


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

December 5, 2019

MEMORANDUM

To: Mr. Rock A. Palmisano, Principal
Watkins Mill Elementary School

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

Subject: Report on Audit of Independent Activity Funds for the Period
November 1, 2016, through August 31, 2019

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, 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 November 12, 2019, meeting with you; Ms. Kimberly A. Henriquez, principal intern; and Mrs. Leshia M. Murray, school administrative secretary, we reviewed the status of the conditions described in our prior audit report dated January 3, 2017, and the status of present conditions. It should be noted that the school administrative secretary's assignment was effective October 14, 2019. 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

The monthly bank statement shall be delivered directly to the principal for review of statement, canceled checks, and other documents. The principal should have electronic access to the cleared

checks through the bank's online banking system in order to identify the payee on any questionable checks if check images have not been provided by the bank (refer to *MCPS Financial Manual*, chapter 20, page 9). Documents supporting the IAF reports are part of the financial records and should be maintained in the school office. Supporting documents include bank statements and canceled checks. We noted that during the audit period, the school was not receiving copies of canceled checks from the bank, which prohibited us from reviewing checks written during the audit period. You must request that the bank provides images of canceled checks each month or provide access to cleared checks through online banking system. Check images should be printed each month and presented to the principal for review along with bank statement.

Payment to MCPS for items processed through iReceivables should be made timely. We found that the school owed over \$9,000 to MCPS at the time of audit and some invoices were as much as one year overdue. Payment must be made timely to MCPS for outstanding invoices and that the FMS iReceivable account be printed monthly as part of the monthly reporting process so the principal is aware of the status of payables to MCPS.

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. In addition, we found that descriptions used on transfers did not convey the nature of the funds movement. To improve internal controls, the administrative secretary must be instructed to execute transfers only according to requests approved by the principal, or acting principal, on MCPS form 281-46 and that transfer descriptions be clear to convey to the sponsor what was transferred (refer to *MCPS Financial Manual*, chapter 20, page 12).

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 *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 school administrative secretary will mark the documentation as "paid." In our sample of disbursements, we found instances in which controls over purchases were insufficient due to missing documentation including MCPS Form 280-54 not signed by the principal, documentation not annotated by recipient to indicate purchased goods or services were satisfactorily received, checks that had only one signature, and checks that had two signatures but not the principal's signature, and no written delegation on file. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. MCPS Form 280-54 must be prepared by staff and signed by the principal at the time approval is sought, and that complete documentation be attached to fully explain the reason for the purchase. All checks must bear two signatures, one of which is that of the principal, unless the principal delegates in writing the authority to sign checks in the principal's absence.

Once a check or receipt has been written, it shall not be erased or altered. If an error is discovered, the check or receipt should be marked "void" and a replacement issued. Any misprinted checks or receipts must be entered into the accounting system, and all parts of the voided check and receipt forms must be defaced and retained. We found that at times the school administrative secretary was voiding stock, but not entering the voids into School Funds Online (SFO). Check and receipt stock was sometimes misprinted, resulting in number sequence errors and printing on the wrong receipt stock number. In addition, voided receipts were not kept intact so that all three parts of receipts could be found. Checks and cash receipts written in error must be properly voided; refer to the *MCPS Financial Manual*, chapter 7, page 4, and chapter 20, page 6.

Disbursements made by ACH drawn on the school's IAF bank account, regardless of the documentation that approved the procurement of goods and services, are required to be approved by the principal using MCPS Form 280-54, with a summary spreadsheet detailing the IAF account(s) to be charged, prior to expenditure of funds (refer to *MCPS Financial Manual*, chapter 20, page 6). We found that the IAF disbursements for MCPS iReceivable invoices have not been reviewed and authorized for payment by the principal. The principal must adhere to the MCPS requirements for these disbursements.

Aggregate school expenditures of general funds for the procurement of refreshments in connection with meetings and staff appreciation items may not exceed \$60 per individual staff member per fiscal year without the prior written authorization from the chief financial officer (CFO) (refer to *MCPS Financial Manual*, chapter 20, page 5). These expenditures must be appropriately recorded in accordance with the IAF chart of accounts. We found that although you did not exceed the total amount allowed for staff appreciation and meeting refreshments, there were instances in which expenditures for these items were incorrectly classified and recorded in various accounts. Such commingling increases the time required to determine whether or not guidelines have been followed and decreases the value of your financial reports for decision making. The principal must adhere to the MCPS requirements, as well as correctly classify and record these transactions for more accurate accountability.

Cash and checks collected by sponsors and others for IAF activities must be remitted promptly to the school administrative secretary. 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 *MCPS Financial Manual*, chapter 7, pp. 4-5). We noted that former school administrative secretaries were not always making timely deposits. At one point, funds were held with remittance slips that spanned over a month and exceeded the amount allowed to be held overnight at the school. Funds were sometimes taken to the bank and later receipted in SFO. School staff be encouraged to submit cash and checks collected for IAF activities to the school administrative secretary for prompt deposit in accordance with MCPS policy and procedures. To minimize the risk of loss, all funds collected should be remitted daily and deposited to the bank promptly. Staff also should monitor their remittances to the school administrative 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 Fund Raiser*. We found that there was a lack of adherence to these guidelines. We found that not all sponsors were preparing fundraiser request forms to obtain your approval prior to the start of an activity and those that did prepare a request form were using an outdated version. We also noted that sponsors were not submitting a completion report when the fundraiser was finalized. Following these internal control procedures provides for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event. 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 should be recorded in a separate account in the 7000 series and a completion report prepared that analyzes the results (refer to *MCPS Financial Manual*, chapter 20, page 13).

Control over the yearbook activity needs improvement. The sponsor must maintain a detailed record of books sold and prepare MCPS form 281-25, *Yearbook Analysis*, which reconciles books purchased with books distributed. We found that the former school administrative secretary was collecting funds directly for yearbook sales and was holding these funds rather than depositing to the yearbook account. Funds were later deposited into the school's checking account, and recorded in Grade 5 End of Year IAF account. Yearbooks were given away, but no record of who received the free books was kept. Yearbook analysis prepared by the school administrative secretary at year end did not agree with the records in the IAF accounts. We recommend that the sponsor maintain a detailed record of book sales, a list of who received free books and prepare form 281-25 at year end. Any discrepancies between sales records and IAF account records must be explained (refer to *MCPS Financial Manual*, chapter 20, page 13). To maintain separation of duties, the school administrative secretary should not collect funds directly, but receive funds from someone else along with a remittance slip.

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Student Organization Trips*. Trip approval forms signed by the principal, and the director of school support and improvement, when required, must be retained. 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, should be provided to the school administrative secretary at the completion of each trip, and compared to remittances recorded in the trip account history report (refer to *MCPS Financial Manual*, chapter 20, page 10). We found that not all sponsors are providing completed data at the conclusion of each trip, and that data is not being compared to the final account history report. All sponsors must be required to use MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and follow the procedures outlined above.

Notice of Findings and Recommendations

- Monthly bank statement reviews must include cleared checks.
- Payments to MCPS for iReceivables must be processed promptly.

- All IAF disbursements must be documented, reviewed, and approved by the principal
- Checks will bear two signatures, one of which must be that of the principal.
- Checks and receipts that are voided must be defaced and retained.
- Disbursements made though ACH payment must be approved using MCPS form 280-54 prior to expenditure of funds **(repeat)**.
- Staff appreciation and meeting refreshment expenditures must be correctly classified and recorded **(repeat)**.
- Cash and checks (funds) remitted by sponsors must be promptly verified and receipted, prior to being deposited in the bank by the school administrative secretary.
- Transfers between accounts must be fully documented.
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund Raiser* **(repeat)**.
- Yearbook sponsor records must account for the number of books purchased, sold, distributed at no cost, and ending inventory.
- 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 **(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 Mr. Eric A. Wilson, director of learning, achievement, and administration, Office of School Support and Improvement. 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:SMY:lsh

Attachment

Copy to:

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

Ms. Diamond
 Mr. Reilly
 Mr. Tallur
 Mr. Wilson
 Mr. Marella
 Ms. Webb

FINANCIAL MANAGEMENT ACTION PLAN

Report Date: 11/19/19 Fis year 2020

Fiscal Year: 11/19/19 Fis year 2020

School: Watkins Mill ES - 561

Principal: Rock A. Palmisano

OSSI

Associate Superintendent: James Koutsos

OSSI

Director: Eric Wilson

Strategic Improvement Focus:

As noted in the financial audit for the period 11/1/16 -8/31/19, strategic improvements are required in the following business processes :

Part 2 of 2

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
The administrative secretary will receipt funds daily. Sponsor should complete remittance slip, sign and bring it along with funds to Administrative Secretary where it should be counted by the Administrative Secretary in front of the sponsor. Funds should be remitted to the Administrative Secretary on the day received.	Leisha Murray, Administrative Secretary Staff Sponsors	Remittance slip Form. 280-34	Remittance slip as needed Monthly IAF account summary Monthly	Leisha Murray, Administrative Secretary	Daily sponsor submission of funds Immediate receipt of funds (signature and signed copy of form) Deposits daily as needed.
Sponsor should get a receipt showing the funds were deposited to their accounts.					
All fundraising activities must be approved by the principal in writing using the Fundraiser Request form found on MyMCPS. Fundraisers should be evaluated to ensure that they will be profitable. Flyers announcing the fundraiser to community should be retained with fundraiser packet. At the end of the fundraiser, a fundraiser completion report	Rock A. Palmisano,	Fundraiser Request form	Fundraiser Request form Tracking of 7000 series in SFO as needed	Rock A. Palmisano, Principal Leisha Murray, Admin Secretary	Signed approval form(s) for fundraiser and supporting documents.
should be reviewed by the principal. Fundraisers should be established in the 7000 series and all activity pertaining to the fundraiser should be tracked in that account. Profits should be transferred to the benefiting account and spent there.	Leisha Murray, Admin Secretary Fundraiser Sponsor				

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
The administrative secretary should never directly collect funds, but should only receive funds that have been counted and remitted along with a remittance slip by someone else. The Administrative Secretary verifies the funds, receipts, and deposits the funds.	Leisha Murray, Admin Secretary Sponsor(s)	Remittance slip	Remittance slips as needed Yearbook account	Leisha Murray, Admin Secretary	Daily sponsor submission of funds Immediate receipt of funds (signature and signed copy of form)
This finding specifically dealt with the yearbook as the Administrative Secretary collected funds directly. A record of sales should be kept by the yearbook sponsor. This should balance with the funds in the account and the	Yearbook Sponsor		Record of sales List of people receiving a free yearbook.	Leisha Murray, Admin Secretary	Signed and dated reports
number of books ordered. A list of people receiving a free book should be kept. Yearbook analysis should match school records.					
Field Trip accounting forms should be completed for all field trips that collect a fee from students. Form should list all students eligible for the trip and the amount paid, date of payment and if by cash, check or online. If a student has a fee reduced or waived it should be documented.	Leisha Murray, Administrative Secretary Field Trip Sponsor	Field Trip Accounting forms 280-41 File for each field trip	Field Trip Accounting form as needed	Leisha Murray, Administrative Secretary	Completed Form 280-41 and any additional documents relevant to each trip. Final balances verify trip calculated correctly.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input checked="" type="checkbox"/> Approved <input type="checkbox"/> Please revise and resubmit plan by _____	
Comments:	
Director: _____ 	Date: 1/10/2020