


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

November 10, 2017

MEMORANDUM

To: Mr. Joe L. Rubens, Jr., Principal
John F. Kennedy High School

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

Subject: Report on Audit of Independent Activity Funds for the Period
May 1, 2016, through August 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. 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 October 17, 2017, meeting with you, Mrs. Marjorie D. Bacon, school business administrator; and Ms. Wendy M. Davis, school financial specialist we reviewed the status of the conditions described in our prior audit report dated July 19, 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

MCPS Form 280-54, *Independent Activity Funds 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). In our sample of disbursements, prior approval was not consistently obtained.

By requiring prior approval, the principal retains control over disbursement of funds from the school's IAF. We recommend that MCPS Form 280-54 be prepared by staff and signed by the principal, or pre-approved budgets be utilized, in order to have all expenditures approved prior to staff committing funds for purchases.

Maryland sales tax must be collected by the school and remitted to the Comptroller of Maryland on the sales of all taxable merchandise. Examples of common items sold by schools that require the collection of tax include yearbooks, physical education uniforms, workbooks, agenda books, school store sales, most fund-raising sales, and other items that become the personal property of the individual making the purchase (refer to *MCPS Financial Manual*, chapter 18, page 2). We noted fundraiser and yearbook sales for which sales tax had not been collected and remitted to the Comptroller of Maryland during FY 2017, as well as tax calculated on the cost of merchandise rather than the total sales amount collected. We recommend that the school financial specialist work toward full compliance by reviewing activities with sponsors and vendors to determine whether the remittance of sales tax by the school is required, and to carefully calculate the correct sales tax owed. Due to the tax unpaid for FY 2017, we recommend that the amounts be calculated correctly and submitted when preparing the tax return for FY 2018.

Review of field trip activities revealed that although sponsors are providing cost and fee information as funds are collected and remitted, not all field trip sponsors are providing comprehensive financial information to the financial specialist at the completion of a trip. 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 record of the names of participants, and sums collected, as compared to the field trip account provides assurance that all field trip fees have been remitted. We noted that the detailed list of collections by student exceeded the total receipts recorded in the field trip account. This indicated that the school financial specialist was not completing a reconciliation of the field trip funds. We recommend all sponsors be required to use Form 280-41, or equivalent and a reconciliation of the activity be performed by the school financial specialist at its conclusion (refer to *MCPS Financial Manual*, chapter 20, page 10).

We noted that not all contracts for school pictures approved by the principal were available for review. The FY 2018 contract was a renewal of the missing FY 2017 contract. Since FY 2017 contract was unavailable to review for its terms, the school financial specialist could not determine with certainty whether the school received all of its commissions. Moreover, the school did not have a yearly commission statement from the vendor. We recommend that the school financial specialist obtain written approval of the principal immediately upon review and acceptance of any contract documents, and establish a process to monitor compliance with their terms and ensure that a report of any commissions received by the school is prepared and reconciled.

Summary of Recommendations

- The principal must approve purchase requests prior to procurement.

- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland **(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)**.
- Contracts must be signed by the principal on a timely basis and monitored to ensure 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 administrative secretary 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

School: John F. Kennedy High School

Principal: Mr. Joe Rubens

Fiscal Year: 2017

Associate Superintendent: Dr. Darryl L. Williams

Director: Mrs. Michelle Schultze

Strategic Improvement Focus:

As noted in the financial audit for the period **May 1, 2016-August 31, 2017**, strategic improvements are required in the following business processes:

- The principal must approve purchase requests prior to procurement
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland
- Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to participate, and to reconcile funds collected with calculated costs of the trip
- Contracts must be signed by the principal on a timely basis and monitored to ensure compliance

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
<p><u>Sales Tax</u></p> <ul style="list-style-type: none"> The yearbook sponsor is currently collecting 6% Maryland sales tax for each yearbook and/or taxable merchandise, sold. However, the Sales taxes were not transferred to the sales tax account. Effective immediately, in May, prior to paying the final invoice to vendor, Jostens, Inc., the school financial specialist will transfer the 6% sales tax from total sale of yearbooks into the sales tax account and not rely on the vendor to pay the sales tax. The School Financial Specialist (SFS) will remit the sales tax in July 2018 for tax that was overlooked in July 2017. 	<p>School Financial Specialist (SFS)</p> <p>Account Sponsors</p> <p>School Business Administrator (SBA)</p> <p>Principal</p>	<p>IAF Transfer request form (MCPS form 281-46)</p> <p>Internet access to remit funds to the state electronically</p> <p>Financial Manual 18:1-18:2</p> <p>Monthly Account History Report</p> <p>Invoices</p>	<p>Reviewing monthly sponsor reports and sales Tax monthly to see if/when sales tax has been transferred</p> <p>Reviewing the reconciliation report to be sure (when applicable) that sales tax is being transferred from taxable sales</p> <p>Principal to review and sign monthly sales tax account history reports.</p> <p>Sales tax logs will be used as data visualization logs will be used to track sales tax associated with fundraisers and inventory report.</p>	<p>Sponsors will review their monthly reports to be sure applicable sales tax has been transferred</p> <p>School Financial Specialist (SFS) will review accounts monthly and email sponsors when transfer request needs to be completed.</p> <p>School Business Administrator (SBA) and School Financial Specialist (SFS) will meet on Mondays to review taxable items</p> <p>Principal will review and sign monthly sales tax account history reports</p>	<p>All applicable sales tax will be collected and remitted every July to the state. A confirmation page will be printed from the state website.</p> <p>The confirmation will be attached to the end of year financial report as well as filed for the auditors' review.</p> <p>The Account History Report will reflect that taxes were remitted to the state.</p>
<p><u>Prior approval disbursements:</u></p> <ul style="list-style-type: none"> On July 14, 2017, resource teachers from each department were given memorandums from the principal informing them of their \$100.00 pre-approved budget allocation. The audit team received these memorandums for every department. Therefore, prior approval was consistently obtained prior to spending. The audit team reported one instance where the principal ordered t-shirts for staff appreciation and determined 	<p>School Financial Specialist (SFS)</p> <p>School Business Administrator (SBA)</p> <p>Requestor</p> <p>Resource Teacher</p>	<p>Request for a Purchase (280-54)</p> <p>Latest Monthly Account Report</p> <p>Financial Manual 20:6-20:7</p>	<p>Requests for Purchase (280-54) will be completed and initialed SBA and signed by the principal in a timely manner.</p>	<p>Principal School, Financial Specialist (SFS), and School Business Administrator (SBA) meet every Tuesday and Thursday to review, sign, and date the Request for Purchase (280-54).</p> <p>Principal reads and determines if the request is acceptable.</p>	<p>100% of all Request for a Purchase (280-54) will be reviewed, signed, and dated by the principal prior to the purchase being made.</p>

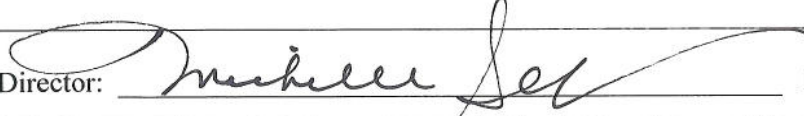
Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
<p>that the 280-54 was signed at a later date. We have searched and not found this instance.</p> <ul style="list-style-type: none"> All Requests for Purchase (280-54) will be completed and signed by the principal in a timely manner. <p>Field Trips</p> <ul style="list-style-type: none"> All field trip sponsors will continue to provide comprehensive financial information to the financial specialist at the completion of a field trip. All sponsors will use Form 280-41, <i>Field Trip Accounting</i>, or equivalent. When a trip is completed, sponsors will provide a completed class roster indicating, date payment received, who participated and didn't participate, students that received waivers, and the amount paid to guarantee that all field trip fees have been remitted. A reconciliation of the activity will be performed by the sponsor and the school financial specialist at its conclusion. After payments were submitted some students opted not to attend the field trip. This resulted in the field trip account exceeding the total receipts recorded in the field trip account. School financial specialist will compare remittances to the account history report, then, investigate and note all discrepancies on the reconciliation report. 	<p>School Financial Specialist (SFS)</p> <p>School Business Administrator (SBA)</p> <p>Requestor</p> <p>Resource Teacher</p>	<p>Latest Monthly Account Report</p> <p>Financial Manual 20:6-20:7</p>	<p>Field trip logs will be used as data visualizations logs to guarantee that all field trip fees have been remitted to School Financial Specialist (SFS) and to track their reconciliations.</p>	<p>Principal School, Financial Specialist (SFS), and School Business Administrator (SBA) meet every Tuesday and Thursday to determine if a field trip is acceptable.</p> <p>School Financial Specialist (SFS) and School Business Administrator (SBA) to meet every Monday to review any field trips that are ending to review their reconciliations.</p>	<p>Field trips will be reconciled with monthly account history reports and will be stored on a shared file.</p>

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
<p><u>Contracts:</u></p> <ul style="list-style-type: none"> All contracts for school pictures are approved by the principal. Original contracts are sent to vendor, copies are given to SFS and SBA for audit review. Upon review and acceptance of any contract documents from the principal, immediately, the school financial specialist will obtain written approval. The school financial specialist will establish a process to monitor compliance with their terms and ensure that a report of any commissions received by the school is prepared and reconciled to determine with certainty whether the school received all of its commissions. 	<p>School Financial Specialist (SFS)</p> <p>School Business Administrator (SBA)</p> <p>Sponsor</p> <p>Resource Teacher</p>	<p>All contracts</p>	<p>An excel spreadsheet will be used as a data visualization log to track/monitor contracts to ensure compliance and that any commission dues are paid to the school.</p>	<p>School Financial Specialist (SFS) and School Business Administrator (SBA) will meet every Monday to review contract commissions and their due dates.</p> <p>Principal School, Financial Specialist (SFS), and School Business Administrator (SBA) meet every Tuesday and Thursday to review and sign contracts. Then, they are given to the School Financial Specialist (SFS) to log.</p>	<p>Records of contracts and all commission due to school will be stored on a shared file.</p>

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

Approved **Please revise and resubmit plan by _____**

Comments: _____

Director:  Date: 12-11-17