


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

October 21, 2022

MEMORANDUM

To: Ms. Stephanie W. Nesmith, Principal
Sligo Creek Elementary School

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

Subject: Report on Audit of Independent Activity Funds for the Period
February 1, 2020, through June 30, 2022

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 and 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 26, 2022, meeting with you, we reviewed the prior audit report dated July 27, 2020, and the status of the present conditions. It should be noted that your appointment as principal was effective April 8, 2022. 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

Internal control is a process of interconnected policies, regulations, and procedures, as well as employees' attitudes and actions that work together to provide a system of checks and balances to achieve proper authorization of expenditures and safeguarding of assets. The principal is the individual who has the overall fiduciary responsibility for the IAF (refer to the *MCPS Financial Manual*, chapter 20, page 4). Documents supporting the IAF reports are part of the financial

records and must be maintained in the school office and filed logically to be readily available for audit or other purposes. IAF records shall be retained for five years after the close of the year to which they apply and until all audit requirements have been met, whichever is longer, and then destroyed (refer to the *MCPS Financial Manual*, chapter 20, page 16). Our review disclosed that many financial records were misfiled and not available for review, such as bank statements, copies of cancelled checks, remittance slips, bank deposit tickets, monthly bank reconciliations, year-to-date reports, sponsor account monthly reports, grant records, and purchase requests. We recommend that IAF records be properly filed and retained to be available for audit.

MCPS Form 280-54, *Independent Activity Funds Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase (refer to the *MCPS Financial Manual*, chapter 20, page 4). 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. A check may then be drawn and it must bear two signatures, one of which is that of the principal or acting principal. The secretary will then mark the documentation as “paid.” In your action plan, you stated that pre-approval would be obtained, all invoices would be annotated paid and would be marked as received. In our sample of disbursements, prior approval was not consistently obtained, documentation was missing or not adequate to assure the school benefited from the purchase, the purpose of the disbursement was not fully explained, all receipts were not stamped paid, and invoices were not marked as received. In addition, a large number of disbursements could not be located in order for us to review for compliance. 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 with an estimate of the expenditure, signed by the principal, all documentation must be stamped or marked “paid”, and staff must indicate if all items or services were received satisfactorily.

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, or the statement of account landscape report, 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 cardholders had not prepared their monthly statements, provided descriptions of items purchased, indicated IAF account number when required, attached their purchase receipts, or reviewed their transactions in the online reconciliation program. We also found that the principal had not approved transactions online. We recommend that action be taken to correct these conditions and bring purchasing card usage into conformity with MCPS requirements

Controls over cash receipts need improvement. Staff collecting funds were holding funds rather than remitting them timely to the secretary. Also, the secretary was not always making timely deposits and was holding money in excess of permitted amounts and deposits did not always match the amount remitted. In your action plan, you indicated that sponsors would remit funds on a daily

basis to the secretary who would make a deposit in excess of permitted amounts. Infrequent deposits increase the possibility of a loss of funds, diminishes the school's 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, all funds collected must be remitted to the secretary daily (refer to the *MCPS Financial Manual*, chapter 7, pp. 4-5). In addition, care must be taken to ensure that the deposits match the amount remitted and all remittances on hand must be deposited before each weekend, end of month or holiday.

All field trips must be pre-approved by the principal. Sponsors of field trips must 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, must be provided to the secretary at the completion of each trip and compared to remittances recorded in the trip account history report (refer to the *MCPS Financial Manual*, chapter 20, page 10). In your action plan, you indicated that sponsors would record cost and fee information for each field trip on MCPS Form 280-41, *Field Trip Accounting*, and that the secretary would monitor the procedure. We found that not all sponsors were providing completed data at the conclusion of each trip, field trip fees were not always being remitted in a timely manner, and that data was not being reconciled to the final account history report. All sponsors must be required to use MCPS Form 280-41, or equivalent, and all fees collected must be remitted daily to the secretary for prompt deposit. We recommend that trip sponsors be required to provide complete data at the conclusion of each trip, and this data be reconciled by the secretary with remittances recorded in activity accounts.

Notice of Findings and Recommendations

- IAF must be managed in accordance with effective internal control procedures that include safeguarding financial records until required audits are completed.
- Purchase requests must be approved by the principal prior to procurement (**repeat**).
- The IAF request for purchase approval form must be completed with all required information (**repeat**).
- Purchase documentation must be adequate to support disbursements.
- Funds collected by sponsors must be promptly remitted to the secretary (**repeat**).
- Remitted funds must be promptly verified, receipted, and deposited in the bank by the secretary (**repeat**).
- Sponsors of field trip must submit MCPS Form 280-41, *Field Trip Accounting*, or its equivalent at the conclusion of each trip and trips must be reconciled (**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 action plan, 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 Dr. Peter O. Moran, associate superintendent of school support and well-being, Office of Student Support and Well-Being, for written approval of your plan. Based on the audit recommendations, Dr. Moran 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 secretary to support you with developing a well-defined plan to address the findings.

MJB:BK:rg

Attachment

Copy to:

Members of the Board of Education

Dr. McKnight

Mr. Hull

Dr. Murphy

Ms. Reuben

Mr. Stockton

Mrs. Williams

Dr. Moran

Mr. Reilly

Mrs. Chen

Ms. Eader

Mr. Klausling

Mrs. Ripoli

Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN	
Report Date:	Fiscal Year:
School:	Principal:
OSSWB Associate Superintendent:	OSSWB Director:
<p><u>Strategic Improvement Focus:</u></p> <p>As noted in the financial audit for the period _____, 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

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence

OFFICE OF SCHOOL SUPPORT AND WELL-BEING (OSSWB)	
<input type="checkbox"/> Approved <input type="checkbox"/> Please revise and resubmit plan by _____	
Comments: _____ _____	
Director: _____ <i>Peter O. Moran</i> _____ Date: _____	