MEMORANDUM

To: Mrs. Diane Morris, Principal
   William H. Farquhar Middle School

From: Roger W. Pisha, Supervisor, Internal Audit

Subject: Report on Audit of Independent Activity Funds for the Period
         September 1, 2010, through May 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 June 26, 2012, with you and Mrs. Judith Yu, financial specialist, we reviewed the status of the conditions described in our prior audit report dated October 12, 2012, and discussed further actions needed to strengthen the accountability for IAF resources. 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

In accordance with the August 4, 2008, memorandum from the chief operating officer (COO), the expenditure of general funds to provide refreshments for staff meetings (IAF account 11) and staff appreciation (IAF account 20) was $45 per staff FTE per fiscal year through June 30, 2012.
You exceeded this allowable amount for fiscal year 2011 and 2012. We found instances in which expenditures were incorrectly classified and recorded in the general account. 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. We recommend you correctly classify and record these transactions for more accurate accountability as well as adhere to the guidelines from the COO. It should be noted that the April 16, 2012, memorandum from the COO adjusted the expenditure guideline from $45 to $60 per FTE effective FY 2013.

**Summary of Recommendations**

- Staff appreciation and meeting refreshment expenditures must be correctly classified and recorded with the combined total not exceeding a specified amount for a fiscal year without prior approval of the COO.

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of your staff, especially that of Mrs. Yu. 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 Smith, community superintendent. The Office of School Support and Improvement will follow up on this audit.

RWP:MJB:sd

Copy to:
Mr. Bowers
Dr. Statham
Dr. Schiavino-Narvaez
Mr. Talley
Dr. Smith
Mrs. DeGraba
Mrs. Milwit
Mr. Doody
MEMORANDUM

July 26, 2012

To: Dr. Myra Smith, Community Superintendent

From: Diane D’Ambrosio Morris, Principal
William H. Farquhar Middle School

Subject: Response to Report on Audit of Independent Activity Funds for the Period
September 1, 2012, through May 31, 2012

This memo is written in response to the recent audit of Independent Activity Funds (IAF)
account at William H. Farquhar Middle School. We have implemented the following steps to
ensure our compliance with all applicable Montgomery County Public School policies and
procedures and to more effectively manage our IAF:

- The sited expense in the internal audit report was specific to the water coolers in
  the building that were being paid from the general funds. The total in question
  that was discussed at the findings meeting was $432.36. We have used staff
  vending commissions ($302.35) to pay for the water. To cover the balance of
  $130.07, we used the end of year balance in the staff appreciation account which
  was $217.00. Furthermore, we recognize that the water in the main office which
  is available to staff, parents and students is predominately used by staff, thus a
  portion will be taken out of staff appreciation to cover the cost of the water. In
  addition to sharing the audit findings with our new Financial Specialist, Ms.
  Shuhua Bell, we are currently exploring other options for making the water more
  available to parents and students.

I found Bergstresser’s suggestions and recommendations for improved procedures and
compliance with the IAF manual to be most beneficial. Additionally, Ms. Yu, Financial
Assistant, should be duly commended for her record keeping and fiscally sound practices.

DDM

Copy to:
Mr. Roger Pisha, Supervisor, Internal Audit