


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

October 3, 2017

MEMORANDUM

To: Dr. Louise J. Worthington, Principal
Baker Middle School

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

Subject: Report on Audit of Independent Activity Funds for the Period
March 1, 2016, through August 31, 2017

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 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 September 28, 2017, meeting with you and Mrs. Lynne P. Murray, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated April 18, 2016, and the status of present conditions. It should be noted that Mrs. Murray was assigned as school financial specialist effective June 5, 2017. 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 should be maintained in the school office and filed in a logical manner in order to be readily available for audit or other purposes (refer to *MCPS Financial Manual*, chapter 20, page 11). We were advised that all

documents supporting the IAF reports maintained by the previous school financial specialist, could not be located in the school. We recommend that IAF records be retained and made available for audit.

The management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures. We found that staff did not have adequate procedures in place for proper control and oversight of IAF. As a result, we noted a large number of accounting transfers, journal entries, and other transactions to correct duplicate entries, account number errors, and many voided checks and receipts. Many transactions lacked descriptions to fully explain the accounting entry. We recommend that you work with the school financial specialist to establish processes that will structure workflow to ensure control and appropriate oversight of IAF, and to monitor transaction activity in an effort to reduce the number of errors (refer to *MCPS Financial Manual*, chapter 20, page 1).

Reconciliation of the school's monthly bank checking account statement must be completed by a person 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 27). Beginning with the August 2015 bank statement, Mrs. Murray was the independent person. However, we noted that she continued to conduct the monthly bank reconciliations after assumption of her duties as school financial specialist. In addition, we noted that twice during the audit period the reconciliation was completed after the 20th of the month. We recommend that an independent staff member be appointed to complete the monthly bank reconciliation by the 20th of the month.

Sponsors of school activities who are involved in the collection or disbursement of IAF should be provided an account history report for each month in which transactions have been recorded in their respective account. After resolution of any discrepancies noted, the statements should be signed and dated by the sponsor to attest to their accuracy, and returned to the school financial specialist. We found this essential internal control procedure was not used consistently. We recommend sponsors be given their respective monthly statement to affirm the accuracy of the transactions recorded, and return the signed statement to the school financial specialist (refer to *MCPS Financial Manual*, chapter 20, page 10).

In order to properly control receipts, cash and checks collected by sponsors for IAF activities should be remitted promptly to the school financial specialist. The funds should be verified in the presence of the remitter, and a receipt that is supported by the MCPS Form 280-34, *Independent Activity Fund (IAF) Remittance Slip*, should be issued promptly. In the event funds cannot be verified immediately upon remittance, the remitter will seal the funds in an envelope in such a manner that tampering will be evident, and either place the sealed envelope in the business office safe or the night drop box. Verification of these funds will be conducted by the school financial specialist in the presence of the remitter as soon as possible thereafter (refer to *MCPS Financial Manual*, chapter 7, pp. 3-4). We found that some sponsors were holding funds collected rather than remitting them to the school financial specialist on a daily basis, and that MCPS Form 280-

34 did not always accompany the funds remitted. In addition, funds deposited into the night drop box were not verified in the presence of the remitter. To improve controls, we recommend that funds collected by sponsors be promptly remitted to the school financial specialist with MCPS Form 280-34 and verified in the presence of the remitter.

Fundraising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. Each fundraiser should be approved by the principal in writing and the approval retained in the school office. Financial activities for each fundraising activity should be recorded in a separate account in the 7000 series and a completion report prepared that analyzes the results. 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 (refer to *MCPS Financial Manual*, chapter 20, page 13). We noted a lack of principal approval and completion reports. We recommend that all fundraisers be approved by the principal and a completion report be prepared at the conclusion of the activity that analyzes the results.

The yearbook sponsor is required to keep detailed records of the number of books sold, the price charged as well as the number of books distributed free of charge (refer to *MCPS Financial Manual*, chapter 20, page 14). In addition, yearbook contracts and any amendments, signed by the principal, should be retained. We found that the 2017 yearbook contract was amended to change the number of pages included in the yearbook, however, the amended contract signed by the principal was not available. The majority of yearbooks were sold through online sales but the online sales records were not retained. The unsold yearbooks were not available for audit. Without the required records, we were unable to reconcile the yearbook account. We recommend the yearbook sponsor be counseled and assisted with the record-keeping required for this activity.

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, should be retained. Sponsors of field trips should 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 financial specialist 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 provided completed data at the conclusion of each trip, and that data was not compared to the final account history report. We also found instances in which fees collected exceeded sums needed to pay for a trip. We recommend trip sponsors use MCPS Form 280-41, *Field Trip Accounting*, or its equivalent, for recording of trip fees and provide complete data at the conclusion of each trip. We further recommend trip planning be reviewed to insure established fees are commensurate with trip expenses.

Sixth grade students at each middle school in MCPS participate in a three-day, two-night residential outdoor environmental education program (OEEP) for which they are assessed an activity fee to reimburse MCPS for personal expenses associated with the program. Students unable to pay the OEEP activity fee receive waivers. Any waivers must be reported to MCPS so

that the total amount of the invoice billed to schools is adjusted accordingly (refer to *OEEP Grade 6 Residential Program Handbook and Planning Information*, page 41). We found that the school did not correctly report all funds collected from students who were identified as needing assistance. We recommend that you review the procedures for reporting students needing financial assistance with the sponsor, and that financial assistance forms are reviewed for accuracy before they are submitted.

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 that the initial ticket reports prepared by the ticket controller to issue tickets to the admissions manager were not always retained, that tickets and ticket reports were not always returned when funds were remitted and that tickets for the fall play were printed and numbered at the school which essentially eliminates the ticket controls. We recommend that procedures for sale of tickets be reviewed with appropriate staff prior to events for compliance with MCPS Regulation DMB-RA.

Sales of physical education (PE) uniforms should comply with the requirements outlined in the *Handbook for the Operation of School Stores*. Although the sale of new PE uniforms is now done through an online vendor, the school is still selling PE uniforms from inventory purchased in previous years. We noted some weaknesses in the accounting process for the sale of uniforms, and records of funds collected from students that could not be reconciled to records of sales. To improve controls, we recommend tracking uniform sales on a spreadsheet that can be reconciled to records of account activity. In addition, inventory records should be adjusted for sales, purchases, giveaways, and for garments that are damaged or obsolete. These inventory records should be compared to a physical count performed at least annually. The inventory items should be secured at all times to lessen the likelihood of a loss.

Summary of Recommendations

- IAF records must be retained and made available for audit.
- IAF must be managed in accordance with sound accounting practices and effective internal control procedures (**repeat**).
- An independent staff member must complete the monthly bank reconciliation by the 20th of the month.
- 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 with MCPS Form 280-34, *Independent Activity Fund (IAF) Remittance Slip*, to the school financial specialist and verified in the presence of the remitter (**repeat**).
- Fundraising 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 (**repeat**).

- 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)**.
- OEEP sponsor records must correctly report funds collected and waivers granted for all participating students.
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA **(repeat)**.
- Physical Education uniform sale and inventory processes should comply with the requirements outlined in the *Handbook for the Operation of School Stores* **(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 specialist to support you with developing a well-defined plan to address the findings.

RWP:SMY:lsh

Attachment

Copy to:

Members of the Board of Education

Dr. Smith

Dr. Navarro

Dr. Statham

Dr. Zuckerman

Mr. Civin

Dr. Johnson

Dr. Williams

Mrs. Camp

Mrs. Chen

Ms. Diamond

Mr. Tallur

Mrs. Thomas

Mr. Ikheloa

FINANCIAL MANAGEMENT ACTION PLAN

School: John T. Baker MS - 705

Principal: Dr. Louise J. Worthington

Fiscal Year: 2018

OSSI

Associate Superintendent: Dr. Darryl Williams

OSSI

Director: Mrs. Elizabeth Thomas

Strategic Improvement Focus:

As noted in the financial audit for the period 3/1/16-8/31/17, strategic improvements are required in the following business processes:

1. Independent Activity Funds (IAF) must be retained and available for audit. 2. IAF must be managed in accordance with sound accounting practices and effective internal controls. 3. An independent staff member must complete the monthly bank reconciliation by the 20th of the month. 4. Monthly account history reports must be provided to sponsors for affirmation of transaction correctness and returned to the school financial specialist (SFS). 5. Funds collected by sponsors must be promptly remitted with MCPS Form 280-34 to the SFS and verified on the presence of the remitter. 6. Fundraising must conform to Guidelines for Sponsoring an IAF Fund Raiser.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
1. All financial records must be saved and available to the auditor.	Principal and School Financial Specialist (SFS)	Filing process for retention of records.	Principal and SFS have formalized Weekly Meetings on Mondays at 1:30 am. Interim daily meetings occur on an as needs basis.	Principal at Weekly Meetings	Records appropriately filed and saved.
2. Processes established that will structure work flow to ensure control and appropriate oversight of IAF, and monitor transaction activity in an effort to reduce the number of errors. Transfer descriptions will convey the nature of the transfer and will be clear as to where funds are coming from or going to.	Principal and SFS	Process for clearly articulating the transfer of funds.	Principal review and signature on transfer reports.	Principal at Weekly Meetings	Principal and sponsors' review and signatures on transfers.
3. The Administrative Secretary is assigned as the independent staff member who will complete the monthly bank reconciliation by the 20th of the month.	Principal, SFS and Administrative Secretary	Time and space free from distraction will be allotted each month.	Principal review and signature on reconciliation reports.	Principal at Weekly Meetings	Principal review and signature on bank reconciliation by the 20th of the month.
4. Account History reports run, distributed to sponsors, reviewed, signed and dated by sponsor and returned to SFS each month. SFS has a process to track which reports have been returned. SFS will follow up with sponsors who do not return reports and notify Principal if reports still do not get returned.	Principal, SFS and Sponsors of School Activities	Process for distributing and collecting signed monthly statements.	Principal and SFS will train sponsors on reconciling their monthly statements.	Principal, SFS and sponsors on a monthly basis.	Principal and sponsors' review and signature on monthly statements.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
5. Sponsors deposit funds on the day received accompanied with MCPS Form 280-34, Independent Activity Fund (IAF) Remittance Slip and counted in the presence of the SFS. If left in the night drop box, sponsor should return to count with the SFS.	Principal, SFS and Sponsors of School Activities	Process for collecting and remitting funds.	Principal and SFS will train sponsors on collecting funds, remitting funds using MCPS Form 280-34, and verifying funds with SFS.	Principal, SFS and sponsors on an on-going basis.	SFS will submit daily Deposit Analysis Form, Deposit Slip and Forms 280-34 for Principal review and signature.
6. All fundraisers will be approved in advance, in writing, by the Principal. New Fundraiser Request and Fundraiser Completion forms are on myMCPS and are to be used. Flyers advertising the fundraisers and who benefits are to be kept for audit.	Principal, SFS and Sponsors of Fundraisers	Process for approving and completing fundraisers. File flyers.	Principal and SFS will train sponsors on processes for approving and competing fundraisers. SFS will file flyers.	Principal, SFS and sponsors on an on-going basis.	Principal review and signature on Fundraiser Request and Completion Reports.
6. (continued) Fundraisers are to be recorded in accounts in the 7xxx series. Fundraisers selling merchandise should have a beginning inventory, number of items sold, item prices and an ending inventory which is part of the fundraiser completion report.	Principal, SFS and Sponsors of Fundraisers	Process for recording fundraisers. Process for inventory.	SFS will record fundraisers in the 7xxx series accounts. Principal and SFS will train sponsors on inventorying merchandise.	Principal, SFS and sponsors on an on-going basis.	Principal review and signature on Fundraiser Request and Completion Reports.

FINANCIAL MANAGEMENT ACTION PLAN

School: John L. Baker MS - 705		Principal: Dr. Louise J. Worthington	Fiscal Year: 2018
OSSI Associate Superintendent: Dr. Darryl Williams		OSSI Director: Mrs. Elizabeth Thomas	
Strategic Improvement Focus: As noted in the financial audit for the period <u>3/1/16-8/31/17</u> , strategic improvements are required in the following business processes : 7. Yearbook sponsor records must account for the number of books purchased, sold, distributed at no cost, and ending inventory. 8. Filed trip records prepared by sponsor must provide comprehensive data to account for all students eligible to participate, and to reconcile funds collected with costs of the trip. 9. OEEP sponsor records must correctly report funds collected and waivers granted for all participating students. 10. Admission events must be conducted in accordance with MCPS Regulation DMB-RA. 11. Physical Education uniform sale and inventory processes should comply with the requirements outlined in the Handbook for the Operation of School Stores.			

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
7. Yearbook sponsor to account for all yearbooks received (sold at school/on-line/giveaways/unsold). On-line sales records to be turned into the SFS. Contract to be kept and if modified all modifications, to be signed by the Principal. Unsold yearbooks kept for audit to reconcile the account.	Principal, SFS and Yearbook Sponsor	Process for accounting for all yearbooks.	Principal and SFS will train Yearbook sponsor how to account for yearbooks and keep unsold for next audit. Principal will sign any contract modifications.	Principal, SFS and Yearbook sponsor on an on-going basis.	Signature on Fundraiser Forms & contract mods. REPEAT Note: Although several items have been resolved, new sponsors are being trained on protocols.
8. Field Trip (FT) sponsors to use the FT Calculator found on myMCPS to help show how trips are priced. AP to approve FTs and letter of delegation to be kept on file each year. A folder to be set up for each FT when the trip is established & will contain the FT calculator, request form, accounting form & information needed for reconciliation.	Principal, SFS and Field Trip Sponsors	Processes for pricing FTs, yearly letter of delegation to AP and folder for each FT.	Principal and SFS will train FT sponsors on accounting, reconciling FTs. Principal will draft letter of delegation to AP to approve FTs on a yearly basis & SFS will file.	Principal, SFS and Field Trip sponsors on an on-going basis.	Principal review of Field Trip folders. REPEAT Note: Although several of the items have been resolved, training sponsors continues.
8. (con't) Student payments must list amount paid, date paid & if by cash/check/on-line payment. Student & parent payments to be listed separately on accounting form. FTs to be reconciled by SFS at the end of FT. If sponsor maintains an electronic spreadsheet, the comprehensive listing to be sent to the SFS at the end of FT and retained for audit.	Principal, SFS and Field Trip Sponsors	Processes for payment accounting, reconciliation & info. retention for audit.	MCPS Form 280-41, Field Trip Accounting, to be used by FT sponsors. SFS will keep a folder of identified documentation for all FTs and retain for audit.	Principal, SFS and Field Trip sponsors on an on-going basis.	Principal review of Field Trip folders. REPEAT Note: Although several of the items have been resolved, training sponsors continues.
9. Outdoor Environmental Education Program (OEEP) sponsors to identify students on spreadsheet by session attending and adding additional columns for OEEP fee (\$76) and Activity fee charged by the school (\$10). The first \$76 paid to be deposited to OEEP Fees & additional payments to the activity account, OEEP Expenses.	Principal, SFS and Outdoor Environmental Education Program Sponsors	Processes for payment accounting & reconciliation of MCPS fees & school fees.	Principal and SFS will train OEEP sponsors on accounting/reconciling MCPS and school Activity fees.	Principal, SFS and OEEP sponsors on an on-going basis.	Principal review of OEEP sponsor records and the correct reporting of funds collected.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
9. (con't) Students attending OEEP and paying \$0 need to be clearly identified. Amount billed by MCP should equal the amount collected in the OEEP fee (5030.0000) account.	Principal, SFS and Outdoor Environmental Education Program Sponsor	Process for identifying students paying \$0 and billing MCPS.	Principal and SFS will train OEEP sponsors on identifying/accounting/reconciling with MCPS students who pay \$0.	Principal, SFS and OEEP sponsors on an on-going basis.	Principal review of OEEP sponsor records of waivers granted to students.
10. Admissions events ticket report to be issued when SFS prepares tickets. Admissions Manager to prepare remittance slip & final ticket report & return with tickets & funds for deposit. SFS to verify deposit/tickets & sign ticket report.	Principal, SFS, Event Sponsors and Admissions Managers	Processes for SFS to issue ticket report to AM & reconciling funds.	Principal and SFS will train AM on ticket process & use of Form 280-50, Tickets & Cash Report of AM & Form 280-34, Remittance Slip.	Principal, SFS and Admissions Managers on an on-going basis.	Principal review of Forms 280-50-34. REPEAT Note: Although several items have been resolved, training sponsors continues.
10. (con't) If specialty tickets are required the school should purchase tickets from the MCPS print shop or another vendor. If free tickets are used a list of who received them to be kept for audit. Change funds to be recorded in the 9200 account rather than the individual account.	Principal, SFS, Event Sponsors and Admissions Managers	Processes for specialty tickets, free tickets and change funds.	Principal and SFS will train ES on specialty tickets & accounting for free tickets. SFS will deposit change in 9200 account.	Principal, SFS and Event Sponsors Managers on an on-going basis.	Review of specialty & free tickets-acct 9200. REPEAT Note: Although several items have been resolved, training sponsors continues.
11. Inventory to be done of all remaining PE clothing & include sales price of items & to be given to SFS. Sales to list specific item sold and amount. Year end inventory to be done and given to SFS. Reconciliation of account to be done to determine that all items are accounted for.	Principal, SFS and designated PE teacher sponsor	Process for accounting for all inventory and sales of specific items.	Principal and SFS will train PE teacher on inventorying remaining PE clothes and accounting for items sold, price and giveaways.	Principal, SFS and PE teacher sponsor on an on-going basis.	Principal review inventory. REPEAT Note: Although several items have been resolved, we continue to work on the inventory list.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL

☒ Approved ☐ Please revise and resubmit plan by _____

Comments:

Director: Beth T. H.

Date: 11/1/17