


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

March 8, 2012

MEMORANDUM

To: Mrs. Renay Johnson, Principal
Montgomery Blair High School

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
April 1, 2010, through November 30, 2011

This audit report presents the results of our examination of the financial records, reports, and internal accounting controls relating to the Independent Activity Funds (IAF) for your school for the period designated above. The examination was made to evaluate the adequacy of accountability over these funds, compliance with applicable Montgomery County Public Schools (MCPS) policies and procedures, and effectiveness of IAF management.

In our meeting on February 16, 2012, with you, Ms. Bronda Mills, community superintendent, Mr. James Funk, business administrator, and Mrs. Donna Franklin, financial specialist, we reviewed conditions described in our previous report dated August 12, 2010, and the status of present conditions. We advised you that most of the unresolved conditions found existed prior to your appointment as principal effective July 1, 2011. Our findings and recommendations appear below.

Findings and Recommendations

IAF must be managed in accordance with sound accounting practices and effective internal control procedures (see MCPS Financial Manual, p. 20-1). We continued to find weaknesses that included transactions modified after reports were printed, general ledger accounts without an assigned sponsor to independently verify fund balances, cash receipts and checks improperly voided, written delegation of principal's signature authority unavailable, stamped rather than cursive signature on financial documents, and lack of date to indicate when documents were processed. We recommend implementation of accounting practices and internal control procedures that comply with policies and regulations. Financial staff would benefit from attendance at School Finance Training to reinforce current practices and procedures.

Recording of IAF transactions should comply with the standard chart of accounts so that monthly reports provided for staff review and approval contain data relevant to the named activity. We again found numerous deficiencies in coding and recording IAF transactions. Receipts and

disbursements for field trip and fund raising activities were recorded in class or club accounts, while expenses for staff development and staff appreciation were recorded in the general account. In addition, many entries lacked meaningful information to describe the transactions. We recommend that each transaction includes information that fully describes the activity, and that the school's account structure be brought into compliance with the current chart of accounts (see MCPS Financial Manual, p. 20-10).

Effective internal control includes the timely receipt and review by the principal of the monthly bank statement, bank reconciliation report, and general ledger (see MCPS Financial Manual, p. 20-8). Review of these reports must be evidenced by the principal's signature and date. We continued to find weaknesses in the monthly reporting process such as reports not dated when signed and required report components missing or inconsistently prepared. In addition, a complete FY 2011 cumulative report had not been printed. We recommend you initiate a process to ensure that required monthly and cumulative reports are consistently and timely prepared, reviewed, dated, and signed.

Disbursement of IAF must be controlled in a number of ways. All purchases must be approved in advance and in writing, and supported by sufficient documentation (see MCPS Financial Manual, p. 20-5). In our sample of cash disbursements, we continued to find instances in which purchases were not in compliance that included pre-approval missing or not evident, supporting documentation missing or not adequate, invoices lacking certification that goods or services had been satisfactorily received, invoices and receipts were not stamped "Paid", duplicate reimbursements, and purchase orders issued directly to vendors by the school rather than through the MCPS Financial Management System (see MCPS Financial Manual, p. 3-4). Action is needed to bring purchasing into conformance with MCPS requirements.

In order to properly control receipts, cash and checks collected by sponsors for IAF activities should be turned in promptly and intact to the financial specialist. Sponsors are required to use MCPS Form 280-34, *Remittance Slip*, to document remittance of student fees collected. We again found instances in which remittance forms were not complete with a description of the remittance, did not include student names and amounts collected for fees, and did not include the date collected or the date remitted. We found remittance forms that included a description that did not match the purpose for the remittance, and some that were blank except for the stamped signature of the financial specialist. Some sponsors were holding funds collected rather than remitting them to the financial specialist on a daily basis. Also, some expenses were paid out of collected cash rather than being remitted intact as required. We recommend adoption of the cash control procedures in the MCPS Financial Manual, p. 7-3.

Fund raising must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. All fund raisers must be approved in advance with a separate account established in the 800 series. The activity sponsor must control fund raiser inventories, monitor sales activity, and prepare a completion report at the conclusion of the activity for business staff to analyze results.

These internal control procedures provide accountability of funds raised as well as the opportunity to evaluate the results of the event. We again found, except for pizza fund raisers, a lack of adherence to fund raising guidelines. The business office was not always aware that a fund raiser was being conducted until funds were remitted, and sponsors did not maintain records to turn in at the conclusion of the activity. We found no evidence to indicate that fund raisers were analyzed, making it impossible to verify if all sums collected were remitted to the financial specialist. We again suggest a master schedule of all fund raisers approved in writing by the principal be maintained, and that fund raising be brought into compliance with guidelines.

Control over yearbook activity continues to need improvement. The sponsor is required to count and secure the inventory, monitor distribution of books, and record sales activity. Detailed records of books sold, given free, and returned to the vendor for credit must be maintained by the sponsor for review by the business administrator and the principal (see MCPS Financial Manual p. 20-12). We found the records maintained by the former sponsor were insufficient to reconcile books reported as sold to remittances recorded in the ledger or to allow for timely analysis. We noted that a new sponsor was assigned the yearbook activity for FY 2012. We recommend the school business administrator provide assistance to the yearbook sponsor with record-keeping and preparation of the required profit or loss statement.

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. Trip approval forms signed by the principal and community superintendent, as appropriate, should be retained. A field trip is not designed to incur a profit or loss, but rather come as close as possible to the break-even point to pay for all costs associated with the trip. The financial specialist should establish a separate account in the 500 series for each trip. Sponsors should record names of participants, cost, and fee information for each field trip on MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and submit comprehensive data to the financial specialist when a trip is completed. This documentation enables financial staff to reconcile expected receipts to sums recorded in the field trip account. Continuing weaknesses in this area included fees remitted to the finance office prior to financial staff knowledge of the trip, sponsors failing to use Form 280-41 or equivalent to record fees collected or failing to provide comprehensive financial information at the conclusion of trips, fees collected not commensurate with anticipated expenses, and the financial staff not performing a reconciliation of fees collected to amounts expected based on the number of trip participants. We recommend sponsors be required to follow the procedures outlined above, the business office reconcile expected receipts to actual receipts, and a comprehensive trip calendar be maintained.

In addition to the conditions identified above that continue to need improvement, we found other areas that need to be strengthened. Admission receipts for athletic and non-athletic events should be controlled according to MCPS Regulation DMB-RA, *Control of Admission Receipts*. Admissions must be controlled with serially numbered tickets, separation of duties, use of the required MCPS Form 280-50, *Tickets and Cash Report of Admissions Manager*, for tracking and

reconciling sales, and perpetual inventory of tickets. For athletic events, ticket forms were not on file for some events, and although large amounts of cash were remitted, it is not clear whether tickets were used. Ticket forms for non-athletic events with multiple performance dates and multiple day sales were prepared by performance date rather than the date of the sale; therefore the total daily sales could not be reconciled to the daily cash receipts. Our analysis of ticket forms for Prom 2011, Homecoming 2011, and the Fall 2011 play noted discrepancies with possible shortages, as we could find no indication that the business staff had reconciled tickets sold to cash receipts. We recommend that procedures for sale of tickets be reviewed with appropriate staff prior to events, and that a process be established to ensure that ticket forms are appropriately-reconciled at the conclusion of each event.

IAF funds in excess of current needs should be deposited in the MCPS Centralized Investment Fund (CIF) to maximize interest income. Monthly distribution of CIF interest and expense are to be recorded in the school's financial accounting system as soon as possible after the distribution (see MCPS Financial Manual, p. 22-5). We found that interest and expense were not recorded regularly each month, causing CIF account balances to be incorrectly stated on the school's annual financial report. In addition, investments and withdrawals were not always correctly recorded in the school's general ledger. We recommend that business staff incorporate the examination of CIF accounts in their monthly review to ensure that the general ledger reflects the current balance of investments.

Retail sales tax must be collected by the school on the sales of all taxable merchandise and remitted to the State of Maryland (see MCPS Financial Manual, p. 18-1). Taxable merchandise includes yearbook, school store, fundraiser items such as tee shirts, and other items that become the personal property of the individual making the purchase. Our examination revealed that taxes were not collected or remitted on all items sold to students. We recommend that the financial staff work with sponsors to determine when tax must be collected to ensure that sales prices are set appropriately to include the tax so that activities do not incur a loss, and establish a process to ensure that sales tax is remitted timely to the State of Maryland.

Summary of Recommendations

- Manage IAF in accordance with sound accounting practices and effective internal control procedures (repeat);
- Record accounting transactions in conformity with the IAF chart of accounts (repeat);
- Monthly financial reports must be signed and dated by the principal to indicate review (repeat);
- Purchase requests must be approved by the principal prior to procurement (repeat);

- Receipt of goods or services must be confirmed prior to disbursement (repeat);
- Invoices and receipts must be annotated as "Paid" to indicate disbursement was made (repeat);
- Adequate documentation must be provided to support disbursements (repeat);
- Funds collected must be remitted promptly and intact by sponsors to the financial agent using MCPS Form 280-34 (repeat);
- Fund raising must conform to *Guidelines for Sponsoring an IAF Fund Raiser* (repeat);
- Yearbook profit or loss statement must be prepared to account for all activity (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);
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA;
- Centralized Investment Fund should be used to deposit excess funds; and
- Collect and remit tax on taxable sales to the Maryland Comptroller.

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of your staff, especially Mr. Funk and Mrs. Franklin. 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 Ms. Bronda Mills, community superintendent. The Office of School Performance will follow up on this audit.

RWP:DKH:sd

Copy to:

Mr. Bowers
Dr. Lacey
Mr. Talley
Ms. Mills
Mrs. DeGraba
Mrs. Milwit
Mr. Doody

Montgomery Blair High School
IAF Funds Action Plan

Audit Period 4/1/10 – 11/30/11

Findings and Recommendations	Description of Resolution	Person(s) Responsible	Timeline	Evidence of Completion
Improve effective internal control procedures and sound accounting practices	Business Office staff to attend refresher for school finance training. Last completed 2009. Review MCPS Financial Manual in weekly meetings.	Business Admin. Financial Specialist Secretary	Fall 2012	Completion Certificate
Account structure needs additional adjustment.	Current school accounts have been reviewed and are being adjusted to be in compliance with Chart of Accounts. Over 300 changes have been made since the last audit. Meaningful descriptions are being attached to each transaction.	Business Admin. Financial Specialist	On going	Account Records
Improve internal controls to track timely receipt and review of monthly and cumulative reports.	Process change implemented to have secretary support for report distribution, follow-up and review for completeness. Business Administrator to follow up on outstanding issues.	Financial Specialist Secretary Business Admin	Fall 2011	Account Records
Improved controls on disbursements including written preapproval process and adequate support documentation	Design, communicate and implement a preapproval process for expenditures. Evidence of "paid" and "received" embedded into workflow. School purchase orders eliminated. Non-compliant staff reported to Principal for follow-up.	Business Admin. Financial Specialist Secretary Principal	July 1, 2012 On going	Controls in place Account Records
Improve cash control procedures	Enhance workflow to ensure that all sponsors are in compliance. Communicate and retrain staff. Non-compliant staff reported to Principal for follow-up.	Business Admin. Financial Specialist Business Admin. Principal	July 1, 2012 March 5, 2012 Pre-service On going	Controls in place
Enhanced controls and accountability for fund raisers.	Enhance workflow to improve closeout process and follow-up. Communicate and re-train staff. Master schedule for fund raisers to be created.	Business Admin. Financial Specialist Business Admin. Business Admin. Financial Specialist	July 1, 2012 March 5, 2012 Pre-service July 1, 2012	Controls in place Master Schedule
Improve Yearbook Controls	Sponsor and Vendor changed. Monthly meetings with BA, Sponsor and Vendor Rep Consolidated account records	Business Admin. Business Admin. Vendor Rep.	July 1, 2011 July 1, 2011 July 1, 2012	Account Records
Enhanced controls and accountability for field trips.	Process enhancements made Additional enhancements made to close-out process. Re-training provided to staff. Field Trip Calendar to be maintained by the Finance Office. Non-compliant staff reported to Principal for follow-up.	Business Admin. Business Admin. Financial Specialist Business Admin. Business Admin. Financial Specialist Principal	July 1, 2011 August 31, 2012 March 5, 2012 Pre-service July 1, 2011 On going	Controls in place Field Trip Calendar
Improve internal controls in school ticket process.	Work flow adjusted to include secretary support. New Athletic Director in place. Perpetual inventory implemented.	Business Admin. Financial Specialist Secretary Athletic Director Financial Specialist Secretary	August 31, 2012 Jul 1, 2011 February 2012	Controls in place Account Records
CIF transactions to be recorded monthly.	Item to be added to Financial Specialist monthly checklist.	Business Admin. Financial Specialist	March 2012	Account Records
Retail sales tax must be collected when appropriate.	Sales tax consideration to be embedded in all workflows and added to checklists. Timely disbursements made.	Business Admin. Financial Specialist	July 1, 2012	Account Records