


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

March 1, 2021

MEMORANDUM

To: Mr. Lee F. Derby, Principal
Cedar Grove Elementary School

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

Subject: Report on Audit of Independent Activity Funds for the Period
August 1, 2017, through December 31, 2020

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 February 1, 2021, virtual meeting with you; Mrs. Rosa G. Mandich, school administrative secretary (secretary); and Mrs. Doris York, visiting bookkeeper, we reviewed the prior audit report dated September 22, 2017, 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

The principal shall designate, in writing, school employees who are authorized to sign checks. Their signatures and that of the principal's shall be entered on a signature card filed with the financial institution with a copy on file at the school. Any delegation impacting IAF actions shall be updated each fiscal year and filed in the school financial office (refer to the *MCPS Financial*

Manual, chapter 20, page 6). At the beginning of each fiscal year, we recommend that you sign a memorandum designating an administrator to sign checks in your absence.

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 6). 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 financial agent will mark the documentation as “paid.” In your action plan, you indicated that IAF purchasing procedures would be reviewed with staff during staff meetings, and with a school memorandum, to ensure IAF purchases and disbursements follow the guidelines outlined in the *MCPS Financial Manual*. In our sample of disbursements, we found instances in which controls over purchases were weakened that included documentation missing or inadequate to assure the school benefited from the purchase, MCPS Form 280-54 was not always signed by the principal, documentation supporting purchases were not stamped or marked “paid,” documentation was not annotated by the recipient to indicate purchased goods or services were satisfactorily received, and checks that had been signed only by the principal, missing the secondary signature. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF activities. We recommend that MCPS Form 280-54 be prepared with an estimate of expenditures by staff and signed by the principal at the time verbal approval is sought and that complete documentation be attached to fully explain the reason for the purchase.

Cash and checks collected by sponsors and others for IAF activities must be remitted promptly to the 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 the *MCPS Financial Manual*, Chapter 7, pp. 4-5). In your previous action plan, you indicated that staff would be informed—through staff meetings and a school memorandum—about the need to improve internal controls with regards to cash receipts, requiring prompt daily remittances of funds received by sponsors. We found that field trip sponsors continued to hold fees collected rather than remitting them to the secretary on a daily basis. In addition, the summer school sponsor held checks collected in May 2019 until June 21, 2019, rather than making routine deposits. We also noted that the secretary was not always making deposits on the last working day of each month and before each weekend or holiday. To minimize the risk of loss, all funds collected must be remitted daily. We recommend that staff be instructed to submit cash and checks collected for IAF activities to the secretary for prompt deposit in accordance with MCPS policy and procedures. To improve internal controls, all funds must be receipted and a deposit analysis completed in the School Funds Online (SFO), school accounting software, prior to making deposits at the bank. We found several instances where the secretary recorded deposits in SFO after the bank deposit was completed. We recommend adherence to the remittance and receipting of funds process outlined in the *MCPS Financial Manual* (refer to the *MCPS Financial Manual*, chapter 7, page 5).

In accordance with the February 14, 2019, memorandum from the chief financial officer, *Local Revenue-based Summer School Program Planning and Approval Process for Fiscal Year 2020*

(refer to attached memorandum), schools organizing Local Summer Programs (LSPs) must submit proposals and business plans to central office for review and approval. LSPs are to be self-supporting with student registration fees sufficient to cover all operational and administrative expenses. Reduced fees must be made available to qualifying students and may be prorated for noncredit courses as outlined in the above-mentioned memorandum. We found you did not keep accurate registration and payment records for summer school fees collected and a record of waivers granted, using MCPS Form 325-5LSP, *Application for Partial Tuition Waiver for Local Summer School Programs*. Expenses not included in the approved LSP preliminary business plan were paid from the summer school account. We recommend that you review the referenced memorandum to ensure future compliance with all required processes for planning and approval of LSPs.

Notice of Findings and Recommendations

- The principal shall delegate in writing, each fiscal year, the administrator authorized to sign checks in his/her absence.
- Purchase requests must be approved by the principal prior to procurement (**repeat**).
- Purchaser must confirm receipt of goods or services prior to disbursement (**repeat**).
- Purchase documentation must be adequate to support disbursements (**repeat**).
- Purchase invoices and receipts must be annotated as paid to indicate disbursement was made (**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 (**repeat**).
- Cash and check remittances must be recorded as a deposit in SFO prior to depositing at the bank.
- Ensure compliance with required processes for planning, approval, and implementation of LSPs (**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 Teaching, Learning, and Schools. 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 secretary to support you with developing a well-defined plan to address the findings.

MJB:ABP:lsh

Attachments

Copy to:

Members of the Board of Education

Dr. Smith

Dr. McKnight

Ms. Stratman

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:

Fiscal Year:

School:

Principal:

**OSSI
Associate Superintendent:**

**OSSI
Director:**

Strategic Improvement Focus:

As noted in the financial audit for the period _____, strategic improvements are required in the following business processes :

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 IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input type="checkbox"/> Approved	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments: _____ _____	
Director: <u>Eric Wilson</u>	Date: _____