

Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

March 29, 2017

MEMORANDUM

To: Mrs. Carole A. Working, Principal
Quince Orchard High School

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

Subject: Report on Audit of Independent Activity Funds for the Period
April 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 March 17, 2017, with you, Mrs. Judith C. Yu, school business administrator, and Mrs. Carol L. Lee, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated May 18, 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

A guiding principle for control of school funds is to invest the IAFs in excess of those necessary to meet current monthly expenses in the MCPS Centralized Investment Fund (CIF) (refer to *MCPS Financial Manual*, chapter 7, page 1). The purpose of the CIF is to provide a means for MCPS schools to collectively invest their excess IAFs in order to earn a higher rate of return than would be achieved by investing individually. The IAFs are transferred electronically between checking

and CIF accounts so they are readily available when needed to make disbursements from the school's checking account (refer to *MCPS Financial Manual*, chapter 22, page 7). Our analysis of the school's IAF checking account indicated that there were consecutive months in which the available balance exceeded immediate needs as well as the minimum required balance to maintain bank fees at the lowest possible level. We recommend investing excess checking account funds in the CIF to earn additional interest income for your school.

MCPS Form 281-53: *Restricted Independent Activity Fund (IAF) Purchase Request for Chief Operating Officer's Approval*, requires prior approval of the chief operating officer (COO) for the procurement of certain goods and services as well as procurements requiring disbursement of \$7,500 or more. Prior to the disbursement of IAF funds to procure such items, the school financial agent will ensure that the MCPS Form 281-53 authorization documentation has been received (refer to *MCPS Financial Manual*, chapter 20, pp. 5-6). We noted two such disbursements made without prior COO approval. One of these disbursements was for equipment that had not been added to the MCPS inventory and affixed with a bar code tag as required by MCPS Regulation EDC-RA, *Control of Furniture and Equipment Inventory* (refer to *MCPS Financial Manual*, chapter 16, page 3). We recommend that COO approval be received prior to disbursement of IAF funds requiring the use of MCPS Form 281-53, and that staff review compliance requirements to ensure that equipment is properly bar code tagged and the inventory adjusted accordingly.

The yearbook sponsor is required to keep detailed records related to this activity. Upon receipt of the yearbooks, the sponsor must verify that all of the yearbooks ordered were received, adequately secure them, monitor their distribution, and take a physical inventory of the unsold yearbooks at the end of the school year (refer to *MCPS Financial Manual*, chapter 20, page 14). During the 2015–2016 school year, the records maintained by the yearbook sponsor did not enable us to determine whether or not all funds generated from this activity had been remitted to the school financial specialist. We also noted that a year-end inventory was not provided and that sales tax for the total number of yearbooks sold was underpaid due to not including the online sales. We recommend your financial staff work with the sponsor to ensure that a more thorough reconciliation is performed at year-end to assist with planning yearbook activity for the next school year. We also recommend accounting for all yearbook sales to ensure that an accurate calculation is made to report and pay the appropriate amount of sales tax due to the Comptroller of Maryland (refer to *MCPS Financial Manual*, chapter 18, page 2).

Summary of Recommendations

- IAF funds in excess of current needs should be invested in the CIF to earn interest commensurate with safety.
- COO approval must be obtained on MCPS Form 281-53 prior to disbursement of IAF funds for procurement of certain goods and services or exceeding a specific dollar amount.
- Equipment must be added to the MCPS inventory and have a bar code tag affixed based on Department of Materials Management requirements.
- Yearbook records and the year-end reconciliation report must provide sufficient information to analyze results.

- The appropriate amount of sales tax must be collected on the sale of taxable items and remitted to the Comptroller of Maryland.

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, with a copy to Mr. Brian W. Scriven, director of school support and improvement of high 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:KMH: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
Mr. Scriven
Mr. Tallur
Mr. Ikheloa

Fiscal Management Action Plan

Attachment

School: Quince Orchard HS

Principal: Carole Working

Date of approval: *b05/6/17*

Approved by associate superintendent: Dr. Darryl L. Williams

** I believe it is worth noting that QOHS has not had an audit for an extended period of time. This current audit period is 22 months. Some of the findings in the report were not discussed with QOHS staff prior to the exit conference. Documents were provided to support compliance of QOHS after the exit conference but the findings were not changed. It is also worthy to note that the documents presented and reviewed at the exit conference indicated four finding but now list five which seem repetitive and proof of compliance was submitted for some items that were not removed from the report.

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
IAF funds in excess of current needs should be invested in the CIF to earn interest commensurate with safety.	QOHS has maintained a balance in the CIF in excess of \$220,000 at all times the past several years. We have found that this still allows us to cover expenses yet still investing approximately 65% on average of the IAF total balance. With the interest rate so low we were led to believe this would be ok due to the overall percentage invested and the low interest rate. We will begin utilizing the CIF more and analyzing the needs monthly. Carol Lee - SFS	Immediate	Mrs. Lee and Mrs. Yu discussed investing \$100,000.00 for a short time. Mrs. Lee is working on that now 3/29/2017. She will keep a close eye on the balance and transfer funds as needed.
			Auditor's Comment: During the previous audit exit conference of May 8, 2015, a discussion item, shared with the Principal, and financial agents, specifically noted that the school kept a high balance in the checking account, comments included, "Recommend transferring funds to the Centralized Investment Fund (CIF)". Since no transfers were done, and the checking account balance continued to increase, this audit elevated the issue from a discussion item to a reported finding.

<p>COO approval must be obtained on MCPS Form 281-53 prior to disbursement of IAF funds for procurement of certain goods and services or exceeding a specific dollar amount.</p>	<p>The equipment in question is a Kubota purchased by Athletics. It has been explained to us that had we of requested COO approval after the purchase and noted it was an emergency this would not have been an audit finding. Going forward, if the issue were to arise again, we now know to request approval after the purchase. In addition, this item was added to the QOHS inventory. The request to add was provided to the auditor as was the e-mail confirmation from John Ricketts indicating the item is on QO inventory. It is not clear what the second item is that is being referred to.</p> <p>George Awkard A/D & Judy Yu SBA</p>	<p><u>Auditor's Comment:</u> There was no attempt to seek COO approval on this purchase causing the finding. In the future, if an emergency requires an immediate purchase, not allowing time to obtain the COO approval in advance, school staff are taking a risk of being denied approval.</p>	<p>E-mail from Mr. John Rickett's confirming the request to add to inventory was completed and the item is reported on inventory for QOHS. This documentation was provided to Audit after the exit conference. This was not mentioned until the exit conference.</p> <p><u>Auditor's Comment:</u> The inventory records provided by DMM do not match the disbursement information for the equipment in question.</p>

<p>Yearbook records and the year-end reconciliation report must provide sufficient information to analyze results</p> <p>The only items found to be an issue with the yearbook was that the auditor didn't see ALL the sales tax paid and an inventory of the no-value books was not completed. The auditor looked at the yearbook accounts but missed the sales tax account. When the vendor sells yearbooks online, they remit the sales to the school including the tax that was paid to them. That tax was transferred to the MD Sales Tax account and is zeroed out when taxes are remitted to the state. This information was supplied to the auditors via the account history for MD Sales Tax reflecting the funds payable to the State of MD.</p>	<p>Sales tax was remitted to the state of MD. Auditing neglected to look at the sales tax account. This was not discussed prior but the account was submitted to Audit reflecting the tax paid to the State of MD.</p>	<p><u>MD Sales tax account reconciliation</u> report reflects the tax collected by Walsworth and remitted to QOHS to pay. This account balance is paid to the State of MD for tax. Information supporting this was submitted to auditing. The Yearbook sponsor will complete a zero value inventory of the yearbooks going forward. See attached account 0095.00000</p> <p><u>Auditor's Comment:</u> A full reconciliation of the yearbook activity was not performed by school staff for year end 6/30/2016. This is evidenced by discrepancies noted between school records and the yearbook vendor records. Yearbook sales tax issue – see Auditor's comment below.</p>	<p><u>MD Sales tax account reconciliation</u> report reflects the tax collected by Walsworth and remitted to QOHS to pay. Information was submitted to auditing.</p> <p><u>Auditor's Comment:</u> Account 0095.00000 MD Sales Tax was examined and both on-line and in school yearbook sales were utilized to calculate the appropriate amount of sales tax owed. Sales tax for yearbooks was underreported due to: *Prior year sales incurred in the current fiscal year were not included in the calculation. * An inaccurate amount was used for total yearbook sales for the current period.</p>

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