


Internal Audit Unit  
MONTGOMERY COUNTY BOARD OF EDUCATION  
Rockville, Maryland

March 23, 2018

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  
April 1, 2016, through October 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. 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 February 27, 2018, meeting with you, Mrs. Michelle E. Schultze, director of school support and improvement of high schools; Mr. James W. Funk, school business administrator; Ms. Donna M. Franklin, school financial specialist; and Mrs. Eileen F. Heiss, school secretary, we reviewed the status of the conditions described in our prior audit report dated August 15, 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 financial information available via the School Funds Online (SFO) accounting software provides a mechanism for measuring and monitoring a school's IAF performance. The IAF

transactions must be recorded in accordance with the standard chart of accounts (COA) for uniformity of accounting and financial reporting (refer to *MCPS Financial Manual*, chapter 20, appendix A). We noted IAF transactions recorded in accounts that did not conform to the COA. We recommend reviewing the COA to improve compliance when recording transactions so that the value of your financial information will be enhanced for future decision making.

Transfer of funds between general ledger accounts did not always meet requirements for appropriate use of funds and transfer descriptions entered in SFO lacked sufficient information. Descriptions that include both accounts related to the transfer will benefit interested users, including sponsors, when reviewing account history reports (refer to *MCPS Financial Manual*, chapter 20, page 12). We recommend that the school financial specialist review transfers to ensure that the movement of the funds is appropriate and fully documented.

Internal controls are steps taken to ensure that the IAF underlying data and assets are complete, reliable, and protected. Weaknesses in internal controls noted included an assistant principal not being deleted as a check signer until five months after she was no longer a school staff member, monthly bank statement reconciliations not completed in a timely manner, checks written without the required two signatures, and two individuals with concurrent SFO access to write checks for disbursement and record receipts. One of these individuals also performed monthly bank reconciliations. We recommend strengthening internal control processes as part of your fiscal responsibility to safeguard the school's IAF.

In order for the principal to retain control over the IAF, the principal's pre-approval is required for IAF disbursements. There were disbursements made using MCPS Form 280-54, *Independent Activity Fund Request for a Purchase*, that were signed by the principal after the commitment of funds for purchases were made. In addition to MCPS Form 280-54, another accepted method of pre-approval is a budget document prepared by the sponsor of a school activity and approved by the principal. The sponsor cannot exceed the total amount of expenditures in the approved budget without receiving the principal's approved amendment of the budget or another form of pre-approval (refer to *MCPS Financial Manual*, chapter 20, pp. 4-5). Disbursements occurred that exceeded an approved budget without obtaining an amendment or pre-approval by the principal. A disbursement was made with a quote as back-up versus an original invoice and not all invoices were marked as "paid" after a check was written. We recommend that MCPS Form 280-54 be prepared by staff and signed by you prior to the commitment of IAF and budgets be monitored by sponsors, as well as financial agents, in order to guard against exceeding pre-approved expenditures specified in the budget. Back-up to disbursements require original invoices and supporting documentation should be marked "paid" to guard against duplicate payments.

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) per fiscal year without the prior written authorization from the chief operating officer (COO) (refer to *MCPS Financial Manual*, chapter 20, page 5). Despite receiving COO approval for additional expenditure, we noted that the additional approved amount was exceeded by \$2,156 for FY 2017. We also noted that some of these disbursements were not correctly recorded in the staff accounts and purchases were made for individual staff members. We recommend adherence to staff

refreshment and appreciation guideline, recording these transactions in the appropriate accounts, and not utilizing IAF to recognize individual staff members.

Use of the MCPS purchasing card must be in accordance with the requirements of the *MCPS Purchasing Card Users Guide*. We noted that not all cardholders are reviewing and signing their monthly purchasing card activity reports on time and some online review and approval steps are not being completed. Information that is entered in the online system does not always include IAF account numbers or adequate descriptions. There were some purchases that were shipped to non-school addresses. We recommend that all the requirements provided in the *MCPS Purchasing Card Users Guide* be reviewed in order for staff to continue using purchasing cards.

Cash and checks collected by sponsors and others for the IAF activities should be remitted promptly to the school financial specialist with completed MCPS Form 280-34, *MCPS Independent Activity Fund Remittance Slip*. We noted that dates of collection were often missing from these forms, and funds provided by outside sources were often recorded as received from an account sponsor rather than from the outside source. We also noted that funds credited electronically from MCPS and others were recorded as receipts rather than as journal entries. We recommend following MCPS procedures for documenting receipt of funds (refer to *MCPS Financial Manual*, chapter 7, page 4).

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). Numerous fund-raiser activities were not included in the remittance information provided to the State of Maryland at the end of Fiscal Year 2017. We recommend that the school's financial agents work with sponsors to determine activities for which sales tax must be collected when the fund-raiser request is submitted to ensure full compliance with sales tax remittance requirements.

Accounting for business operations should include only operational income and expense in order to correctly report the year-end profit or loss for the activity (refer to *MCPS Financial Manual*, chapter 20, page 12). We noted that expenses unrelated to the operation of the school store were recorded in the account that caused understating the annual profit of the store's activity. We recommend determination of the annual profit or loss for the school store be based on only the operational receipts and expenses of the school store.

All fund-raisers require principal approval on the school's Request for Fund-raiser form and analysis of the activity on the Fund-raiser Completion Report. We noted that the request forms and completion reports were missing for several fund-raisers. We recommend following the guidelines related to fund-raisers in order to evaluate results for informed decisions regarding future fund-raisers. (refer to *Guidelines for Sponsoring an IAF Fund-Raiser*).

The yearbook sponsor is required to keep detailed records of the number of books sold, the price charged, as well as the number of books distributed free of charge (refer to the *MCPS Financial Manual*, Chapter 20, page 13). The records available were not sufficient in order for us to reconcile the number of books purchased with the number sold, given free, and the remaining inventory to determine that all funds generated from this activity had been remitted. We recommend that the

yearbook sponsor adhere to record-keeping required for this activity and that the financial agent review the information at the end of the fiscal year.

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. We noted that field trip approval with calculations to support the amount charged to students, completed lists of students who paid or attended field trips, and account reconciliations were missing. We recommend that trip sponsors prepare a field trip approval form with an estimated cost per student, use MCPS Form 280-41, *Field Trip Accounting*, or its equivalent, and provide complete data at the conclusion of each trip (refer to *MCPS Financial Manual*, chapter 20, page 10).

Admission events must be controlled in accordance with MCPS Regulation DMB-RA, *Control of Admission Receipts*. We noted that MCPS Forms 280-50, *Tickets and Cash Report of Admissions Manager*, used for admission events, were often not prepared correctly. The ticket controller's signature, explanation of a shortage, receipt numbers, and the report auditor date of signature were missing. We recommend that admission to all events be controlled in accordance with MCPS Regulation DMB-RA, *Control of Admission Receipts*.

A request to collect course fees for School Year 2017–2018 was not submitted per instructions provided in a memorandum dated May 11, 2017, from the Office of Curriculum and Instructional Programs and the Office of School Support and Improvement; however, staff proceeded to collect unapproved fees. We recommend closer attention be paid to correspondence in order to comply with procedural changes for areas that utilize IAF, such as course fee collections.

### Summary of Recommendations

- Accounting transactions must conform to the IAF standard COA (**repeat**).
- Transfers between accounts must be appropriate and fully documented (**repeat**).
- Internal control processes must ensure that IAF underlying data and assets are complete, reliable, and protected.
- Purchase requests must be approved by the principal prior to procurement and documentation must be adequate to support the disbursement (**repeat**).
- Spending guidelines for staff meeting refreshments and appreciation compliance (**repeat**).
- Purchasing card activity must comply with the *MCPS Purchasing Card Users Guide* (**repeat**).
- Funds received must be documented in accordance with MCPS Financial Manual (**repeat**).
- Compliance with Comptroller of Maryland requirements for remitting sales tax (**repeat**).
- The annual profit or loss reporting for the school store must include only operational receipts and expenses.
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund-Raiser* (**repeat**).
- Yearbook sponsor records must account for the number of books purchased, sold, distributed at no cost, and remaining inventory with a yearend review by a financial agent.

- 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 **(repeat)**.
- Procedural change memoranda must be reviewed with staff on a timely basis for compliance.

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. Michelle E. Schultze, director of school support and improvement of high schools. Based on the audit recommendations, Mrs. Schultze 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:KMH: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

Mrs. Schultze

Mr. Tallur

Mr. Ikheloa

**FINANCIAL MANAGEMENT ACTION PLAN**

<b>Report Date:</b> 4/1/16 - 10/31/17	<b>Fiscal Year:</b> 4/1/16 - 10/31/17
<b>School:</b> Montgomery Blair HS - 757	<b>Principal:</b> Renay Johnson
<b>OSSI</b> <b>Associate Superintendent:</b> Dr. Darryl Williams	<b>OSSI</b> <b>Director:</b> Michelle E. Schultze
<p><b><u>Strategic Improvement Focus:</u></b>                  As noted in the financial audit for the period <u>4/1/16 - 10/31/17</u>, strategic improvements are required in the following business processes :                  Compliance with chart of accounts, internal controls, prior approval by Principal, purchasing card review, appropriate sales tax remittance, fund raisers, field trips</p>	

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Review accounts to ensure compliance with chart of accounts. Make adjustments as necessary.	Financial Specialist (FS) School Business Administrator (SBA)	Chart of Accounts	FS to monitor accounts.	FS & SBA during weekly meetings.	Accurate account records.
Transfer of funds reviewed for accuracy and appropriateness.	FS	None	FS to process transfers and review for completeness.	FS at completion.	Accurate and complete transfers.
Strengthen internal control processes.	FS, SBA and Principal	MCPS Financial Manual	Review of controls.	FS, SBA and Principal to review daily.	Improved and timely internal controls.
Continue staff education with prior approval by Principal before purchase. Reimbursement denied if process not followed.	Staff, FS, SBA and Principal	280-54 receipts	Preservice presentation to staff. Written documentation. E-mail correspondence.	Staff before purchase. FS at submittal.	Complete documentation and proof of funds prior to purchase.

Staff refreshment and appreciation expense not to exceed \$60 per FTE	FS SBA Principal	Account History	FS and SBA to review accounts and account balances	FS & SBA during weekly meetings.	Staff refreshment and appreciation accounts are not overspent.
Purchase card holders to review transactions on-line in a timely manner. All reports submitted for review and reviewed by due date.	Card holder SBA Principal	None	JP Morgan account records and Landscape Reports	Cardholders, SBA and Principal to review accounts monthly.	Complete and correct monthly transactions and reports.
Receipt of funds to be processed correctly. Documentation to be reviewed for accuracy and completeness.	Sponsors FS	None	Deposit Reports	Sponsors to submit deposits daily. FS to review documentation for completeness.	Daily deposits are correctly documented. Deposits made daily.
A sales tax spreadsheet will be developed to accurately track all items requiring sales tax collection. Sale tax added to fundraiser approval.	Sponsors FS SBA	None	Fundraising completion reports Yearbook sales report	FS and SBA to review and identify sales tax requiring remittance.	All required sales tax is collected and remitted properly.
School store to calculate profit and loss based on operational income and expenses only.	Sponsor FS SBA	None	Account records	Sponsor review monthly. SBA at end of fiscal year.	Year-end profit and loss statement to reflect only operational income and expenses.
Fundraiser packet to include all documentation including request form and completion report.	Sponsor FS SBA Principal	None	Fundraiser approval form and completion report.	Sponsor and SBA to closeout fundraiser and review results.	All fundraisers to be documented properly and reviewed for accuracy and completeness.

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools / Data Points	Monitoring: Who & When	Results/Evidence
Yearbook sponsor to provide detailed year-end reports.	Sponsor SBA	None	Vendor reports Yearbook account records	Sponsor on-going. SBA at closeout.	Yearbook account reviewed and complete details provided.
Field trip sponsors to complete cost calculator at time of request and account reconciliation upon completion of trip.	Sponsor FS SBA Principal	Field trip calculator. End of trip report.	FS and SBA review submission packet prior to Principal approval.	FS and SBA review in weekly meeting.	Field trips will have complete and accurate documentation. Trips will be fully funded.
Ticket / Admissions process to be reviewed for accuracy and completeness. All ticket reports reviewed for completeness by FS.	Ticket Controller Admissions Manager Report Auditor FS	None	Tickets and Cash Report of Admissions Manager (280-50)	All parties to review form for accuracy and completeness.	Complete and accurate ticket records for school events.
Review course fees to ensure that all course related fees are in compliance with MCPS policy.	Resource Teachers FS SBA	None	Approved course fees reviewed for accuracy.	Resource teachers before setup. FS at account setup.	Only courses with approved fees setup in SFO.

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

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

Comments:

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

*Michele Lee*

Date: 5-18-18