


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

May 6, 2014

MEMORANDUM

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

From: Roger W. Pisha, Supervisor, Internal Audit 

Subject: Report on Audit of Independent Activity Funds for the Period
January 1, 2012, through December 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 April 9, 2014, with you, and Mrs. Vlasta Belt, financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 2, 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

In order to properly control receipts, funds collected by sponsors must be submitted with a remittance slip promptly and intact to the financial specialist. The amount of funds should be verified in the presence of the sponsor and a receipt issued. Before the funds are deposited into the

school's checking account, the financial specialist will update the accounting records. We found that some student fees were collected directly by the financial specialist rather than by the sponsor. Our examination of financial records indicated that the financial specialist routinely deposited funds to the school's checking account prior to recording receipts in the general ledger. One sponsor paid fund-raiser expense from money collected rather than remitting the total amount intact as required. We recommend that the financial specialist follow a consistent process to verify remittances, resolve discrepancies, and record receipts prior to depositing funds to the bank. We further recommend that staff follow proper cash handling requirements that include the essential internal control provided by separation of duties.

Staff-owned accounts record funds whose source is staff contributions. Although these accounts must never have a negative ending balance, we noted this occurred as of June 30, 2013, in the staff social account. Additional purchases made in the subsequent fiscal year exacerbated this condition before funds were collected in late October to eliminate the negative balance. We recommend staff be reminded that disbursements may never exceed the available balance in any staff-owned account (see MCPS Financial Manual, p. 20-10).

Transfers between general ledger accounts may be made only after MCPS Form 281-46, *Independent Activity Funds – Transfer*, has been executed by both the account sponsor and the principal. We found several instances where transfer request forms had not been signed by the sponsor when required. To improve internal controls, we recommend that sponsors be required to sign transfers when applicable (see MCPS Financial Manual, p. 20-11).

Students may be charged course fees approved by the Office of School Support and Improvement for materials required for a course that are either consumed by the student or become the personal property of the student. However, students may not be charged for general instructional materials required to demonstrate mastery of course objectives (see April 28, 2009, memorandum from the Chief School Performance Officer). We noted balances accumulating in these accounts indicating that students had been charged more than necessary, and several times funds were transferred to the general account unrelated to course expense. In addition, we noted that all students were charged a \$10 fee that included the cost of agenda books, consumable supply replacement, and educational programs. Students without a waiver were issued an obligation for not paying this fee. A fee to purchase an agenda book is allowed only if voluntary and the book is not used as a hall pass. Students may not be charged a fee to replace consumable school supplies. We recommend that staff review student fee guidelines and more closely align approved fees assessed with the cost of materials to preclude accumulation of excess balances.

Prior to the disbursement of any IAF, the financial specialist will ensure adequate documentation has been received to support payment such as the original receipt or invoice with written indication the goods and services were received in the quantity and quality ordered. We found instances when funds were disbursed based on vendor statements without itemized invoices, gift cards were given to students without documenting recipients, contractors were paid without a contract or statement of work completed, and only an email from a staff member or MCPS Form 280-54, *Request for a Purchase*. A check was written to an amusement park for the purchase of

admission tickets without an invoice or any indication of how the amount was determined. In addition, we found that invoices were not signed by staff to indicate satisfactory receipt of goods and services. We recommend that staff be required to submit to the financial specialist adequate documentation including acknowledgement of satisfactory receipt of goods and services to request vendor payment.

Any contract with a vendor to conduct an activity that could place MCPS, the school, or any MCPS employee at risk for potential legal damages requires the prior written authorization from the chief operating officer (COO). Also, some purchases with IAF may be prohibited, or require additional approvals or processes. We noted that your school entered into a contract with a vendor to provide an obstacle course, a rock climbing wall, and a bungee run for a student activity without the required COO approval. We also noted a prohibited purchase of gift cards to set aside funds for classroom supplies. We recommend that you follow the MCPS purchasing procedures (see MCPS Finance Manual, p. 20-4 through 20-6).

The sponsor of a fund-raiser should submit a request to conduct the activity to the principal for approval. The approved request should be forwarded to the financial specialist to establish an account in the general ledger prior to the purchase of any merchandise or collection of any receipts related to the activity. At the conclusion of the fund-raiser, a completion report must be prepared by the sponsor that includes the total number of items for sale, selling price of each item, and any remaining inventory to determine profit or loss of the activity, and to ensure that all funds collected have been remitted to the financial specialist. We found a lack of control over fund-raising activities in the school. We were unable to find signed approval forms and completion reports for most fund-raisers. We also noted that the financial specialist was often unaware of fund-raising activities until a sponsor submitted an invoice for payment or remitted proceeds. This lack of prior knowledge often resulted in multiple accounts established for a single fund-raiser, which confused accountability for an activity and caused shortages to go undetected. To provide for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the activity, we recommend the school conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*.

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 (see MCPS Financial Manual, p. 20-9). The record of the names of participants and sums collected provides assurance that all field trip fees have been remitted. We recommend all sponsors be required to use Form 280-41, or equivalent, and follow the procedures outlined above. We noted that the school collected more in Outdoor Education fees than was reported to MCPS, and that the school lost money on all three Newseum trips during the time period of this report. However, the financial specialist did not have sufficient information to complete reconciliation of the activities and these discrepancies went undetected. We recommend the

sponsors provide final cost and fee information to the financial specialist at the conclusion of the activity and that pricing of trips be more closely monitored. In addition, we recommend that the school remit additional funds due to MCPS for the FY 2014 Outdoor Education activity.

Admission events must be controlled with serially numbered tickets and perpetual inventory, separation of duties, and MCPS Form 280-50, *Tickets and Cash Report of Admissions Manager*, to track and reconcile sales of tickets. For ticketed events, we found that the functions of the ticket controller, the admissions manager, and the report auditor were not clearly defined or understood. Ticket control forms were not implemented until after the conclusion of the activity and were not properly completed. We did not find ticket control forms on file for all ticketed events or evidence that the ones on file had been reconciled to cash receipts. When discrepancies were noted on forms, there appeared to be no explanation of the cause. The 8th Grade Dance account had a large negative balance without any review to determine the cause. Drama production and concessions had expenses and receipts related to the play comingled in the drama club and general accounts. We recommend that admission to all events be controlled in accordance with MCPS Regulation DMB-RA, *Control of Admission Receipts*.

In accordance with the MCPS Financial Manual, p. 20-4, the expenditure of general funds to provide for staff meeting refreshments and staff appreciation increased from \$45 to \$60 per staff FTE per fiscal year beginning July 1, 2012. We found these expenditures exceeded the amounts allowed in FY 2012, but were within limits for FY 2013, and FY 2014 through December 31, 2013. However, several disbursements were recorded in various non-related accounts rather than the staff accounts causing additional audit time needed to determine whether or not guidelines had been followed. The value of your financial reports for decision making is also degraded. We recommend you correctly classify and record all transactions for better accountability.

Summary of Recommendations

- Internal control procedures for cash operations must be maintained by staff;
- Staff-owned accounts may never have a negative balance;
- Sponsors are required to sign transfer forms when applicable;
- Student fees must be in accordance with MCPS guidelines;
- Disbursements must be fully documented to support payments (repeat);
- Contracts involving liability or risk of injury requires prior COO authorization;
- Fund-raisers must be approved prior to conducting any fund-raiser activity (repeat);

- Fund-raiser completion reports prepared by sponsors must provide sufficient information to analyze results and ensure all funds due to the school have been remitted (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;
- Admission activities must adhere to the MCPS regulation (repeat); and
- Transactions must be recorded in appropriate 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. Darryl L. Williams, associate superintendent of middle 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. Williams
Mrs. DeGraba
Mrs. Milwit
Mrs. Chen



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

301-670-1400

May 24, 2014

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 January 1, 2012 through December 31, 2013, dated May 06, 2014, for Lakelands Park Middle School, done by Ms. Dena Horton, the internal auditor.

Since the May audit meeting, improvements have already been made. Procedures have been revised and reviewed with staff. The attached Fiscal Management Action Plan documents what has already been put into place. Lakelands' administrators and our financial assistant will attend a financial refresher class early in the fall to continue improving the management and accountability of Lakelands' IAF reporting.

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

Sincerely,
Deborah R. Higdon
Principal

Copy to:
Dr. Darryl Williams

Fiscal Management Action Plan

School: Lakelands Park Middle School

Principal: Deborah R. Higdon

Approved by associate superintendent: _____

Date of approval: _____

| Findings and Recommendations of School's Financial Report | Description of Resolution And Person(s) Responsible | Timeline | Evidence of Completion |
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| Internal control procedures for cash operations must be maintained by staff. | The financial assistant will no longer handle cash operations for staff. Responsibility of the financial assistant. | Resolved April 9, 2014 at the audit meeting. | No cash operations for staff will be handled by the financial assistant. |
| Staff-owned accounts must never have a negative balance. | All accounts reconciled to above zero after the audit. Responsibility of the financial assistant. | May 5, 2014 | Financial procedures reviewed with staff at the May 5, 2014 staff meeting. |
| Sponsors are required to sign transfer forms when applicable. | Information shared with staff / sponsors about required procedures. Responsibility of the financial assistant. | May 5, 2014 | Financial procedures reviewed with staff at the May 5, 2014 staff meeting. |
| Student fees must be within MCPS guidelines. | Lakelands Park will no longer charge student fees only course fees. Responsibility of the principal. | Resolved April 9, 2014 at the audit meeting. | No student fees will be collected after the 2013-2014 school year. |
| Disbursements must be fully documented to support payments. | The financial assistant will require all sponsors forms to be complete before issuing checks. Responsibility of the financial assistant. | May 5, 2014 | Financial procedures reviewed with staff at the May 5, 2014 staff meeting. |
| Contracts involving liability or risk of injury requires prior COO authorization. | This involved Smokey Glenn activities; next year the contact will be sent to the COO. Responsibility of the principal. | Resolved April 9, 2014 at the audit meeting. | Financial assistant will send in future contracts. |
| Fund-raisers must be approved prior to conducting the fund-raiser. | The financial assistant will check all fund raiser forms for completion prior to the start of the activity. The principal will be the second reviewer before the activity begins. Responsibility of the principal and financial assistant. | May 5, 2014 | Financial assistant upgraded LPMS' fund raiser form after the audit. |
| Fund-raiser completion reports prepared by sponsors must provide sufficient information to analyze results and ensure all funds due to the school have been remitted. | The financial assistant will check all fund raiser completion forms for completion after the activity. Responsibility of the financial assistant. | May 5, 2014 | Financial procedures reviewed with staff at the May 5, 2014 staff meeting. Financial assistant upgraded LPMS' fund raiser completion form after the audit. |
| Field trip records prepared by sponsors must provide comprehensive data to account for all students eligible to | The financial assistant will work with each sponsor to complete the MCPS Form 280-41 to account for funds. The financial assistant will complete a | May 5, 2015 | Financial procedures reviewed with staff at the May 5, 2014 staff meeting. The field trip form as been updated and reviewed with staff on May 5, 2014. |

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| participate, and to reconcile funds collected with cost of trip. | reconciliation of the field trip activity as soon as the final data is received. Responsibility of the financial assistant. | | |
| Admission activities must adhere to MCPS regulation. | The financial assistant reviewed the accounting procedures with the drama sponsor and administrators. Responsibility of the financial assistant. | May 6, 2014 | Reviewed the procedures on May 6, 2014 with administrators and the sponsor before the spring plays. |
| Transactions must be recorded in appropriate accounts. | The auditor extensively reviewed the procedures with the financial assistant. The financial assistant and administrators will take a financial refresher class. Responsibility of the principal and financial assistant. | Fall 2014 | Evidence will be class attendance in the fall. |

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