


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

March 23, 2018

MEMORANDUM

To: Dr. Alana D. Murray, Principal
Shady Grove Middle School

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

Subject: Report on Audit of Independent Activity Funds for the Period
January 1, 2017, through January 31, 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 March 12, 2018, meeting with you, Mrs. Elizabeth L. Thomas, director of school support and improvement of middle schools; and Mrs. Charlease D. Hyman, school administrative secretary, we reviewed the status of the conditions described in our prior audit report dated January 26, 2017, and the status of present conditions. It should be noted that your appointment as principal was effective July 1, 2017. It should also be noted that your school financial specialist, Mrs. Sharon A. Buyukcan, had not attended Part II of School Finance Basis Training and we strongly recommend that she sign up for the May 7, 2018 class. 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

Transfers of funds between general ledger accounts may be executed only after MCPS Form 281-46, *Independent Activity Funds – Transfer*, has been signed by both the account sponsor and the principal. They must be fully documented and adhere to MCPS guidelines for allowable uses of funds (refer to *MCPS Financial Manual*, chapter 20, page 12). We found instances where MCPS Forms 281-46 were not always prepared or signed by sponsors to indicate approval as well as instances where funds were transferred to inappropriate accounts or supporting documentation was not adequate. We also found that surplus balances in accounts were often transferred to other accounts without first determining the reason for the surplus balance. We recommend that transfers of funds be reviewed to ensure that requests are supported by proper documentation, and that they meet requirements for appropriate use of funds, prior to presenting requests to the principal for approval.

Reconciliation of the school's monthly bank checking account statement must be completed by a person who is independent of daily accounting transaction input. Monthly reports, including the bank reconciliation, are to be presented to the principal no later than the 20th of the month following the close of each month. The principal shall review these reports, sign and date them to indicate this review, and return them to the school financial specialist to be filed with other monthly reports (refer to *MCPS Financial Manual*, chapter 20, pp. 9 and 31). We found that bank reconciliations were not completed on time for seven of the past twelve months. 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, and that this be completed no later than the 20th of each month.

Uncashed checks are considered abandoned property that, by law, belong to the state. The uncashed checks disbursed from a school's IAF must be reported to the Division of Controller (DOC) for inclusion in the annual MCPS escheatment filing in which these funds are remitted to the state of Maryland (refer to *MCPS Financial Manual*, chapter 18, page 2). We noted four uncashed checks on your December 2017 bank reconciliation that had not been reported to the DOC. Two of these checks were to a staff member. We recommend compliance with state law for the escheatment of uncashed checks. School Funds Online accounting procedures for escheatment are found in the *MCPS Financial Manual*, chapter 20, appendix I.

Sponsors of school activities which involve the collection or disbursement of IAF should be provided an account history report for each month in which there is a balance or transactions have been recorded in their account (refer to *MCPS Financial Manual*, chapter 20, pp. 9-10). We found that this essential internal control procedure was not always being used. We recommend that sponsors be given a monthly statement of their accounts and be required to verify that all transactions affecting the accounts have been correctly recorded. After all discrepancies are resolved, the statements should be signed and dated by the sponsor to attest to their accuracy. We recommend that a procedure should be established to ensure that all statements are reviewed and returned.

Cash and checks collected by sponsors and others for IAF activities should be remitted promptly together with MCPS Form 280-34, *Independent Activity Fund Remittance Slip*, to the school financial specialist. Cash should be counted in the presence of the remitter, and a receipt that is supported by the MCPS Form 280-34 should be issued promptly. Any misprinted receipts should be entered into the accounting system, and all parts of any voided receipt forms should be defaced and retained. These funds must be deposited promptly, and all funds must be deposited on the last working day of each month and before each weekend or holiday (refer to *MCPS Financial Manual*, chapter 7, pp. 4-5). We noted instances of untimely remittance and deposit of funds as well as misprinted receipts not properly voided. To minimize the risk of loss, we recommend that all funds collected should be remitted daily to the school financial specialist for prompt deposit, and that misprinted receipts be properly documented.

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. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt (refer to *MCPS Financial Manual*, chapter 20, page 4). In our sample of disbursements, we found instances in which controls over purchases were weakened that included staff members not requesting pre-approval to make purchases, use of personal credit cards instead of school purchase card, items shipped to staff members homes instead of the school, documentation missing or not adequate to assure the school benefited from the purchase, documentation not annotated by recipient to indicate purchased goods or services were satisfactorily received, and reimbursement to staff member for personal donation to charities. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. We recommend that MCPS Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought, and that complete documentation be attached to fully explain the reason for the purchase. Certain sponsors would benefit from preparing an annual budget detailing expected income and expenses and obtaining your approval at the beginning of the school year. These budgets should be monitored by your school financial specialist and revised if necessary. Action is needed to correct these conditions and bring purchasing into conformity with MCPS requirements.

Use of the MCPS purchasing card must be in accordance with the requirements of the *MCPS Purchasing Card Users Guide*. By the fifth business day of the following month, cardholders must use the online reconciliation program to identify, describe, and review transactions. Monthly statements must be printed and provided to the principal, with all purchase receipts and invoices attached. The principal must review each cardholder's transactions and approve them by the 10th of the following month, using the online reconciliation program. We found that some cardholders had not promptly prepared their monthly statements, provided their purchase receipts, or reviewed their transactions in the online reconciliation program. We also found that the principal had not approved all transactions online. We recommend that action be taken to correct these conditions and bring purchasing card usage into conformity with MCPS requirements.

Retail sales tax must be collected by the school and remitted to the State of Maryland on the sales of all taxable merchandise. Taxable merchandise includes yearbooks, school store, fundraiser

items, physical education (PE) clothing, and other items that become the personal property of the individual making the purchase (refer to *MCPS Financial Manual*, chapter 18, page 2). We found that sales tax was collected and remitted only on yearbook sales at the school, and not eighth grade T-shirts, band uniforms, or PE clothing. We also noted that your annual report was submitted late to the State of Maryland. We recommend that the school move toward full compliance by working with sponsors to determine activities for which sales tax must be collected and ensure that prices are set appropriately to include the tax so that activities do not operate at a loss.

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. Although the sponsors are submitting fund-raiser request and completion reports, and all reports are signed by you, we noted that most completion forms were not properly prepared so that results could be evaluated. Most completion reports did not include the total number of items for sale, selling prices, or remaining inventories, thus it was not possible to determine whether all funds collected were remitted to the school financial specialist. We recommend following the internal control guidelines to provide for accountability of funds raised, as well as the opportunity to evaluate the results at the conclusion of the event.

Sponsors of field trips should have a complete class or club roster of student names and annotate how much each student paid, date paid, students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. This data should be submitted to the school financial specialist at the completion of each trip, and compared to remittances recorded in the trip account history report. We found that not all sponsors are submitting completed data at the conclusion of each trip, and that data is not being reconciled to the final account history report by the school financial specialist. We also found instances in which substitutes were needed for teachers attending trips, but payment for the cost of substitutes was never sent to the Division of Controller. Trip accounts were routinely closed out prior to all expenditures being recorded in them. We recommend that trip sponsors use MCPS Form 280-41, *Field Trip Accounting*, or its equivalent, and provide complete data at the conclusion of each trip. This data must be reconciled with remittances recorded in activity accounts. We further recommend that MCPS be reimbursed for the cost of substitutes needed for field trips and that trip accounts should not be closed until all expenditures have been recorded (refer to *MCPS Financial Manual*, chapter 20, page 10).

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 admission events in which tickets were sold, but MCPS Form 280-50 was not properly completed to reconcile tickets issued with tickets returned and sales receipts. Other weaknesses include the lack of a perpetual inventory being maintained. We recommend that procedures for sale of tickets be reviewed with appropriate staff prior to events for compliance with the above cited MCPS requirements.

Summary of Recommendations

- Transfers of funds between accounts should be fully documented.
- Funds should not be transferred from an account without the sponsor's approval.
- Monthly financial reports must be prepared, signed, and dated by the principal by the 20th of the following month.
- Uncashed checks must be remitted, by law, to the state and processed in accordance with the MCPS escheatment procedure.
- Monthly account history reports must be provided to sponsors for affirmation of transaction correctness and returned to the school financial specialist.
- Funds collected by sponsors must be promptly remitted to school financial specialist and, in turn, deposited into schools checking account (**repeat**).
- Misprinted receipts must be properly voided.
- Purchase requests must be approved by the principal prior to procurement (**repeat**).
- Purchaser must confirm receipt of goods or services prior to disbursement (**repeat**).
- Personal credit cards should not be used to make school purchases.
- Purchase card activity must comply with the MCPS *Purchasing Card User's Guide*.
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland (**repeat**).
- Fund-raiser completion reports prepared by sponsors must provide sufficient information to analyze results.
- 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.
- MCPS must be reimbursed for the cost of substitutes for field trips.
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA (**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 Mrs. Elizabeth L. Thomas, director of school support and improvement of middle schools. Based on the audit recommendations, Mrs. Thomas 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:MJB:lsh

Attachment

Copy to:
Members of the Board of Education
Dr. Smith

Dr. Navarro
Dr. Statham
Mr. Civin
Dr. Johnson
Dr. Williams
Mrs. Camp
Mrs. Chen
Ms. Diamond
Mr. Tallur
Mrs. Thomas
Mr. Ikheloa

W/ IIR - UICUSU

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: 1/1/2017 - 1/31/2018	Fiscal Year: 1/1/2017 - 1/31/2018
School: Shady Grove MS - 521	Principal: Dr. Alana D. Murray
OSSI Associate Superintendent: Dr. Darryl Williams	OSSI Director: Mrs. Elizabeth Thomas
<p>Strategic Improvement Focus: As noted in the financial audit for the period <u>1/1/17 - 1/31/18</u>, strategic improvements are required in the following business processes :</p> <p>Report on Audit of Independent Activity Funds</p>	

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Ms. Buyukcan will make daily deposits. She will check in with Dr. Murray and Ms. Hyman prior to leaving the building.	Ms. Buyukcan	Sign-out sheet	Bank Account Information	Dr. Murray and Ms. Hyman	There will be accurately reviewed bank reconciliation.
Ms. Hyman will share calendar invites to indicate when bank reconciliation is complete	Ms. Hyman	Calendars for Dr. Murray and Ms. Buyukcan	Calendara	Dr. Murray	The bank reconciliation accounts will be updated promptly.
Mr. Buyukcan will develop a list of funds that have not been utilized. Dr. Murray and Ms. Buyukcan will determine	Ms. Buyukcan Dr. Murray	List of transfer funds	Appropriate balance sheets on a monthly basis	Dr. Murray	The use of inappropriate/closed accounts will end.
Dr. Murray and Ms. Buyukcan will update JP Morgan accounts.	Ms. Buyukcan Dr. Murray	Updated JP Morgan account information	Accurate JP Morgan accounts	Dr. Murray Ms. Buyukcan	The JP Morgan accounts will be updated and will be accurate

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Ms. Buyukcan will create an updated sponsor account notebook. She will review this notebook with the Principal during weekly meetings.	Ms. Buyukcan	Notebook Sponsor Report	The notebook will be monitored on a weekly basis.	Dr. Murray (During weekly meetings)	The sponsor accounts will be updated and accurate.
Ms. Buyukcan will create a sales tax sheet using the information provided by the financial auditor.	Ms. Buyukcan	Sales tax excel sheet	The principal will monitor the sheet on a monthly basis.	Dr. Murray (monthly meetings)	The tracking of sales tax will be reflected accurately.
Ms. Buyukcan will invite sponsors and Dr. Murray to all meetings related to fundraisers to ensure all fundraisers are conducted in an appropriate fashion.	Ms. Buyukcan Dr. Murray	Guidelines for sponsoring an Independent Activity.	The Principal will monitor if the appropriate paperwork was completed.	Dr. Murray (weekly meetings)	The practices of Fundraisers will be accurate.
Ms. Buyukcan will ensure that the Independent Activity Funds request for a purchase is filled out properly.	Ms. Buyukcan	MCPS forms 280-54	Dr. Murray will pre-approve all transfers.	Dr. Murray (Weekly meetings)	The IAF will be utilized for their intended purposes.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input checked="" type="checkbox"/> Approved <input type="checkbox"/> Please revise and resubmit plan by _____	
Comments: <i>This is approved with the specific additional supports being provided.</i>	
Director: <i>Beth W</i>	Date: <i>4/4/18</i>