


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

October 26, 2015

MEMORANDUM

To: Dr. Christine C. Handy, Principal
Gaithersburg High School

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
July 1, 2014, through August 31, 2015

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 October 14, 2015, with you, Mrs. Patricia Donner, business administrator, and Mrs. Debra Hudson, financial specialist, we reviewed the status of the conditions described in our prior audit report dated September 25, 2014, 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

Our examination of the general ledger report again revealed several negative balance accounts with the most significant being yearbook, photography class and drama. Further analysis indicated that when the account balances of restricted memorial funds and those belonging to

clubs, classes, and other school sponsored activities are subtracted from the IAF total, the remainder of funds available is insufficient to offset these negative account balances. Your review of monthly financial reports to apprise you of account balances in conjunction with current status updates from your business administrator will assist with decision-making prior to approving purchases or considering projects to be funded by the IAF (see MCPS Financial Manual, p. 20-9). We recommend your business administrator present you with a written plan designed to reduce and eventually eliminate the negative balances, and monitor progress made toward improving the overall IAF financial condition as part of your regular meetings when reviewing monthly reports.

The cost charged to students for school activities and other items should be set at levels that encourage broad participation, while generating sufficient funds to pay for the goods or services involved. The yearbook activity has operated at a loss for the last several years. Although staff reduced the number of books printed for the 2015 yearbook, resulting in only 89 unsold books, the high cost of the book combined with less than expected advertisement sales contributed to an overall loss exceeding \$12,000. We also noted that the school may be due a refund from the vendor due to a "no debt clause" in the contract. We recommend that staff continue their efforts to maximize yearbook revenue from advertisement sales as well as balancing its production cost with profitability and affordability to students. We also recommend review of contracts to guarantee all funds due the school are received.

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. We found that there was a lack of adherence to these guidelines for some fund-raisers. 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. Each fund-raiser should be approved by the principal in writing and the approval retained in the school business office. Financial activities for each fund-raiser should be recorded in a separate account in the 800 series and a completion report prepared that analyzes the results (see MCPS Financial Manual, p. 20-12).

Summary of Recommendations

- IAF should be managed to reduce and eliminate negative account balances (repeat);
- Yearbook activity should be managed to not result in a loss of funds (repeat); and
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund-Raiser*.

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. Darryl L. Williams, associate

superintendent of secondary schools. The Office of School Support and Improvement will follow up on this audit.

RWP:MJB:sd

Copy to:

Dr. Zuckerman

Dr. Statham

Dr. Navarro

Dr. Williams

Dr. Munk

Mrs. Chen

Mrs. DeGraba

Mrs. Milwit

November 18, 2015

Memo To: Roger W. Pisha, Supervisor, Internal Audit

From: Dr. Christine C. Handy, Principal, Gaithersburg High School



Subject: Report on Audit of Independent Activity Funds for the Period July 1, 2014, through August 31, 2015 – RESPONSE.

We have reviewed your Findings and Recommendations and are pleased to provide you with the following Fiscal Management Action Plan in response:

Finding #1: There were several IAF accounts with negative balances with the most significant being yearbook, photography and drama.

Action Plan: The overall IAF will be monitored closely and reviewed on a timely basis to reduce and eliminate negative balances and improve the overall financial condition of the accounts.

Drama: Over the past few years, the Drama Productions have resulted in net losses. We have implemented several actions to reduce the negative balance as well as to prevent it from happening in the future.

- 1) The Drama Club has been planning and executing various events to raise funds to offset the deficit.
- 2) The Drama Club has received a grant from the GHS Education Foundation to cover the royalty fees associated with the fall and spring productions.
- 3) The Drama Club has developed a marketing plan to increase attendance to the fall and spring productions to increase revenue.
- 4) The Business Administrator and Principal will review all costs associated with current and future productions to ensure expenses are limited.

Photography: Over the past few years, supplies purchased for the Photography classes through IAF have been greater than the course fees collected resulting in a negative balance. We have developed a plan to eliminate the current negative balances as well as to prevent it from happening in the future.

- 1) Existing negative balances in the Photography accounts will be offset by a transfer from Textbook Obligations.
- 2) Supplies associated with Photography will be charged to Instructional Materials where appropriate.
- 3) Purchases that are deemed to be associated with course fees will be reviewed beforehand to ensure that appropriate balances exist to offset the expense.

Yearbook: Over the past few years, the production of the Yearbook has resulted in cumulative net losses. Various efforts have been discussed and implemented to eliminate the current negative balances as well as to prevent it from happening in the future.

- 1) The current negative balance for the FY15 Yearbook is expected to materially decrease due to credits owed from the vendor and a "No Debt Clause" identified in the contract details.
- 2) Plans are being developed by the Principal and Business Administrator to reduce and eliminate the cumulative negative balance from prior year Yearbook losses.
- 3) Future Yearbook contracts will be reviewed by the Principal and Business Administrator to ensure that sound fiscal commitments are made.

Finding # 2: The Yearbook activity has operated at a loss for the last several years.

Action Plan: The Yearbook activity will be managed to prevent a loss of funds.

- 1) Starting with the FY15 Yearbook, several changes were made to reduce the production cost of the book including decreasing the page thickness, changing the size of the cover, reducing the overall number of pages and changing underclassmen photos to black and white from color.
- 2) The number of yearbooks ordered has been reduced to prevent excess unsold inventory at year end based upon historical sales.
- 3) Yearbook Club students have been attending summer camp to learn about Yearbook production.
- 4) Increased advertising efforts have resulted in greater year to date revenue than in prior years.

Finding #3: There was lack of adherence to the Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser.

Action Plan: Ensure that all Fund-raising conform to Guidelines for Sponsoring an IAF Fund Raiser.

- 1) Provide training for all staff interested in sponsoring a Fund-Raiser to ensure that they understand all of the requirements.
- 2) Each Fund-raiser will be approved by the Principal in writing and the approval retained in the school business office
- 3) Financial activities for each Fund-Raiser will be recorded in a separate account
- 4) Completion reports will be prepared to analyze the results.