

financial agents. In fact, the process has begun to conduct specific training and to get a pilot up and running by the end of this year. Mr. Pisha provided information on the size of the Internal Audit Unit, its work capacity, and how the unit prioritizes items on its work plan. He also shared information on resources at the unit's disposal, for example manuals, policies, and regulations, Policy CND, Regulation DIA-RA, DIA-RB. The second phase of the new FMS should incorporate the accounting of IAF which will help support schools. The Audit Committee was assured that once the current vending contracts run out, all school vending contracts will go through food services, and this conversion should be completed in about 3 years. **MCPS staff will give the Audit Committee members an update on where we are with the high school audits.**

MCPS staff informed the Audit Committee that the legal responsibility, obligation including short fall incurred by IAF funds are the obligation of the Principal and the school and that the individual school has no authority to take on debt.

Committee members asked several questions relating to internal controls over expenditures. For example, the committee noted that there were a number of disbursements made without approval and procurements made seemingly with the intent of avoiding the processes and rules for purchases over \$15,000. There is also a need to look at the issue of schools selling MCPS equipment to other schools (as in the case with Northwood High School noted in the audit report of Churchill High School). Staff shared that this is an ongoing issue that is being reviewed closely.

MCPS staff also clarified the relationship between the local school and Booster clubs and PTAs in terms of financial responsibility and legal and fiscal obligations. When a school is acting like a business, business rules apply, making sure we are in compliance and have the skill sets to run these. Booster clubs do not have the entire legal basis that PTA's have or what they can and can not do. With fund-raising, the principal still has the responsibility for the PTA and for the boosters. The principal has to approve the activities.

Review of Report on Audit of Independent Activity Funds – Winston Churchill High School

MCPS staff reviewed the attached report on the Audit of Independent Activity Funds at Churchill High School. In general, there are key persons at all levels of fiscal control, including a financial assistant, who clearly understand their roles and responsibilities. Business managers are required to have a plan in place and know how to set up accounts. Auditors go out to the schools on a regular basis and participate in an awareness process, and provide onsite training. Auditors also monitor and make sure schools have a plan in place to pay off all obligations within the year that they are incurred.

The committee asked staff to work with the Office of School Performance to ensure that schools respond in writing to audit concerns in a timely fashion. This was in response to an

observation in the audit report that although a response to an audit is required within 30 days, the 2005 report was written a year later.

In response to a question, staff shared that processes involved in purchasing textbooks are not related to audits of IAF issues.

In terms of payment of stipend for staff persons, MCPS staff shared that there are new regulations and procedures in place that require all staff payments to go through the new Lawson system. The community superintendents will get the information much earlier this year. Payments to students can be made out of the IAF and will still report to the system if it is of a certain level.

Another challenge is the control of tickets, and of admission. MCPS has pledged to have a check and balance in place to improve upon this process.

The Chair of the Committee agreed to update the Board on these issues at the next Board of Education meeting

In response to a question, staff shared that the sales tax liability referenced in the audit report has been paid to the state

In conclusion, the committee agreed that while the school was negligent in its accounting practices, there was no criminal intent. Integrating IAF into FMS would greatly help to tighten fiscal controls.

Next Steps

The following items need to be brought before the Audit Committee:

- 1) Middle School Magnet transportation
- 2) Update on integrating the IAF into the new Financial Management System
- 3) External Auditors Report
- 4) Actuarial Valuation Report
- 5) Look at the policy and regulations regarding disposal of property
- 6) A written report on the status of the IAFs will be sent to the Board.

The Audit Committee will need to work with the Internal Audit Unit and the Chief Operating Officer to establish dates in September and November for the next two Audit Committee meetings.

The meeting was adjourned at 11:05 a.m.

Recorder: Becky Gibson