


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

November 29, 2012

MEMORANDUM

To: Mr. James G. Fernandez, Principal
Albert Einstein High School

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
January 1, 2011, through August 31, 2012

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 November 16, 2012, with you and Ms. Bronda Mills, community superintendent, we reviewed the status of the conditions described in our prior audit report dated April 4, 2011, and discussed further actions needed to strengthen the accountability for IAF resources. 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 principal is the fiduciary agent for the IAF. In this role, it is your obligation to assure that management of the IAF meets MCPS requirements and is in accordance with good business practices that include sound accounting procedures and internal controls to document funding of activities, which are clearly in support of your students. Your responsibility includes, but is not limited to, monitoring monthly reports, investigating any negative balances to determine the cause, and developing a plan to eliminate such balances. Since July 19, 2006, we have stated in our previous five audit reports that your IAF has been in an insolvent condition. This means that subtracting the

total of the account balances for the restricted memorial funds, clubs, classes, and other school sponsored activities from the total cash available in your checking and CIF savings accounts, results in a negative overall cash position for your IAF. Although we noted that the cash position had improved from a negative \$23,018 in FY 2009 to a negative \$11,477 in FY 2011, we found that by the end of FY 2012 the financial condition had deteriorated with the negative balance increasing to \$52,901 at June 30, 2012. The continued insolvent condition suggests that additional support may be needed to implement strategies that will return the IAF to a sound position, and ensure that funds are managed according to MCPS policies and procedures. We recommend that you curtail expenditures and collaborate with your financial staff to develop a spending plan that includes a rigorous review process to ensure limiting spending to activities required for the ongoing operation of the school.

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. In our random sample of disbursements, we continued to find that prior approval was not consistently obtained, and in most cases, the request form was not prepared until after the purchases had been completed. We found that school opening day and other school office decorations, staff refreshments and appreciation including restaurant meals, and your memberships to professional organizations were purchased with IAF when the school did not have an available funding source. Such lack of control over purchasing contributed to the school's deteriorating financial condition. We recommend that you be assured that funds are available prior to approving purchases, and that Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought. Certain sponsors would benefit from preparing an annual budget detailing expected income and expenses and obtaining your approval at the beginning of the school year. These budgets should be monitored by your financial staff and revised if necessary.

In accordance with the August 4, 2008, memorandum from the chief operating officer (COO), the expenditure of general funds to provide refreshments for staff meetings (IAF account 11) and staff appreciation (IAF account 20) was \$45 per staff FTE per fiscal year through June 30, 2012. You exceeded this allowable amount for fiscal year 2012. We recommend you adhere to the guidelines from the COO. It should be noted that the April 16, 2012, memorandum from the COO adjusted the expenditure guideline from \$45 to \$60 per FTE effective FY 2013.

Sponsor of field trips should have a complete class or club roster of student names and annotate how much each student paid, eligible students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. This data should be provided to the financial agent at the completion of each trip, and compared to remittances recorded in the trip account reconciliation report. The data should also be used to estimate future trips. We again found not all sponsors are turning in completed data at the conclusion of each trip, and that data is not being compared to the final account reconciliation report nor used for planning future trips. We also found instances where sponsors held money, and where trips were not appropriately priced, and fees collected either exceeded sums needed to pay for a trip, or were not sufficient to cover costs. We recommend trip sponsors use MCPS Form 280-41, *Field Trip Accounting*, or its equivalent, for recording of trip fees and provide complete data at the completion of each trip. We further recommend that sponsors be counseled to promptly remit funds collected, and that trip planning be reviewed to ensure established fees are commensurate with trip expenses (see MCPS Financial Manual, p. 20-9).

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. We continued to find weaknesses in controls over admission events. Ticket forms were sometimes missing or incomplete, and unsold tickets were not always returned to the financial office so that events could be reconciled. We noted poor accountability for drama production tickets sold at the school and online with ShowTix. Ticket reports were not prepared for tickets sold at the school and sales reported by ShowTix did not always match funds deposited into IAF account. We recommend that procedures for sale of tickets be reviewed with appropriate staff prior to events.

In addition to the above weaknesses previously identified, other controls need to be strengthened. The monthly bank statement reconciliation which is prepared by the financial specialist using the bookkeeping program should also be performed manually by a staff member independent of financial operations. You should review both reconciliations to assure they are in agreement and sign and date them before filing them with other monthly reports. Adding an independent checking account reconciliation to the monthly report will strengthen internal controls (see MCPS Financial Manual, pp. 20-8, 20-25).

Fund raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. Fund raiser requests approved by you were not always on file for each fund raiser. Although the financial specialist has started using the revised Fund Raiser Completion Report form to analyze fund raiser results, not all sponsors had provided complete information such as the total number of items for sale, selling prices, or remaining inventories, thus it was not possible to determine whether all sums collected were remitted to the financial specialist. In addition, completion reports were not always reviewed and signed by you. Following internal control procedures provides for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event.

Summary of Recommendations

- Collaborate with financial staff to develop a spending plan that includes a rigorous review process to ensure that spending is limited to activities required for the ongoing operation of the school (repeat);
- Manage IAF in accordance with sound accounting practices and effective internal control procedures (repeat);
- Disbursements from a school's IAF will be approved using MCPS Form 280-54 prior to expenditure of funds (repeat);
- Staff appreciation and meeting refreshment expenditures combined may not exceed a specified total amount for a fiscal year without prior approval of the COO;

- 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);
- Funds collected must be remitted promptly and intact by sponsors to the financial agent using MCPS Form 280-34 (repeat);
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA (repeat);
- Monthly independent checking account reconciliation must be performed and compared to computer reconciliation; and
- Fundraiser completion reports must provide analysis with comparison of expected to actual results.

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 Ms. Bronda Mills, community superintendent. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:MJB:sd

Copy to:

Mr. Bowers
Dr. Statham
Dr. Schiavino-Narvaez
Dr. Marks
Ms. Mills
Mrs. DeGraba
Mrs. Milwit
Mrs. Chen

Fiscal Management Action Plan - Albert Einstein High School December 14, 2012

School: Albert Einstein High School

Principal: James Fernandez



Approved by community superintendent: _____

Date of approval: _____

Findings and Recommendations of School's Financial Report	Description of Resolution	Timeline	Person Responsible	Evidence of Completion
<p>Weak financial condition - Curtail expenditures and collaborate with financial staff to develop a spending plan that includes a rigorous review process to ensure limiting spending to activities required for the ongoing operation of the school.</p> <p>Manage IAF in accordance with sound accounting practices and effective internal control procedures.</p>	<p>While the increase in deficit balances in FY-2012 is not in dispute, there were some unusual, non-recurring items that will be addressed separately, but should be taken into account due to their impact on safety, security and otherwise enhancing the comfort and perception of the educational environment of the school. However, the investments we made last year will be offset by the following strategies: I have directed our financial staff to prepare a budget to project our sources and uses of funds. Of the projected sources of funds, we plan to reserve 25% or a greater portion of that balance for deficit reduction until we reach the state of solvency mentioned in this report.</p>	<p>Effective January 1, 2013</p> <p>Spending plan to be developed by December 31, 2012</p>	<p>Principal financial staff</p>	<p>Creation of a spending plan to project and allocate revenues and expenditures accordingly.</p> <p>Increasing progress toward solvency.</p>

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<p>MCPS Form 280-54, <i>Request for a Purchase</i>, must be used to obtain principal approval to proceed with an intended purchase (see MCPS Financial Manual, p. 20-5). Account balance should be considered prior to approval of transaction.</p>	<p>Our financial staff has created and posted on-line very significant resources to educate staffers and otherwise provide guidance with respect to our financial policies and procedures. The PowerPoint presentation that is presented during pre-service week has also been posted on-line for reference by anyone who joins our staff subsequent to pre-service week. All staff will again be reminded by e-mail and directed to the on-line resources mentioned above pertaining to Form 280-54. I will expressly advise that any verbal approval will only be effective upon proper execution and written approval by the principal or designee, so that invoices or receipts bear a date subsequent to the approval date. When budgets are used, these will be approved by the principal at the beginning of the school year or prior to the activity, monitored by the financial staff, and revised as appropriate. Financial staff will monitor accounts and report account balance on all 280-54s to indicate the account balance prior to presentation to principal or designee for approval. The financial staff will continue to include in the monthly folders with account statements, a copy of form 280-54 and the procedure as a reminder. The financial staff will also keep a list of repeat offenders for consideration in relation to PGS professionalism competency.</p>	<p>Immediately, as of the date of this report</p>	<p>Principal, financial staff & anyone requesting permission to purchase materials to be paid by IAF disbursement.</p>	<p>280-54s approved prior to purchase. Account balance recorded on 280-54s to inform approval or denial.</p>
<p>Expenditure of general funds to provide refreshments for staff meetings (IAF account 11) and staff appreciation (IAF account 20) was \$45 per staff FTE per fiscal year through June 30, 2012. You exceeded this allowable amount for fiscal year 2012. We recommend you adhere to the guidelines from the COO. It should be noted that the April 16, 2012, memorandum from the COO adjusted the expenditure guideline from</p>	<p>Expenditures for staff refreshments and staff meetings will be monitored to comply with the \$60.00 per FTE limit as indicated in the COO memorandum of April 14, 2012</p>	<p>Effective January 1, 2013</p>	<p>Principal & financial staff</p>	<p>Staff-related expenditures within the limit of \$60.00 times the number of FTEs.</p>

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<p>\$45 to \$60 per FTE effective FY 2013.</p> <p>Not all field trip sponsors are turning in completed data at the conclusion of each trip, and that data is not being compared to the final account reconciliation report nor used for planning future trips. We also found instances where sponsors held money, and where trips were not appropriately priced and fees collected either exceeded sums needed to pay for a trip, or were not sufficient to cover costs.</p>	<p>Field trip sponsors will again be reminded to use Form 280-41, <i>Field Trip Accounting</i> or equivalent to record the names of participants and the sums collected to facilitate reconciliation of the field trip account. Field Trip Sponsors will also be reminded that they should have a complete class or club roster of student names and annotate how much each student paid, and eligible students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. A checklist will be attached to each field trip approval form to remind the sponsors of the documentation and reconciliation procedures. The financial staff will keep a list of repeat offenders for consideration in relation to PGS professionalism competency.</p>	<p>Immediately, as of the date of this report</p>	<p>Principal & financial staff field trip sponsors</p>	<p>Emphasizing these procedures during pre-service week and posting of the pre-service financial presentation in the staff applications folder on the Einstein web page.</p>
<p>Admission receipts for athletic and non-athletic events should be controlled according to MCPS Regulation DMB-RA, <i>Control of Admission Receipts</i>. Weaknesses in controls over admission events. Athletics ticket forms were sometimes missing or incomplete, and unsold tickets were not always returned to the financial office so that events could be reconciled. Drama production tickets sold at the school and online with ShowTix. Ticket reports were not prepared for tickets sold at the school and sales reported by ShowTix did not always match funds deposited into IAF account.</p>	<p>Admission to all applicable events will be controlled in accordance with MCPS Regulation DMB-RA, <i>Control of Admission Receipts</i>. The ticket controller will exercise appropriate control of the ticket numbering process to ensure the separation of responsibility to effectively control the admission process. A mechanical numbering stamp has been purchased to facilitate effective and efficient ticket numbering. Staff in general, and account sponsors in particular, will be reminded to remit all cash and checks collected to the finance office promptly and intact, with the appropriate remittance documentation. Staff will also be reminded to use the drop safe which was installed in the main office to deposit monies collected after the school day. Appropriate notation will be made on ShowTix deposits to note amount of fee deducted from deposits.</p>	<p>Immediately, as of the date of this report</p>	<p>Financial staff Athletic Director Drama Director Ticket Controller</p>	<p>Numbering of tickets to facilitate proper reconciliation of admission receipts.</p>

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<p>The monthly bank statement reconciliation which is prepared by the financial specialist using the bookkeeping program should also be performed manually by a staff member independent of financial operations. You should review both reconciliations to assure they are in agreement and sign and date them before filing them with other monthly reports. Adding an independent checking account reconciliation to the monthly report will strengthen internal controls (See MCPS Financial Manual, pp. 20-8, 20-25).</p> <p>Fund raising at the school must conform to the <i>Guidelines for Sponsoring an Independent Activity Fund Fund Raiser</i>. Approved fund raiser requests must always be on file for each fund raiser. Completion reports must always be reviewed and signed by Principal.</p> <p>All sums collected must be remitted to the financial specialist promptly.</p>	<p>A manual reconciliation, independent of the one generated by the accounting software, will be prepared and signed by the principal prior to the 20th day of each month.</p>	<p>Statement of account for the period ending 11/30/12</p>	<p>Principal, principal designee financial staff</p>	<p>Independent, manual reconciliation signed and dated by principal.</p>
<p>Fund raising at the school must conform to the <i>Guidelines for Sponsoring an Independent Activity Fund Fund Raiser</i>. Approved fund raiser requests must always be on file for each fund raiser. Completion reports must always be reviewed and signed by Principal.</p> <p>All sums collected must be remitted to the financial specialist promptly.</p>	<p>A checklist will be attached to each fund raiser approval form to remind the sponsors of the documentation required to be submitted to the finance office to facilitate reconciliation and analysis upon completion of the fundraiser, before presentation to the principal for signature.</p> <p>Staff will also be reminded to remit funds to the finance office promptly and use the drop safe which was installed in the main office to deposit monies collected after the school day.</p>	<p>Effective January 1, 2013</p>	<p>Principal, financial staff, account sponsors</p>	<p>Approved fundraiser request and completion reports signed by principal or designee and available for review by auditor.</p>

Note: A copy of the approved plan is to be sent to the Internal Audit Office, URSC suite 3380