


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

August 15, 2016

MEMORANDUM

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

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

Subject: Report on Audit of Independent Activity Funds for the Period
September 1, 2014, through March 31, 2016

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 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.

In our meeting on June 22, 2016, with you, Mr. James W. Funk, school business administrator, and Ms. Donna M. Franklin, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 20, 2015, 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

It should be noted that the Fiscal Year (FY) 2016 student enrollment at your school exceeded twice that of four other MCPS high schools. However, regardless of the volume of daily IAF transactions, all high schools are allocated only one each school business administrator and school financial specialist. The management of the IAF must be in accordance with good

business practices that include sound accounting and internal control procedures. We found that some of the staff did not abide by the procedures in place for proper IAF management that generated inconsistencies with activity approval and recording of IAF accounting transactions. This resulted in a large number of accounting transfers, journal entries, and other transactions to correct prior recording errors. Many transactions lacked descriptions to fully explain the accounting entry. We noted that staff were sometimes unaware of school policies pertaining to preapproval of purchases. Approved budgets were not available in the school finance office and therefore, the staff member responsible for reviewing IAF disbursement documentation was not maintaining and monitoring the budgets. MCPS Reimbursement accounts appeared to not be routinely reconciled, and negative balances were not always supported by receivables. We recommend coordination with your business administrator and financial specialist to establish processes to enhance control and oversight of the IAF that will reduce the number of errors (refer to *MCPS Financial Manual*, chapter 20, page 1).

The IAF transactions must be recorded in accordance with the standard chart of accounts (refer to *MCPS Financial Manual*, chapter 20, appendix A). We found instances in which receipts and disbursements were recorded in accounts that did not correspond to the source or use of the funds. Recording transactions in accounts that more accurately describe the activities increases the value of your financial reports for future decision making. We recommend that requests for purchases, remittance forms, and transfer documents be more carefully reviewed to ensure that account numbers assigned are appropriate.

Transfers of funds between general ledger accounts may be authorized by the principal on MCPS Form 281-46: *Independent Activity Funds–Transfer*. They 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 where transfers did not appear to be related to the source of funds or did not have adequate documentation. We recommend that the school's financial agents review transfers to ensure that they are supported by proper documentation and meet requirements for appropriate use of funds, prior to presenting requests to the principal for approval (refer to *MCPS Financial Manual*, chapter 20, page 10).

MCPS Form 280-54: *Independent Activity Fund Request for a Purchase*, is used to obtain principal 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 in order to properly record expenditures in appropriate accounts and to ensure that expenditures comply with IAF requirements. Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. All contracts must be signed by the principal. In our random sample of disbursements, we found prior approval was not obtained when required for many purchases. Some disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. Also, we noted several expenditures using funds that appeared to be unrelated to the source of funds including procurement of two file cabinets, a gift card, and partial payment for display cases. We further noted that the school paid for \$1,900 in additions to a contract for an entertainment package for the 2015 prom without written approval by the principal of an amendment to the contract. We

recommend that MCPS Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought, that complete documentation be attached to fully explain the reason for the purchase, and that documentation is thoroughly reviewed to ensure full compliance with MCPS requirements.

In accordance with the *MCPS Financial Manual*, chapter 20, page 5, aggregate school expenditures for the procurement of refreshments in connection with meetings and staff appreciation items may not exceed \$60 per full-time equivalent (FTE) per fiscal year without the prior written authorization from the chief operating officer (COO). We noted that when you had requested approval to exceed your FY 2015 authorization by an additional \$5,000, because of having an additional 60 University of Maryland interns yearly, you had already overspent the amount and ultimately exceeded the allowance by over \$11,000 as of June 30, 2015. In addition, we found instances in which expenditures for these items were incorrectly classified and recorded in unrelated 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 recording these transactions in the proper accounts to improve the accuracy of your financial reports, as well as compliance with spending guidelines.

The purchase of store gift or cash cards for the procurement of items for classroom activity use is prohibited (refer to *MCPS Financial Manual*, chapter 20, page 7). We found that staff purchased cash cards to buy various items for the school and that charges for several activities were comingled. We recommend that your purchases are in accordance with MCPS guidelines.

Cash and checks collected by sponsors and others for the IAF activities should be remitted promptly to the financial specialist with completed MCPS Form 280-34: *MCPS Independent Activity Fund Remittance Slip*, and a receipt should be issued promptly by the financial agent that indicates the source of funds received. MCPS Forms 280-34 often were missing the date collected, and funds provided by outside sources were often recorded as received from an account sponsor rather than from the outside source. Obligation reports used to support daily collections did not reflect the date funds were collected or differentiate payments by cash or check. To improve controls, we recommend adoption of the procedures in the *MCPS Financial Manual* (refer to *MCPS Financial Manual*, chapter 7, page 4).

Use of the MCPS purchasing card must be in accordance with the requirements of the *MCPS Purchasing Card Users Guide*. By the fifth of the following month, cardholders must use the online reconciliation program to identify, describe, and review transactions. Monthly statements must be printed and provided to the principal, with all purchase receipts and invoices attached. The principal must review each cardholder's transactions and approve them by the tenth of the following month, using the online reconciliation program. The principal's card transactions are to be reviewed and approved by the respective director of high schools. We continued to find weaknesses in processes for reviewing and approving purchase card transactions. Although most cardholders had prepared monthly statements and reviewed their transactions online, transactions had not been approved by you or a designee in the online reconciliation program at the time of

our audit. Staff have been working to correct these conditions and bring purchasing card usage into conformity with MCPS requirements, but we noted several transactions from 2014 and 2015 still had not been approved. We recommend that staff continue to work toward full compliance.

Retail sales tax must be collected by the school and remitted to the state of Maryland on the sales of all taxable merchandise (refer to *MCPS Financial Manual*, chapter 18, pp. 1–2). Taxable merchandise includes yearbook, fund-raiser items, athletic student purchases, and other items that become the personal property of the individual making the purchase. Once again, we found that sales tax was collected and remitted only for yearbooks. We recommend that the school's financial agents thoroughly review accounts to determine taxes due to the State of Maryland, to ensure full compliance by working with sponsors to determine activities for which sales tax must be collected, and to ensure that prices are set appropriately to include the tax so that activities do not operate at a loss.

Fund-raising must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. We again found that there was a lack of adherence to these guidelines by some staff members. As you have delegated this authority, each fund-raiser should be approved by the school business administrator in writing and the approval retained in the school finance office. Financial activities for each fund-raising activity should be recorded in a separate account in the 7,000 series with a completion report prepared that analyzes the results. Completion reports need to include the total number of items for sale, selling prices, and any remaining inventories to determine whether or not all funds collected were remitted to the financial specialist. 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 (refer to *MCPS Financial Manual*, chapter 20, pp. 12–13).

Fund-raising for a charitable organization is prohibited unless it has been approved by the principal and is advertised as such with full disclosure. Appropriately raised contributions should be disbursed to the designated charity as soon as possible after conclusion of the collection time period (refer to *MCPS Financial Manual*, chapter 20, page 7). We continued to find that fund-raisers on behalf of charities lacked approval, clear advertisement, and amounts collected remained undisbursed. We recommend sponsors of charitable fund-raisers indicate the benefiting organization on the fund-raiser approval request form and in all advertisements, and that all collected funds be disbursed to the charitable organizations promptly.

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. We again noted a lack of adherence to guidelines by some staff members. A copy of the trip's approval form, signed by the principal and associate superintendent when required, should be on file in the school finance office. 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 school finance office at the completion of each trip, and compared to remittances recorded in the trip

account history report. The data should also be used to estimate future trips. MCPS must be reimbursed for substitutes used for trips, and trip accounts should be closed in a timely fashion. We recommend 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 compliance with all internal controls established for field trips (refer to *MCPS Financial Manual*, chapter 20, page 12).

MCPS Regulation DMB-RA, *Control of Admission Receipts*, provides requirements for the accounting for sales of admission tickets. We again found that MCPS Form 280-50: *Tickets and Cash Report of Admissions Manager*, was often not prepared correctly, or could not be located. Other weaknesses included poor accountability over complimentary admissions and use of tickets printed and numbered in the school for many events, without documentation to support the numbers of tickets printed. We recommend that admission to all events be controlled in accordance with the above cited regulation.

Summary of Recommendations

- Management of the IAF must be in accordance with good business practices.
- Accounting transactions must conform to the IAF chart of accounts.
- Transfers between accounts must be appropriate and fully documented.
- Purchase requests must be approved by the principal prior to procurement.
- Purchase documentation must be adequate to support disbursements (repeat).
- Staff appreciation and meeting refreshment combined total expenditures may not exceed \$60 per FTE per fiscal year without prior approval of the COO.
- Purchase of grocery store cards to procure items for classroom activity use is prohibited.
- Cash control of school funds must be in accordance with *MCPS Financial Manual*, chapter 7.
- Purchase card activity must comply with the *MCPS Purchasing Card User's Guide*.
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland (repeat).
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund-Raiser (repeat)*.
- Donation to a charitable organization is prohibited unless a fund-raising activity is conducted for a specific charity and advertised as such with full disclosure (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.
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA (repeat).

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of your staff. In accordance with MCPS Regulation DIA-RA, *Accounting for Financial Operations/Independent Activity Funds*, please provide a response to the Internal Audit Unit within 30 calendar days of this report, with a copy to Mr. Kevin E. Lowndes, director of school support and improvement of high schools. In your response, please share a detailed

plan for addressing these issues including appropriate staff training and support. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:lsh

Copy to:

Members of the Board of Education

Dr. Smith

Dr. Navarro

Dr. Statham

Dr. Zuckerman

Dr. Williams

Mrs. Chen

Mrs. DeGraba

Ms. Diamond

Mr. Lowndes

Mr. Ikheloa

FINANCIAL MANAGEMENT ACTION PLAN

School: Montgomery Blair High School

Principal: Mrs. Renay Johnson

Fiscal Year: 2017

Associate Superintendent: Dr. Darryl Williams

Director: Mr. Kevin Lowndes

Strategic Improvement Focus:

As noted in the financial audit for the period September 1, 2014 through March 31, 2016, strategic improvements are required in the following business processes :

- Purchase requests greater than \$100 must be pre-approved by the Principal. Documentation must be adequate to support disbursements.
- Staff appreciation/refreshments may not exceed \$60 per FTE per fiscal year without prior approval of the COO.
- Cash control of school funds must be in accordance with MCPS Financial Manual, chapter 7.
- Tax must be collected on taxable sales and remitted to the Comptroller of MD.
- Purchase card activity must comply with MCPS Purchasing Card User Guide.
- Fund-raising process must conform to MCPS Guidelines.
- Field trip process must account for all eligible participants and reconcile all funds collected.
- Admissions process must be conducted in accordance with MCPS Regulation DMB-RA.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
Administrators and Financial Specialist to take Scho Finance training in Spring 2017	Principal, Administrative Team, Financial Specialist	None	Tracking System	Principal Every 3 years	Training Records
School staff trained/retrained on correct MCPS and school policies regarding IAF accounts.	Business Administrator Financial Specialist	None	Tracking System	BA & FS August 2015 September 2016 On going	Training Records Account Records
Review all accounts against the standard chart of accounts. Consolidate and eliminate accounts as necessary.	Business Administrator Financial Specialist	None	Finance Meetings	BA & FS Weekly	Account Records
Improve controls on disbursements including the pre-approval process and providing adequate documentation. Implement multi-level review of all transactions. Non-compliant staff reported to Principal and requests for reimbursement denied.	Principal Business Administrator Financial Specialist	None	Multi-level review Tracking System	BA & FS Daily and on going	Account Records Controls in Place
Improve cash control procedures by providing additional support to the Financial Specialist. Secret to provide support by assisting with transactions and reviewing them for accuracy and compliance with MCPS and school procedures.	Financial Specialist Secretary	None	Multi-Level Review Tracking System	FS & Secretary Daily and on going	Account Records Controls in Place

<p>Improve controls for school expenditures related to staff appreciation and staff refreshments. Consolidate all pertinent accounts.</p>	<p>Principal Business Administrator Financial Specialist</p>	<p>None</p>	<p>Finance and Operations Meetings Tracking System</p>	<p>Principal, BA & FS Weekly</p>	<p>Account Records</p>
<p>Improve process and controls for school MasterCard. Process adjustments made and individual training provided to staff members to ensure compliance with guidelines.</p>	<p>Principal Business Administrator</p>	<p>None</p>	<p>Tracking System</p>	<p>Principal & BA Spring 2016 Monthly</p>	<p>Account Records</p>
<p>Eliminate the use of cash cards.</p>	<p>Business Administrator Financial Specialist</p>	<p>None</p>	<p>No longer used for Costco purchases.</p>	<p>BA September 2016</p>	<p>Account Records</p>
<p>Improve controls and accountability for sales tax. Modify workflows and documents to include tax and improve accuracy and accountability. Retrain sponsors individually to ensure compliance.</p>	<p>Business Administrator Financial Specialist Secretary</p>	<p>None</p>	<p>Multi-Level Reviews Tracking System</p>	<p>BA, FS & Secretary September 2016 On going</p>	<p>Account Records</p>
<p>Revise and enhance workflow for fund raisers to include sales tax. Retrain sponsors individually. Emphasize final review and close-out process with sponsors.</p>	<p>Business Administrator Financial Specialist Secretary</p>	<p>None</p>	<p>Multi-Level Review</p>	<p>BA, FS & Secretary September 2016 On going</p>	<p>Account Records</p>

<p>Implement process and documentation enhancements for the close-out portion of all field trips. Retrain the staff individually. Review all closed field trips for accuracy and completeness.</p>	<p>Business Administrator Financial Specialist Secretary</p>	<p>None</p>	<p>Multi-Level Review</p>	<p>BA, FS & Secretary September 2016 On going</p>	<p>Account Records</p>
<p>Review all ticket processes for compliance. Individually retrain all sponsors in proper process for the sale and control of admission tickets. Perform multi-level review for compliance.</p>	<p>Business Administrator Financial Specialist Secretary</p>	<p>None</p>	<p>Multi -Level Review</p>	<p>BA, FS & Secretary September 2016 On going</p>	<p>Account Records</p>

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSS) REVIEW & APPROVAL

Approved Please revise and resubmit plan by _____

Comments: _____

Director: _____ Date: _____