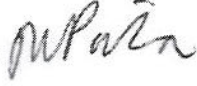


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

March 2, 2012

MEMORANDUM

To: Mrs. Deborah Higdon, Principal
Lakelands Park Middle School

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
May 1, 2010, through December 31, 2011

This audit report presents the results of our examination of the financial records, reports, and internal accounting controls relating to the Independent Activity Funds (IAF) for your school for the period designated above. The examination was made to evaluate the adequacy of accountability over these funds, compliance with applicable Montgomery County Public Schools (MCPS) policies and procedures, and effectiveness of IAF management.

In our meeting on February 13, 2012, with you and Mrs. Vlasta Belt, financial specialist, we reviewed conditions described in our previous report dated October 25, 2010, and the status of present conditions. We noted that most of our audit period was prior to Mrs. Belt's appointment to the position of school financial specialist on October 13, 2011. Our findings and recommendations appear below.

Findings and Recommendations

We again found that control over the yearbook activity needs improvement. Only the principal, or person designated in writing by the principal, may obligate the school by contract for goods or services. We observed that the contract for the 2011 yearbook could not be located and the contract for the 2012 yearbook had not been signed. In addition, the sponsor must maintain a detailed record of books sold and prepare a statement of profit or loss which reconciles books purchased with books distributed. We found the sponsor records were not sufficient to enable the preparation of an accurate statement of profit or loss (see MCPS Financial Manual, p. 20-11).

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 annotated to indicate satisfactory receipt and signed by the purchaser. In our sample of disbursements, we found prior approval was not consistently

obtained when required for purchases. Some disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. 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, so that invoices or receipts bear a date subsequent to the approval date, and that complete documentation be attached to fully explain the reason for the purchase. Certain sponsors would benefit from preparing an annual budget detailing expected income and expense with your written approval at the beginning of the school year. These budgets should be monitored by your financial specialist and revised if necessary.

While controls over the use of MCPS purchase cards were generally in accordance with requirements, we found some exceptions. We noted instances in which transactions were split to circumvent card amount limitations, gift cards were purchased, and disbursements made for staff restaurant meals. In addition, we noted that the principal's monthly logs had not been submitted to the appropriate official for approval. We recommend that all use of purchase cards conform to control requirements (see the *MCPS Purchasing Card Users Guide*).

Payments for personal services must comply with federal tax requirements regarding the reporting of income and the withholding of taxes. In accordance with the chief operating officer's memo of November 1, 2005, payments to employees must be made through the MCPS payroll system. We found that payments were made to an employee directly from the IAF, instead of through the MCPS payroll system. In accordance with MCPS Regulation DIA-RB, *Payments for Personal Services from School Independent Activity Funds*, payments to independent contractors must be reported to the Division of Controller (DOC) using MCPS Form 280-47A, *Report of Payments to Independent Contractors* (see MCPS Financial Manual, p. 20-13). No payments should be made to independent contractors without first obtaining a completed IRS Form W-9, *Request for Taxpayer Identification Number and Certification*. We noted that not all payments to independent contractors were reported to DOC. We recommend that all payments for personal services be made and reported in compliance with the applicable regulations and procedures.

All equipment acquired by a school, whether by gift or by purchase, becomes the property of MCPS (see MCPS Financial Manual, p. 20-13). MCPS Regulation EDC-RA, *Control of Furniture and Equipment Inventory*, provides guidance for adjusting the school inventory to account for property acquisitions and disposals. We found that several items of equipment were sold to other schools rather than preparing MCPS Form 234-18, *Furniture/Equipment Inventory Property Report: Addition/Correction*. We recommend appropriate staff become familiar and comply with property control procedures.

The monthly bank statement reconciliation which is prepared by the financial specialist using the bookkeeping program must 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 them prior to filing with other monthly reports. Adding 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*. We found that there was a lack of adherence to these guidelines. 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 with the approval document retained in the school office. Financial activities for each fund raising activity 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. 20-11).

MCPS Regulation DMB-RA, *Control of Admission Receipts*, provides requirements for the accounting for sales of admission tickets. We found that MCPS Form 280-50, *Tickets and Cash Report of Admissions Manager*, was not always prepared for ticketed events. We also noted that when the form was used, it was not correctly prepared as a reconciliation of tickets issued to tickets returned and receipts recorded. Other weaknesses included the lack of a perpetual inventory of tickets. We recommend that admission to all events be controlled in accordance with the above cited regulation.

Summary of Recommendations

- Yearbook profit or loss statement must account for all activity (repeat);
- Contracts must be signed by the principal or during absence another authorized person;
- Purchase requests must be approved by the principal prior to procurement;
- Receipt of goods or services must be confirmed prior to disbursement;
- Purchase card activity must be in compliance with the MCPS Purchasing Card Users Guide;
- Payments to MCPS employees must be processed through the MCPS payroll system;
- Independent contractor payments must be reported monthly to the Division of Controller;
- Equipment transactions must comply with MCPS Regulation EDC-RA;
- Monthly independent checking account reconciliation must be performed;
- Fund raising must conform to *Guidelines for Sponsoring an IAF Fund Raiser*, and

- Admission events must be conducted in accordance with MCPS Regulation DMB-RA.

Other matters were discussed and satisfactorily resolved. We appreciated the cooperation and assistance of your staff, especially that of Mrs. Belt. 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. LaVerne G. Kimball, community superintendent. The Office of School Performance will follow up on this audit.

RWP:MJB:sd

Copy to:

Mr. Bowers
Dr. Lacey
Mr. Talley
Dr. Kimball
Mrs. DeGraba
Mrs. Milwit
Mr. Doody



Lakelands Park Middle School
 1200 Main Street
 Gaithersburg, Maryland 20878
www.mcps.k12.md.us/schools/lakelandsparkms

301-670-1400

April 26, 2012

Mr. Roger W. Pisha
 Supervisor, Office of Shared Accountability
 Carver Educational Services Center
 850 Hungerford Drive, Room 11
 Rockville, Maryland 20850

Dear Mr. Pisha,

I am writing in response to the Audit of Independent Activity Funds report for the period of May 01, 2010 through December 31, 2011, dated March 02, 2012, for Lakelands Park Middle School.

In response to the audit, besides weekly meeting with the new financial assistant, I have put the following in place:

Audit	Response
Missing deadline for monthly independent bank reconciliation	Purchase logs and checking reports are due to principal, for review, within a week of us receiving them.
Not all disbursements pre-approved by the principal	Principal signing purchase requests daily; however senior assistant principal is approved as a signer in principal's absence.
Paid MCPS employee out of IAF not payroll	Employee was on grant from City of Gaithersburg – grant money was sent to LPMS; already rectified the situation, now paying thru MCPS.
Subcontractor paid thru LPMS	New FA will pay all independent contractors thru MCPS.
AMEX reports not sent to community superintendent monthly; restaurant charge; paid sales tax	New FA will send them in each month; paid for staff appreciation and later reimbursed by PTSA; taxes later removed on two items.
LPMS sold equipment to two schools	Receiving or dispersing of inventory will be thru MCPS.
Some fundraiser forms not completed by the end of activity; no signed yearbook contact on file	New company- sends us database weekly, new FA will develop databases for all fundraisers; received signed contact from company; reviewed accounting practices with all sponsors and posted the information.
A few inadequate ticketed events reports	New FA will attend and handle most ticketed events for accounting purposes and will complete final reports with the sponsors.

Please contact me if you have questions about this response or suggestions for improvement.

Sincerely,
 Deborah R. Higdon
 Principal

Copy to:
 Dr. Kimball