

Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

June 6, 2018

MEMORANDUM

To: Dr. Kisha Logan, Principal
Montgomery Village Middle School

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

Subject: Report on Audit of Independent Activity Funds for the Period
November 1, 2016, through March 31, 2018

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 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 May 22, 2018, meeting with you and Mrs. Angela E. Cosby, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated December 22, 2016, and the status of present conditions. It should be noted that your appointment as principal was effective August 1, 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

The management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures (refer to *MCPS Financial Manual*, chapter 20, page 1). We noted in the School Funds Online (SFO) accounting software that entries for disbursements

and receipts were recorded in accounts unrelated to the description of the expense and income. Also, there were other recording errors that were not always corrected. Such errors affect the clarity and reliability of reports. To reduce the number of errors and increase the value of reports, we recommend review of the standard IAF chart of accounts prior to entering transactions into SFO, and that the school financial specialist be provided uninterrupted time for processes that require attention to detail.

Transfers of funds between general ledger accounts may be made only after MCPS Form 281-46, *Independent Activity Funds – Transfer*, has been approved by the principal. They must be fully documented and adhere to MCPS guidelines for allowable uses of funds (refer to *MCPS Financial Manual*, chapter 20, page 12). We found numerous transfers approved by the former principal that did not align with MCPS guidelines. Included were transfers that inappropriately moved grant, athletic, field trip, media center, course fee, and other funds restricted for specific purposes into the general account at the end of Fiscal Year 2017. Based upon our analysis of the affected accounts and recommended adjusting entries, the school financial specialist made the corrections to the accounts. To improve internal controls, we recommend reviewing uses of the IAF to ensure transfer requests are appropriate prior to approval.

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. 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. Upon approval of a fund-raiser by the principal, financial activities for each fund-raising activity should be recorded in a separate SFO 7000 series account. At the conclusion of the activity, a completion report should be prepared that analyzes the results, and proceeds should be transferred to the benefitting account named in the request (refer to *MCPS Financial Manual*, chapter 20, page 13). Although most fund-raisers had been approved in writing by the principal, we found that only one in our sample had a completion report, and the analysis section had not been completed to compare expected receipts, based on items sold, to actual receipts. In addition, we found some fund-raiser transactions were recorded in club accounts or other unrelated accounts, rather than in prescribed fund-raiser accounts, and the profit from annual band candy fund-raisers was not transferred into the benefitting Hershey Park music field trip accounts. We recommend that staff review the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser* to comply with reporting requirements and the use of generated funds.

Sponsors of field trips should have a complete class or club roster of student names and annotate how much each student paid, students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. This data should be submitted to the business office 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). The data also should be used to estimate future trips. We found that not all sponsors are submitting completed data at the conclusion of each trip, and that data is not being compared to the final account history report. Sponsors' processes for entering payments, waivers, and refunds were inconsistent, and records did not always include students who did not attend. We also found instances in which fees charged exceeded sums needed to pay for a trip. We recommend that trip sponsors use MCPS Form 280-41, *Field Trip Accounting*,

or its equivalent, and provide complete data at the conclusion of each trip. This data must be reconciled with remittances recorded in activity accounts. We further recommend that trip planning be reviewed to insure established fees are commensurate with trip expenses.

Summary of Recommendations

- The management of IAFs must be in accordance with good business practices that include sound accounting procedures and internal controls.
- Transfers between accounts should conform to allowable uses of funds and be fully documented.
- Fund-raiser completion reports prepared by sponsors must provide sufficient information to analyze results (**repeat**).
- Fund-raiser proceeds must be transferred to a benefiting account prior to disbursement.
- 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.
- Field trip planning should be reviewed to ensure established fees are commensurate with trip expenses.

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 agent to support you with developing a well-defined plan to address the findings.

RWP:DKH: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

Report Date: June 6, 2018	Fiscal Year: FY18
School: Montgomery Village Middle School 557	Principal: Dr. Kisha Logan
OSSI Associate Superintendent: Dr. Michael Zarchin	OSSI Director: Dr. Darryl Williams

Strategic Improvement Focus:

As noted in the financial audit for the period 11/1/2016 – 3/31/2018, strategic improvements are required in the following business processes :

- The management of IAFs must be in accordance with good business practices that include sound accounting procedures and internal controls.
- Transfers between accounts should conform to allowable uses of funds and be fully documented.
- Fund-raiser completion reports prepared by sponsors must provide sufficient information to analyze results (repeat).
- Fund-raiser proceeds must be transferred to a benefiting account prior to disbursement.
- 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.
- Field trip planning should be reviewed to ensure established fees are commensurate with trip expenses.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Prior to any field trip, ensure staff are trained on procedures for planning and facilitating field trips. Ensure staff are provided supporting documentation /MCPS forms and data base to complete all field trip reconciliation reports. Ensure staff establish fees which are commensurate with trip expenses	Principal Financial Specialist Field Trip Sponsor	MCPS Financial manual MCPS Field Trip Reconciliation	Review of field trip procedures and guidelines with staff on an ongoing basis.	At the request of each staff member who conducts a field trip.	All field trip completion paper work will conform to the guidelines set forth in the MCPS financial manual.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Management of IAF accounts will be in accordance with good business practices; transfers between accounts will conform to allowable uses of funds and be fully documented.	Principal Financial Specialist	MCPS Financial Manual IAF Chapter 20	Review and adherence of MCPS IAF account guidelines	At the request of the IAF sponsor and principal as needed.	All IAF accounts will be maintained in accordance with MCPS IAF policy and procedures.
The sponsors at the completion of each fund-raising event will prepare fund-raiser completion reports. Proceeds from fund-raiser will be transferred to the benefiting account after completion of fundraiser completion report and prior to disbursement.	Principal Financial Specialist Fund Raiser Sponsor	MCPS Financial Manual MVMS Financial Procedures	Review of financial procedures and guidelines with staff on an ongoing basis and maintain log for the review of procedures.	At the request of the intended fund-raiser sponsor or as needed with the financial specialist.	All fundraising activities will conform to guidelines for sponsoring an IAF fundraiser.

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL	
<input checked="" type="checkbox"/> Approved	<input type="checkbox"/> Please revise and resubmit plan by _____
Comments: <u>Please maintain agendas/artifacts from meetings with staff when financial procedures and guidelines are presented and explained.</u>	
Director: <u>[Signature]</u>	Date: <u>8-16-18</u>

Please maintain agendas/artifacts from meetings with staff when financial procedures and guidelines are presented and explained.

Mike Zarchin 8-16-18