


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

May 22, 2017

MEMORANDUM

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

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

Subject: Report on Audit of Independent Activity Funds for the Period
September 1, 2015, through January 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 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 meeting on May 15, 2017, with you and Mrs. Catherine E. Tsakanikas, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated October 13, 2015, 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). 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 signed by the purchaser to indicate satisfactory receipt. In our sample of disbursements, we found that prior approval was not consistently obtained and documentation was not annotated by the purchaser to indicate that the goods or services were satisfactorily received. By requiring prior approval and following other purchasing guidelines, the principal retains control over the expenditure of IAF funds. We recommend that MCPS Form 280-54 be prepared by staff and signed by you prior to procurement, and that invoices be signed by the purchaser to indicate satisfactory receipt of goods or services.

Contracts with vendors for delivery of goods or services must be signed by the principal or acting principal (refer to *MCPS Financial Manual*, chapter 20, page 7). We noted copies of some contracts on file in the financial office that were not signed and others that had been signed by a staff member other than the principal. Staff members should be reminded that only the principal or acting principal has the authority to commit the school to a contract.

Use of the MCPS purchasing card must be in accordance with the requirements of the *MCPS Purchasing Card User's Guide*. By the fifth of the following month, cardholders must use the online reconciliation program to identify, describe, and review transactions. They must print their monthly statements and provide them to the principal, with all purchase receipts and invoices attached. The principal must review each cardholder's transactions and approve them by the tenth of the following month, using the online reconciliation program. The principal's card transactions are to be reviewed and approved by the respective director of middle schools. We found that some cardholders had not completed all information in online reports, and some had not printed the proper monthly statements. In addition, we found that although the school financial specialist had sent the principal's purchase card statements and receipts to the appropriate director of middle schools, the signed documentation had not been returned to the school. We recommend that action be taken to correct these conditions and bring purchasing card usage into conformity with MCPS requirements.

Retail sales tax must be collected by the school and remitted to the Comptroller of Maryland on the sales of all taxable merchandise. Taxable merchandise includes yearbook, fund-raiser items, spirit wear, 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 fund-raiser and other items for which sales tax had not been collected and remitted to the Comptroller of Maryland, and an incorrect amount of taxes remitted for yearbook sales. We recommend that the school financial specialist work with sponsors to determine activities for which sales tax must be collected in order to comply with proper recording and reporting of taxes due.

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. Although sponsors are submitting a fund-raiser request form for your approval to conduct an activity, we noted that several completion reports submitted at the conclusion of the activities did not fully evaluate the results, and were not reviewed and signed by you. In addition, we noted that fund-raiser proceeds were not always transferred to benefitting accounts, some fund-raiser accounts were closed before all outstanding invoices had been paid, and inventories for unsold merchandise had not been prepared. We recommend that a

completion report for an activity involving the sale of items include the total number of items for sale, the cost of each, selling prices, and any remaining inventories to determine whether all funds collected were remitted to the school financial specialist. We further recommend that all account activity such as payment of invoices and transfers for sales tax be recorded prior to closing fund-raiser accounts, and that inventory reports be prepared for any unsold items. 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 activity.

The yearbook sponsor is required to keep detailed records of the number of books sold, the price charged, and the number of books distributed free of charge (refer to *MCPS Financial Manual*, chapter 20, page 14). Because the records maintained by the yearbook sponsor were not available, we were unable to reconcile the number of books purchased with the number sold, distributed free of charge, and the remaining inventory. We noted that the contracted number of books did not equal the number of books invoiced to the school, and we did not find an amendment to the document with any changes to the original contract. We also noted that the school had a large number of unsold books remaining in inventory. We recommend that the yearbook sponsor maintain the required documentation to include MCPS Form 281-25: *Statement of Profit or Loss on Sale of Merchandise*, and submit those records to the financial specialist at the conclusion of the activity. The school financial specialist will then reconcile the sponsor's records to the general ledger to ensure that all funds have been remitted.

Summary of Recommendations

- Purchase requests must be approved by the principal prior to procurement (**repeat**).
- Purchaser must confirm receipt of goods or services prior to disbursement (**repeat**).
- Contracts must be signed by the principal or acting principal.
- Purchase card transactions must be documented, reviewed, and approved by the principal.
- Purchase card transactions of the principal must be reviewed and approved by the respective director of middle schools.
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland.
- Fund-raiser completion reports prepared by sponsors must provide sufficient information to analyze results.
- Fund-raiser accounts should not be closed until all activity has been recorded and inventory reports prepared.
- Yearbook sponsor records must account for the number of books purchased, sold, distributed at no cost, and the remaining inventory.

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*, please provide a response to the Internal Audit Unit within 30 calendar days of this report through Mrs. Elizabeth L. Thomas, director of school support and improvement of middle schools. In your response, please share a detailed plan for addressing these issues including appropriate staff training and support. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:lsh

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. Thomas

Mr. Tallur

Mr. Ikheloa



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

301-670-1400

June 20, 2017

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 September 1, 2015 through January 31, 2017, dated May 22, 2017, for Lakelands Park Middle School, done by one of MCPS' internal auditors.

Since the May 2017 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' financial assistant will attend all financial assistant classes 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



Attachment

**Fiscal Management Action Plan
June 20, 2017**

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
Purchase requests must be approved by the principal prior to procurement.	Responsibility of the financial assistant. Financial assistant will not issue a check without the principal's signature.	Immediately	All purchase request forms will have all signatures before disbursements are made.
Purchaser must confirm receipt of goods or services prior to disbursement.	Responsibility of the financial assistant. The financial assistant will check in all items before issuing payment.	Immediately	Financial assistant will make a notation of receiving goods on the packing slip.
Contracts must be signed by the principal or acting principal.	Responsibility of the principal.	August 2017 staff meeting	All sponsors will be reminded that they cannot sign contracts.
Purchase card transactions must be documented, reviewed, and approved by the principal.	Responsibility of the principal and financial assistant.	Taken care of June 2017.	LPMS has a new building service manager who needed trained on the system.
Purchase card transactions of the principal must be reviewed and approved by the respective director.	Director of School Support and Instruction.	Immediately	MCPS central office gets the evidence.
Tax must be collected on taxable sales and remitted to the Comptroller of Maryland.	Responsibility of the financial assistant.	Immediately	All current and back taxes will be collected and sent in as of May 2017.
Not all sponsors of field trips provided comprehensive financial information to the FA at the completion of the trip.	Responsibility of the financial assistant. Information shared with staff / sponsors about required procedures.	August 2017 staff meeting	All sponsors will sign-in indicating that they received the training. FA will require all sponsors to complete the field trip completion form.
Fund-raiser accounts should not be closed until all activity has been recorded and inventory reports prepared.	Responsibility of the financial assistant.	Immediately	The financial assistant will make this adjustment as of May 2017.
Yearbook sponsor records must account for the number of books purchased, sold, distributed at no cost, and the remaining inventory.	Responsibility of the financial assistant and yearbook sponsor.	2017-2018 school year	The financial assistant will work with the yearbook sponsor to create a database to account for all yearbooks.

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