MEMORANDUM

To: Mrs. Tillie C. Garfinkel, Principal
    Fairland Elementary School

From: Roger W. Pisha, Supervisor, Internal Audit

Subject: Report on Audit of Independent Activity Funds for the Period
        February 1, 2010, through October 31, 2012

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 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 IAFs are administered in accordance with MCPS policies, regulations, and procedures.

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 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.

In our meeting on January 15, 2013, with you, and Mrs. Dolores Baumann, administrative secretary, we reviewed the status of the conditions described in our prior audit report dated March 29, 2010, and the status of present conditions. We noted the picture vendor had not compensated the school for its signing bonus, and should be reminded to do so. 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

MCPS Form 280-54, Request for a Purchase, is used to obtain principal approval to proceed with an intended purchase (see MCPS Financial Manual, p. 20-5). The purpose of each
disbursement must be fully explained on this form in order to 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. In our random sample of disbursements, we again found that prior approval was not consistently obtained. Many disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. We recommend that Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought, and that complete documentation be attached to explain the reason for the purchase. Prior approval for staff to make school purchases can also be conveyed by authorizing the MCPS Purchasing Card.

Sponsors of field trips should have a complete class or club roster of student names to annotate the amount each student paid, eligible students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. This data should be provided to the administrative secretary at the completion of each trip, and compared to remittances recorded in the trip account reconciliation report. The data should also be used to estimate future trips. We again 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 reconciliation report nor used for planning future trips. 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 completion of each trip (see MCPS Financial Manual, p. 20-9).

Sponsors of school activities which involve the collection or disbursement of IAF should be provided an account statement for each month in which transactions have been recorded in their account. The sponsors should verify that all transactions affecting their account have been correctly recorded, resolve any discrepancies, sign and date the statements to attest to their accuracy, and return them to the administrative secretary. We again found this essential internal control procedure was not consistently being used. We recommend a procedure be established to ensure that all statements are reviewed and returned (see MCPS Financial Manual, p. 20-9).

Analysis of the school checking account again showed consecutive months when the balance exceeded immediate needs. Over the long term, the MCPS Centralized Investment Fund (CIF) has collectively earned a higher rate of return than individual interest bearing checking accounts. Keeping high balances in the checking account limits the amount of interest the school could be earning. The principal is responsible for ensuring that funds in excess of current needs are invested in a manner that will earn a reasonable rate of return. A better use of the excess funds would be to open a school CIF account in which to deposit them to maximize interest income. When needed to pay expenses, these funds are available for prompt return via electronic transfer directly into the school’s checking account (see MCPS Finance Manual, p. 7-5).

Summary of Recommendations

- Expenditure of funds must be approved by the principal prior to procurement (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);

Monthly account transaction statements must be provided to sponsors for affirmation of correctness and returned to the administrative secretary (repeat); and

Centralized Investment Fund should be used to deposit excess funds (repeat).

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of Mrs. Baumann, which greatly facilitated our audit. In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, please provide a response to the Internal Audit office within 30 days of this report, with a copy to Dr. Myra J. Smith, community superintendent. The Office of School Support and Improvement will follow up on this audit.

RWP:RM:sd

Copy to:
Mr. Bowers
Dr. Statham
Dr. Schiavino-Narvaez
Dr. Marks
Dr. Smith
Mrs. DeGraba
Mrs. Milwit
Mrs. Chen
January 28, 2013

MEMORANDUM FOR: Roger W. Pisha, Supervisor
                 Internal Audit

FROM: Tillie Garfinkel
      Principal, Fairland Elementary School


I am pleased to respond on behalf of Fairland Elementary School to the subject audit report. I also want to express my appreciation for the work involved in the audit and the recommendations of the auditor, which we intend to implement fully and to the best of our ability.

Before responding to the particular findings and recommendations, I want to underscore the importance of what did not need to be stated in the audit report. The report demonstrates that once again, over the past three years, the maintenance of Fairland’s IAF has continued without any indication whatsoever of any misfeasance, malfeasance or loss on the part of anyone associated with these funds. Fairland’s Administrative Secretary, Dolores Baumann, has been fastidious in her handling of this and other Fairland accounts, and I want to state publicly how much I count on her and rely upon her, fully confident of her ability and integrity.

With respect to the particular findings and recommendations, I will take the following actions:

(1) I will continue and increase my monitoring to include that the expenditure of funds is approved by me prior to procurement. Ms. Baumann and I will oversee this issue with increased vigilance and regularity.
(2) I will make sure that field trip sponsors provide comprehensive data to account for all students eligible to participate, and to reconcile funds collected with costs of the trip. Mrs. Baumann and I will oversee this issue with increased vigilance and regularity.
(3) I will confirm that monthly account transaction statements are provided to sponsors for affirmation of correctness and returned to the administrative secretary. Mrs. Baumann and I will oversee this with increased vigilance and regularity.
(4) I will consider using the Centralized Investment Fund (CIF) to deposit excess funds.
Once again, we thank the auditor for his hard work and professionalism, and for his recommendations. We stand ready to work with the Internal Audit Office at any time to improve Fairland’s compliance with its financial and administrative obligations and responsibilities.

cc: Dr. Myra J. Smith, Community Superintendent
    Stacey Dunn, Assistant Principal
    Dolores Baumann, Administrative Secretary