


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

June 7, 2021

MEMORANDUM

To: Ms. Celeste D. King, Principal
South Lake Elementary School

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

Subject: Report on Audit of Independent Activity Funds for the
Period March 1, 2018, through April 30, 2021

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 June 1, 2021, meeting with you and Mrs. Renee B. Shaw, school administrative secretary (secretary), we reviewed the prior audit report dated May 17, 2018, 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

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 reviews, such as bank statements, bank deposit slips, bank reconciliations, year-to-date reports, sponsor account monthly reports, grant records, disbursements, and receipts. We recommend that IAF records be properly filed and retained to be available for audit.

Effective internal control includes the receipt and review by the principal of the unopened monthly bank statement, the monthly bank reconciliation report, and ledger reports in a timely manner. Review of these important reports must be evidenced by the principal's signature and date (refer to the *MCPS Financial Manual*, chapter 20, page 9). Although these reports were prepared monthly by the school's visiting bookkeeper, reconciliation reports for several months during the audit period could not be located. We found that the principal had not always signed and dated the bank statement prior to the visiting bookkeeper completing the reconciliation. Also, the monthly bank reconciliation and ledger reports were not consistently signed by the principal to indicate review. In your action plan, you included that a schedule would be established by the secretary with a calendar reminder to ensure principal signatures in a timely manner. We recommend that you initiate a process that ensures adequate maintenance and retention of monthly reconciliation reports in the IAF financial records.

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. We found that transfers of funds were executed without completion of MCPS form 281-46. Also, we found that descriptions used on transfers did not convey the nature of the fund's movement. To improve internal controls, the secretary must be instructed to execute transfers only according to requests approved by the principal, account sponsor on MCPS form 281-46, and that the transfer description should be clear enough to convey to the sponsor what was transferred (refer to the *MCPS Financial Manual*, chapter 20, page 12).

Sponsors of school activities that involve the collection or disbursement of IAF must be provided an account history report for each month in which transactions have been recorded in their account or the account has a balance. We found this essential internal control procedure was not being used. We recommend sponsors be given a monthly statement of their accounts and be required to verify that all transactions affecting the account have been correctly recorded. After any discrepancies are resolved, the statements must be signed and dated by the sponsor to attest to their accuracy. In your action plan, you included that the secretary would send emails to sponsors requesting signatures and that the principal would be notified of sponsors not returning reports in a timely manner. A procedure should be established to ensure that all statements are reviewed and returned (refer to the *MCPS Financial Manual*, chapter 20, page 10).

Once a check or receipt has been written, it shall not be erased or altered. If an error is discovered, the check or receipt must be marked "void" and a replacement issued. Any misprinted checks or receipts must be entered into the accounting system, and the voided checks and all parts of any voided receipt forms must be defaced and retained (refer to the *MCPS Financial Manual*, chapter 7, page 4, and chapter 20, page 6). We found that not all voided checks/receipts had been entered into the accounting system, and that voided stock in some instances could not be located. In your action plan, you included that the secretary would properly deface and retain voided receipts. We

recommend that checks and cash receipts are written in error be voided in accordance with proper procedures.

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. Upon issuance of a check, the secretary will mark the documentation as “paid” to preclude duplicate payment. In your action plan, you indicated that the secretary would confirm purchase and receipt of goods or services prior to disbursements and that invoices would be marked as paid. In our sample of disbursements, we found instances in which MCPS Form 280-54 was not consistently presented to the principal for a signature indicating authorization to proceed with the purchase, documentation supporting purchases were not stamped or marked “paid,” and documentation was not annotated by the recipient to indicate purchased goods or services were satisfactorily received. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAFs. We recommend that MCPS Form 280-54 be prepared, with an estimate by staff and signed by you, at the time verbal approval is sought. Complete documentation must be attached to fully explain the reason for the purchase. All invoices must be marked to indicate items were received and documentation stamped “paid”.

Independent contractors or consultants working in schools must comply with all laws and MCPS requirements set forth in the *Procurement Manual*. MCPS form 280-49A: *Authorization for Consultant/Independent Contractor (Vendor) Services Paid with Independent Activity Funds (IAF)*, is used to document authorization/approval for all consultant/independent contractor services paid with IAF. We found that this form had not been completed for all payments to independent contractors during our audit period. We recommend the project manager initiate MCPS Form 280-49A to document the authorization and approval to pay a consultant/independent contractor with IAF (refer to the *MCPS Financial Manual*, chapter 15, page 2).

Use of the MCPS purchasing card must be in accordance with the requirements of the MCPS Purchasing Card User’s 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 tenth of the following month, using the online reconciliation program. We found that cardholders had not promptly reviewed her transactions in the online reconciliation program and not all transactions had been approved online. We recommend that action be taken to correct these conditions and bring purchasing card usage into conformity with MCPS requirements.

To properly control funds, all cash and checks collected by sponsors for IAF activities must be remitted promptly to the secretary. These funds must then be verified in the presence of the remitter and a receipt that is supported by MCPS Form 280-34, *Independent Activity Fund (IAF) Remittance Slip*, must be issued promptly (refer to the *MCPS Financial Manual*, chapter 7, page 5). A pre-numbered receipt shall be completed by the secretary, and the original shall be given to

the person who remitted the funds. This establishes documentary evidence for both parties that provides a written record of the source and amount of the funds for accounting purposes (refer to the *MCPS Financial Manual*, chapter 7, page 4). These receipts must be deposited promptly, and all receipts must be deposited on the last working day of each month and before each weekend or holiday (refer to the *MCPS Financial Manual*, chapter 7, pp. 4-5). Every receipt shall be attached to the remittance slip and any other source documentation and be filed in sequential order together with a copy of the deposit slip validated by the bank. We noted at times staff collecting funds were holding 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. We also noted that at times the secretary took funds to the bank prior to recording in accounting software and that she was not always providing a copy of the receipt to the sponsors. We noted that the secretary did not always have complete deposit packages filed in sequential order. Infrequent deposits increase the possibility of a loss of funds, diminish 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 and entered into the accounting software. In addition, all remittances on hand must be deposited promptly, and always before each weekend, end of the month, or holiday. Staff also should monitor their remittances to the secretary to ensure they receive a receipt in a timely manner.

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

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 and that the secretary would include policy reminders in staff bulletins and handbooks. 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.

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 ticket, 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 the *MCPS Financial Manual*, chapter 20, page 13). We noted an admission event in which tickets were sold but MCPS Form 280-50 was not properly completed to reconcile tickets issued with tickets returned and sales receipts. We also found that tickets sales were not recorded in the 7500 series. We recommend that procedures for the sale of tickets be reviewed with appropriate staff prior to events for compliance with the above-cited MCPS requirements.

Notice of Findings and Recommendations

- The IAF must be managed in accordance with sound accounting practices and effective internal controls that include safeguarding financial records until required audits are completed.
- Monthly bank statements, bank reconciliations, and ledger reports must be signed and dated by the principal in a timely manner **(repeat)**.
- Transfers between fund accounts must be fully documented and approved on MCPS form 280-46.
- Monthly account history reports must be provided to sponsors for affirmation of transaction correctness and returned to the secretary **(repeat)**.
- Receipts and checks that are voided must be properly defaced and retained **(repeat)**.
- Purchase requests must be approved by the principal prior to procurement.
- Purchaser must confirm receipt of goods or services prior to disbursement **(repeat)**.
- Purchase invoices and receipts must be annotated as paid to indicate disbursement was made **(repeat)**.
- Independent contractor payments must comply with MCPS procurement requirements.
- Purchase card transactions must be documented, reviewed, and approved by the principal, and the statement of account landscape report must be printed and provided to the principal with all purchase receipts and invoices **(repeat)**.
- MCPS Forms 280-34 and any other source documentation must accompany every remittance and be filed in accordance with Chapter 7 of the *MCPS Financial Manual*.
- Cash and checks (funds) remitted by sponsors must be promptly verified and receipted, prior to being deposited in the bank by the secretary.
- Staff members remitting funds must be issued a receipt.
- Funds collected by sponsors must be promptly remitted to the secretary and promptly deposited.
- Fund-raising must conform to Guidelines for Sponsoring an IAF Fund Raiser.
- Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to participate and to reconcile funds collected with account history reports **(repeat)**.
- 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 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 Mr. Eric A. Wilson, director of learning, achievement, and administration, Office of Teaching, Learning, and Schools, for written approval of your plan. Based on the audit recommendations, Mr. Wilson 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 administrative secretary to support you with developing a well-defined plan to address the findings.

MJB:YSG:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. McKnight

Mrs. Ferrell

Dr. Wilson

Mrs. Williams

Mr. Koutsos

Mrs. Chen

Mr. Klausling

Mr. Marella

Mr. Reilly

Mr. Tallur

Mr. Wilson

Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: 2021	Fiscal Year: 2021
School: South Lake ES - 564	Principal: Celeste King
OTLS Associate Superintendent: James Koutsos	OTLS Director: Eric Wilson
<p><u>Strategic Improvement Focus:</u> As noted in the financial audit for the period <u>3/2/18 - 4/30/21</u>, strategic improvements are required in the following business processes :</p> <p>Effective internal controls established for purchase requests approval, receipt of goods and services, handling of cash and checks, field trip procedures and accounting</p>	

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Field Trip: - Create and share packet of procedures and responsibilities (including all forms, checklists, waiver for scholarships) to all staff at the beginning of the school year - Meet with grade level teams to review field trip processes and procedures	Administrative Secretary; Grade level team members	Field trip forms, electronic packet	Review of receipts and deposits, field trip accounting forms, remittance forms	On- going - Administrative secretary, Principal	Outlook calendar with scheduled meetings, notes
Field Trip continued: - Monies remitted by sponsors daily with all necessary paperwork; counted and verified - Receipts will be provided for remitted funds	Administrative Secretary; Team leader or designee	form 280-41, 280-34	Review of receipts and deposits, field trip accounting forms, remittance forms	On- going - Administrative secretary, visiting bookkeeper, Principal	Field Trip Reconciliation forms Procedures in staff handbook
Cash/Checks - Daily counting and depositing of funds collected - Use of required accounting forms for deposits - All paperwork (deposit packet) will be organized and filed appropriately	Administrative secretary	Deposit receipts, monthly bank statement, auditor example	Binders for receipts and checks	On-going Administrative secretary, visiting bookkeeper, Principal	Receipted deposits and written checks filed sequentially in binders
Monthly Account History Reports: - Provide monthly account history reports to sponsors (color-coded to identify forms not returned) - Sponsors to verify and promptly return - Signed reports filed - Email reminders sent by secretary	Administrative Secretary, Sponsors, Bookkeeper	Monthly Sponsor Reports	Signed reports, email reminders	Monthly - Visiting bookkeeper Bi-weekly - Principal	Signed sponsor reports by account sponsor and principal filed using the organized filing system suggested by the auditor

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Purchase Card: - Transactions must be documented, reviewed and approved by principal in JP Morgan - Statement of account report must be printed and provided to principal with all receipts and invoices; filed in binder	Administrative Secretary, Principal	JP Morgan Statements and Reports Purchase card log 234-41	JP Morgan Statement of Account Landscape	Weekly by Principal Monthly by visiting bookkeeper	Signed Statement of Account Landscape Online review and approval in JP Morgan Binder with documenttion
Documentation: - Request for purchase must be prior approved by principal - Purchaser must confirm receipt of good or services prior to disbursement - Purchase invoices and receipts must be annotated paid	Principal, Administrative Secretary, Staff	280-54 paid stamp	Signed 280-54, invoices, check documentation,	On-going Principal Monthly - visiting bookkeeper	Signed documents, documentation marked "paid", invoices marked "received"
Voided receipts and checks must be properly defaced and retained following MCPS guidelines: recorded in SFO with verification printed and attached	Administrative Secretary	Auditor directions provided	SFO	Monthly - visiting bookkeeper	Voided documents filed; information in SFO

OFFICE OF TEACHING, LEARNING, AND SCHOOLS (OTLS) REVIEW & APPROVAL
<input checked="" type="checkbox"/> Approved <input type="checkbox"/> Please revise and resubmit plan by _____ Comments: Director will conduct formal monitoring meetings quarterly beginning November 2021. Director: <u>Eric Wilson</u> Date: <u>6/23/2021</u>