


Internal Audit Unit  
MONTGOMERY COUNTY BOARD OF EDUCATION  
Rockville, Maryland

October 19, 2017

MEMORANDUM

To: Mr. Everett M. Davis, Principal  
Redland 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 October 12, 2017, meeting with you, Mr. Matthew T. Niper, principal intern; and Mrs. Barbara A. Dorsey, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated April 6, 2016, 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 transfer of IAFs between general ledger accounts may be made only after MCPS Form 281-46, *Independent Activity Funds-Transfer*, prepared by the school financial specialist has been approved by both the account sponsor and the principal. Transfers must be fully documented and adhere to MCPS guidelines for allowable uses of funds. Although MCPS Forms



281-46 were routinely signed by the principal, we found instances in which various funds were transferred into an inappropriate account and the forms were not signed by the account sponsor. We recommend that the school financial specialist reviews MCPS Forms 281-46 to ensure that the requests are supported by proper documentation and meet the requirements for appropriate use of funds, prior to presenting them to the principal for approval (refer to *MCPS Financial Manual*, chapter 20, page 12).

MCPS Form 280-54, *Independent Activity Funds Request for a Purchase*, is used to obtain the principal's approval to proceed with an intended purchase (refer to *MCPS Financial Manual*, chapter 20, page 4). The purpose of each disbursement must be fully explained on this form to properly record expenditures in appropriate accounts and ensure 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. The school financial specialist will mark the invoice as "paid." In our sample of disbursements, we found instances in which controls over purchases were weakened that included MCPS Forms 280-54 not signed by the principal in advance of purchase, the amount of the request was not indicated on the forms prior to approval, the balance in the account to be charged was blank, and invoices not annotated by the purchaser to indicate the goods or services were satisfactorily received. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAFs. We recommend that MCPS Form 280-54 be prepared by staff with an estimate of the expected amount of the expenditure and current balance in account, and signed by the principal prior to purchase. Certain sponsors would benefit from having an annual budget detailing expected income and expenses, and obtaining your approval at the beginning of the school year. These budgets should be monitored by your school financial specialist and revised if necessary.

Aggregate school expenditures of general funds for the procurement of refreshments in connection with meetings and staff appreciation items may not exceed \$60 per full-time equivalent (FTE) position per fiscal year without the prior written authorization from the chief operating officer (COO) (refer to *MCPS Financial Manual*, chapter 20, page 5). These expenditures must be appropriately recorded in accordance with the IAF chart of accounts. We found that you exceeded the total amount allowed in FY 2017, without approval of the COO. We also found instances in which expenditures for these items were incorrectly classified and recorded in various accounts. 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 that you adhere to the preceding MCPS requirements as well as correctly classify and record these transactions for more accurate accountability.

Cash and checks collected for IAF activities by sponsors and other authorized individuals must be remitted with MCPS Form 280-34, *Independent Activity Fund (IAF) Remittance Slip*, to the school financial specialist on the day the funds are received. The school financial specialist should count the funds received in the presence of the remitter, issue a receipt, restrictively endorse any checks "for deposit only," and promptly deposit the funds into the school's bank account. Funds not promptly remitted and deposited become susceptible to loss or theft, and are not available to disburse from the school's checking account to pay for school requirements. We found instances



in which staff collecting funds for field trips and other activities were holding rather than remitting them promptly to the school financial specialist. We also noted that the school financial specialist was not always making timely bank deposits. To minimize the risk of loss or theft, and to make funds available to meet school needs, we recommend that all funds collected should be promptly remitted to the school financial specialist for timely deposit in the bank (refer to *MCPS Financial Manual*, chapter 7, pp. 4-5).

Retail sales tax must be collected by the school and remitted to the State of Maryland on the sales of all taxable merchandise. Taxable merchandise includes yearbook, school store, fundraiser items, physical education clothing, and other items that become the personal property of the individual making the purchase (refer to the *MCPS Financial Manual*, chapter 18, page 2). We found that sales tax was collected and remitted only on yearbook sales. We recommend that the school financial specialist instruct sponsors as to which activities require the collection of sales tax to comply with state law.

#### Summary of Recommendations

- Transfers should adhere to the appropriate use of IAF funds and be fully documented.
- Purchase requests must be approved by the principal prior to procurement.
- Purchaser must confirm receipt of goods or services prior to disbursement (**repeat**).
- Total combined expenditures for staff appreciation and meeting refreshment may not exceed \$60 per FTE per fiscal year without prior approval of the COO.
- Staff appreciation and meeting refreshment expenditures must be correctly classified and recorded (**repeat**).
- Funds collected by sponsors must be promptly remitted and timely deposited in the bank.
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland.

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 Dr. Michael J. Zarchin, director of school support and improvement of secondary schools. Based on the audit recommendations, Dr. Zarchin 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 school financial specialist to support you with developing a well-defined plan to address the findings.

RWP:MJB:lsb

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

Dr. Zarchin

Mr. Ikheloa

# FINANCIAL MANAGEMENT ACTION PLAN

School: Redland MS – 562

Principal: Everett Davis

Fiscal Year: 2018

OSSI

Associate Superintendent: Darryl Williams

OSSI

Director: Mike Zarchin

## Strategic Improvement Focus:

As noted in the financial audit for the period 3/1/2016-8/31/2017, 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
Sponsor's will be required to sign form 281-46. This will be addressed with staff at the next financial review meeting.	Mrs. Dorsey	Staff Meeting	Form 281-46	Mr. Davis Mr. Niper 2017-2018	
Request for purchases will be addressed with staff requiring the most active departments; Music, Chorus, PE, Drama, to present a spending budget to reflect pre-approval of spending allocated funds. Financial Specialist will remind staff that current account balances must be verified before form 280-54 is approved.	Mrs. Dorsey	Staff Meeting	Form 280-54 MCPS Financial Manual Chapter 20, pg. 4	Mr. Davis Mr. Niper	
The \$60 FTE will be determined prior to spending at the beginning of school year in order to manage the limitations allowed. Funds from student pictures or cell tower will be used to support this account.	Mrs. Dorsey	Spreadsheet budget	MCPS Financial Manual Chapter 20, pg. 5	Mr. Davis Mr. Niper	
The financial Specialist makes timely deposits and sometimes goes to the bank twice a day if additional money is received after the first deposit. Will remind staff to hand in funds daily and to not hold money overnight.	Mrs. Dorsey	Staff Meeting	Deposit Slips/Mileage	Mr. Davis Mr. Niper	



Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Financial Specialist will instruct sponsors of sale tax requirements on purchases made on behalf of Redland MS.	Mrs. Dorsey	Staff Meeting	MCPS Financial Manual Chapter 7, pg 4-5	Mr. Davis Mr. Niper	

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

☒ Approved

☐ Please revise and resubmit plan by \_\_\_\_\_

Comments:

Director: \_\_\_\_\_

Date: 11-17-17