collected by sponsors on remittance forms without the concurrence of the sponsor, and the financial specialist often completed and signed remittance forms for sponsors. The cash section of bank deposit slips was frequently corrected, and we found two instances where cash deposited to the school's bank account was less than amounts remitted by sponsors.</p> <p><b>Recommendation:</b> Funds should be jointly counted with the financial specialist, and a pre-numbered receipt issued to the remitter. If a sponsor is unable to jointly count funds at the time they are remitted. Cash and checks should be securely sealed in a manner as to prevent tampering and then unsealed and counted in the presence of the financial specialist and</p> | <ul style="list-style-type: none"> <li>Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</li> </ul>   | <ul style="list-style-type: none"> <li>Ongoing</li> </ul>                                   | <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p>   |
| <p>Funds shall be jointly counted with the financial specialist, and a pre-numbered receipt issued to the remitter.</p> <p>Cash and checks shall be securely sealed in a manner as to prevent tampering and then unsealed and counted in the presence of the financial specialist and sponsor as soon as possible on the next business day.</p> <p>Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</p>  | <ul style="list-style-type: none"> <li>Funds shall be jointly counted with the financial specialist, and a pre-numbered receipt issued to the remitter.</li> <li>Cash and checks shall be securely sealed in a manner as to prevent tampering and then unsealed and counted in the presence of the financial specialist and sponsor as soon as possible on the next business day.</li> <li>Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</li> </ul> | <ul style="list-style-type: none"> <li>Ongoing</li> <li>Ongoing</li> <li>Ongoing</li> </ul> | <p>Funds shall be counted in front of sponsor and Financial Specialist and remittance receipt issued.</p> <p>All funds shall be sealed and turned over to Financial Specialist or administration to be recounted. All sponsors have been updated on new policy changes.</p> <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p> |

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| <p>sponsor as soon as possible on the next business day.</p>  | <p><b>Findings:</b> Although most sponsors are submitting fund-raiser request forms and completion reports that are being signed by the financial specialist and principal, the correct forms were not in use. Most of the forms being used were not properly completed to indicate evidence that results had been analyzed by financial staff to ensure that all funds due to the school had been remitted, remaining inventories had been accounted for and secured, and any losses or discrepancies explained.</p> <p><b>Recommendation:</b> Follow internal control procedures to provide for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event</p> | <ul style="list-style-type: none"> <li>• Correct forms will be obtained and used.</li> <li>• Financial Specialist will create an internal monitoring process map to ensure that all funds due to the school have been remitted, remaining inventories have been accounted for and secured, and any losses or discrepancies explained.</li> <li>• Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</li> </ul> | <ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> </ul>  | <p>Completed and ongoing ~ Forms have all been updated and provided to sponsors.</p> <p>Process map will be initiated and verified by Financial Specialist and Principal.</p> <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p> |
| <p><b>Findings:</b> Review of the yearbook activity found that although the vendor had issued a credit to the school that resulted from online sales transactions from the vendor's web site, the school did not pursue an additional credit for the return of unsold books, even though the school had sustained an overall loss due to insufficient sales.</p> <p><b>Recommendations:</b> Review responsibilities and expectations with</p> | <ul style="list-style-type: none"> <li>• An additional credit has been issued for the 2014 yearbook sales. Financial Specialist will review fiscal responsibility with new yearbook advisor on yearbook activity and responsibilities.</li> </ul>  | <ul style="list-style-type: none"> <li>• Ongoing</li> </ul>  | <p>Completed and ongoing ~ Credit has been issued. Monthly meetings have been scheduled with Yearbook Sponsor to review sales and account information.</p> |  |



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| <p>sponsor to ensure effective control of the activity.</p>   |   |  |  |
| <p><u>Findings:</u> Review of field trip activities revealed that sponsors provided cost and fee information as funds were collected and remitted, but auditors found final comprehensive financial information on file for only two of four trips reviewed, and those did not appear to have been analyzed by the financial specialist. Many trips appeared to have been subsidized from other school accounts, but it is unclear if the subsidies were planned, or if they were necessary due to unexpected shortfalls.</p> <p><u>Recommendations:</u> Sponsors should record cost and fee information for each field trip on MCPS Form 280-4 I, Field Trip Accounting, or equivalent, and submit the data to the financial specialist when a trip is completed. The financial specialist should compare this data to actual receipts and resolve any differences with the sponsor. The record of the names of participants and sums collected provides assurance that all field trip fees have been remitted. In addition, we recommend that the financial specialist complete a reconciliation of field trip activity as soon as the final comprehensive data is received from the sponsor.</p> | <ul style="list-style-type: none"> <li>• Sponsors will be required to record cost and fee information for each field trip on MCPS Form 280-4 I, Field Trip Accounting, or equivalent, and submit the data to the financial specialist when a trip is completed.</li> <li>• The financial specialist shall complete a reconciliation of field trip activity as soon as the final comprehensive data is received from the sponsor.</li> <li>• Financial specialist will note where extra funding will be taken from to pay for any field trip shortfalls in advance. This will be indicated with principal's approval.</li> <li>• Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</li> </ul> | <ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> </ul> | <p>Field Trip Forms have been updated and provided to sponsors.</p> <p>Reconciliation report will be submitted to Principal for review.</p> <p>Completed and ongoing ~ Field Trip Checklist have been updated to indicate principal's approval of extra funding for field trip shortfalls in advance.</p> <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p> |

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| <p><b>Findings:</b> In our review of admission events, we found control weaknesses including an incomplete perpetual inventory of tickets that did not correspond to any of the ticket rolls found in the financial office, and use of reserved tickets for drama productions that were not printed until after sales were completed. Also, we found that MCPS Form 280-50, Tickets and Cash Report of Admissions Manager, was not signed by the ticket controller with a copy given to the admissions manager when tickets were issued, and was used merely to list tickets sold and not as a reconciliation of tickets issued to tickets returned and recorded receipts.</p> <p><b>Recommendation:</b> MCPS Regulation DMB-RA, Control of Admission Receipts, provides requirements for the accounting for sales of admission tickets. Auditors recommend that admission to all events be controlled in accordance with the above cited regulation</p> | <ul style="list-style-type: none"> <li>• A new set of tickets have been acquired and financial specialist will have an electronic log of all tickets rolls and tickets sold for an event. Any reserved tickets will be stored in the Financial Office.</li> <li>• Financial specialist will review fundraising procedures with sponsors regarding correct forms and completion of reports.</li> <li>• Financial Specialist will work with Drama Sponsor to create a process map for fidelity of procedures.</li> <li>• Financial Specialist and Principal will meet weekly to review accounts according to process map to include IAF, textbook and instructional material accounts. (Conference summaries will be included as part of follow-up or Action Items)</li> </ul> | <ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> </ul> | <p>Completed and ongoing ~ New tickets have been purchased and issued. An electronic log has been updated as per Auditors request.</p> <p>Use of newly created process map will be implemented with fidelity.</p> <p>Drama Fundraiser Checklist/process map has been updated as per Auditors Request.</p> <p>Weekly meetings have been scheduled with Financial Specialist and Principal. Conference summaries will be included as part of follow-up or Action Items</p> |
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*Note: A copy of the approved plan is to be sent to the Internal Audit Office, CESC, Room 11.*