


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

October 21, 2013

MEMORANDUM

To: Mr. Carlos Hamlin, Principal
Thomas Edison High School of Technology

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
March 1, 2012, through July 31, 2013

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 IAFs are administered in accordance with MCPS policies, regulations, and procedures.

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 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 September 30, 2013, with you, Mr. Donald Kress, acting director of school support and improvement of high schools, Mrs. Janice Johnson, interim business administrator, and Mrs. Barbara Baliles, financial specialist, we reviewed the status of the conditions described in our prior audit report dated April 24, 2012, 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

Effective internal control includes monitoring of cash operations by the business office staff. We found a serious lack of control over these operations that included sponsors of accounts not

signing transfer forms when needed, the checking account having been overdrawn, two different staff members having performed the bank reconciliation using the password of another staff member, a field trip having a large negative balance not being resolved, and several student fee accounts having large negative balances without sufficient explanation. In addition, we found a lack of control over the collection of fees for field trips and class activities, as well as other financial activities of the school. In several instances, we found incomplete documentation for the collection of fees to account for student waivers or obligations. Since June 30, 2008, the total equity of the school's IAF has decreased from approximately \$162,000 to approximately \$90,000 as of June 30 2013. We recommend you initiate a monitoring processes to ensure that funds due to the school are collected and remitted by staff. In addition, we recommend that financial staff review MCPS regulations, financial manuals, and other publications to ensure that cash operations are in compliance (see MCPS Financial Manual, p. 20-1).

MCPS Form 280-54, *Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase (see MCPS Financial Manual, p. 20-5). 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. In our review of disbursements, we found prior approval was not obtained when required for many purchases, and invoices were not always signed by the receiver. Some disbursements did not have adequate documentation to fully explain the reason for the expenditure, and some invoices or supporting documentation did not match amounts paid. We found examples of funds advanced to staff members for certain expenses in which staff did not always return receipts to the financial specialist, returned receipts and change did not always equal original amounts advanced, and \$1,568.62 remaining from an advance for a June 2013, field trip having not been returned to the financial specialist until August 14, 2013. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. We recommend that Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought, and that complete documentation, reviewed for accuracy by the financial specialist, be attached to fully explain the reason for the purchase.

In accordance with the MCPS Financial Manual, p. 20-4, the expenditure of general funds to provide refreshments for staff meetings and staff appreciation was \$45 per staff FTE per fiscal year through June 30, 2012, and was increased to \$60 per staff FTE for FY 2013. Any staff development expenditures must be limited to revenue sources that are clearly not designated as student funds. We again found that your expenditures for staff refreshments and appreciation exceeded the amounts allowed in both FY 2012 and FY 2013, without the approval of the chief operating officer. Also, we found instances in which expenditures for staff development were recorded in a revenue account rather than the staff development account. Such errors in recording 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 you correctly classify and record these transactions for more accurate accountability, and that you adhere to expenditure guidelines for staff refreshments and appreciation.

Controls over cash receipts need improvement. Staff collecting funds for field trips, and fund-raisers were holding funds rather than remitting them timely to the financial specialist. To minimize the risk of loss and provide assurance that available funds will be fully utilized to meet school needs, all funds collected should be remitted to the financial specialist daily for prompt deposit to the bank (see MCPS Financial Manual, p. 7-4). Cash holding authority permits a maximum of \$250 to be retained overnight in a combination safe or \$50 in a locked drawer. However, all remittances on hand must be deposited before each weekend or holiday.

Sponsors should record cost and fee information for each field trip on MCPS Form 280-41, *Field Trip Accounting*, or equivalent, and submit the data to the financial specialist when a trip is completed. The financial specialist should compare this data to actual receipts and resolve any differences with the sponsor. The record of the names of participants and sums collected provides assurance that all field trip fees have been remitted. Review of field trip activities revealed that sponsors provided cost and fee information as funds were collected and remitted but they did not always provide comprehensive financial information to the financial specialist at the completion of trips. Comprehensive records obtained from sponsors during our audit indicated some fees still due from students, and sponsor records did not always match amounts or dates remitted. Our review revealed shortfalls in some field trip accounts that had not been detected, in part due to comingling of donations with fees collected. We recommend all sponsors be required to use Form 280-41, or equivalent, and follow the procedures outlined above. In addition, we recommend that the financial specialist complete a reconciliation of field trip activity as soon as the final comprehensive data is received from the sponsor (see MCPS Financial Manual, p. 20-9).

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. Although most sponsors are submitting fund-raiser request forms and completion reports that are being signed by the business administrator and you, the correct forms were not in use. Most of the forms being used were not properly completed to indicate evidence that results had been analyzed by financial staff to ensure that all funds due to the school had been remitted, remaining inventories had been accounted for and secured, and any losses or discrepancies explained. We found that one fund-raiser had an undetected shortfall of at least \$375, and that your school disbursed funds for a charitable cause without advertising and raising funds specifically for that purpose. We recommend following internal control procedures to provide for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event.

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 (see MCPS Financial Manual, p. 20-11). Our review of the yearbook activity found that although the vendor had issued a credit to the school to help defray a deficit reported by the sponsor, the school actually made a small profit. Since the prior sponsor for the 2012 and 2013 yearbook is no longer a staff member at your school, we recommend that you review responsibilities and expectations with the new yearbook sponsor to ensure effective control of the activity.

The MCPS Financial Manual, p. 20-10, provides guidance for IAF account structure and utilization with a standardized chart of accounts for consistency in reporting. We found instances of nonconformity in which transactions were not classified properly for recording in appropriate accounts such as activity for a field trip account being recorded directly in a class account. Also, we found transactions for field trips that recurred yearly being continuously recorded in the same accounts, without clearing out any balance in these accounts at the conclusion of trips. Commingling activity funds in the same account between fiscal years renders it difficult to evaluate the results of each activity, and may either allow a loss or overcharge to go undetected for one of those years. We recommend that guidelines for IAF account structure and utilization be reviewed.

Summary of Recommendations

- Effective internal control includes monitoring of cash operations by the business staff;
- Manage IAF in accordance with sound accounting practices and effective internal control procedures;
- Funds should not be transferred from a sponsor's account without the sponsor's approval;
- Expenditure of funds must be approved by the principal prior to procurement (repeat);
- Disbursements must be fully documented and support amounts paid;
- Receipt of goods or services must be confirmed prior to disbursement;
- Expenditures for staff refreshments and appreciation must conform to MCPS guidelines;
- Cash receipts must be remitted promptly to the financial office (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);
- Fundraiser completion reports prepared by sponsors must provide sufficient information to analyze results;
- Yearbook activity must be properly analyzed; and
- Record accounting transactions in conformity with the IAF chart of accounts.

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 office within 30 days of this report, with a copy to Dr. Christopher S. Garran, associate superintendent of high schools. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:sd

Copy to:

Mr. Bowers

Dr. Statham

Dr. Schiavino-Narvaez

Mr. Sanderson

Dr. Garran

Mrs. DeGraba

Mrs. Milwit

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Office of the Principal

November 20, 2013

MEMORANDUM

To: Dr. Christopher Garran

From: Carlos R. Hamlin, Principal 

Subject: Response to Report on Audit of Independent Activity Funds for the Period
March 1, 2012 – July 31, 2013

Included in this report are the comments and responses to our recent audit. Due to the business manager's position being cut, a comprehensive review of all business processes has been initiated. As a result, a number of new procedures have been established including weekly meetings with staff and other stakeholders, realigning internal procedures and guidelines and regular updates on new MCPS policies and procedures from appropriate MCPS staff. Additionally, we appreciate the continued support of the Office of the Chief Operating Officer throughout this process.

Fiscal Management Action Plan

School: Thomas Edison High School of Technology

Principal: Carlos Hamlin

Approved by community superintendent:  Date of approval: 1/2/17

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
Effective internal control over cash operations by business staff.	The principal meets weekly with the interim business manager and the financial specialist to review MCPS policies to ensure effective internal control. (Regularly scheduled meetings have been held since the arrival of the interim business manager in August, 2013, prior to the audit.)	August – June (ongoing)	Principal, business manager, and financial specialist review results.
Manage IAF in accordance with sound accounting practices and effective internal control procedures;	Accounting practices and internal procedures are being implemented through weekly meetings and training of staff members involved in business activities. Principal, business manager, and financial specialist have revised accounting practices; revised internal procedures have been implemented. All staff involved in business activities (sponsors) have been trained by the business manager and the financial specialist on the most up to date IAF accounting/management procedures. Principal, business manager, and financial specialist meet with all sponsors before, during and after all fundraisers to monitor activity.	August- June (ongoing)	Principal, business manager and financial specialist review results.
Funds should not be transferred from a sponsor's account without the sponsor's approval.	The principal, business manager, and the financial specialist meet weekly to review all requests. No disbursements are made without the prior approval of the principal.	August – June (ongoing)	Staff training has been implemented and staff members are being trained on how to reconcile accounts.
Expenditure of funds must be approved by the principal prior to procurement (repeat).	Principal, business manager, and financial specialist meet weekly to review all accounts and documentation. No disbursements are made without the prior approval of the principal.	August – June (ongoing)	No payments will be made to any staff member without prior approval.
Disbursements must be fully documented and support amounts paid.	Principal, business manager, financial specialist meet weekly to review all accounts and documentation. Staff are required to sign that all	August – June (ongoing)	All staff will be signing off on receipts of merchandise and services.

	merchandise and/or services have been rendered and all documentation completed before payments are issued.			
Receipt of goods or services must be confirmed prior to disbursement;	Principal, business manager, financial specialist meet weekly to review all accounts and documentation. Staff are requested to sign that all merchandise and/or services have been rendered and all documentation completed before payments are issued.	August – June (ongoing)	All staff will be signing off on receipts of merchandise and services.	
Expenditures for staff refreshments and appreciation must conform to MCPS guidelines;	Principal, business manager and financial specialist met with staff to review MCPS policy regarding staff refreshments/appreciation.	August – June (ongoing)	Funding will be provided for what has been allocated. Staff meeting to discuss refreshment guidelines.	
Cash receipts must be remitted promptly to the financial office (repeat);	Principal, business manager and financial specialist have reviewed and revised the internal controls for cash/receipts. The principal, business manager, and financial specialist meet weekly to review all account activity.	August – June (ongoing)	Mr. Hamlin, business manager, financial specialist review remittance at weekly meetings.	
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);	All staff sponsoring field trips have been trained by the business manager and the financial specialist on the most up to date procedures. Principal, business manager and financial specialist meets with all sponsors before and after all field trips to reconcile accounts.	August – June (ongoing)	Principal, business manager and financial specialist review and reconcile all field trip records.	
Fundraiser completion reports prepared by sponsors must provide sufficient information to analyze results;	Principal, business manager, financial specialists meet weekly to review all accounts and documentation. Principal, business manager, and financial specialist meet with all fundraisers to monitor activity during and after all fundraisers to monitor activity and to review information for reports.	August – June (ongoing)	Meetings held with all sponsors to ensure that all reports are complete.	
Yearbook activity must be properly analyzed;	Principal, business manager, financial specialist are reviewing yearbook account.	August – June (ongoing)	Principal, business manager and financial specialist will finalize yearbook account.	
Record accounting transactions in conformity with the IAF chart of accounts.	Principal, business manager, financial specialist have revised accounting practices to conform with IAF chart.	Immediate	Revised accounting practices established.	

Note: A copy of the approved plan is to be sent to the Internal Audit Office, CESC, Room 11.