

Office of Shared Accountability  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

March 31, 2016

MEMORANDUM

To: Dr. Monifa B. McKnight, Principal  
Ridgeview Middle School

From: Roger W. Pisha, Supervisor, Internal Audit *RPisha*

Subject: Report on Audit of Independent Activity Funds for the Period  
January 1, 2014, through December 31, 2015

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 March 29, 2016, with you and Mrs. Debra Hogan, financial specialist, we reviewed the status of the conditions described in our prior audit report dated February 28, 2014, 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

The management of IAF must be in accordance with good business practices that include sound accounting and internal control procedures. We found that staff did not have adequate procedures in place for proper control and oversight of IAF. As a result, we noted a large

number of accounting transfers, journal entries, and other transactions to correct duplicate entries, account number errors, and to void checks and receipts. Many transactions lacked descriptions to fully explain the accounting entry. We also found that a few checks had been handwritten and then not recorded timely in the general ledger, resulting in check number errors when recording subsequent payment transactions. Change funds were sometimes re-deposited into play or other activity accounts, rather than the change fund account where originally disbursed, requiring additional transfers to correct account balances. We recommend that you work with the financial specialist to establish processes that will structure workflow to ensure control and appropriate oversight of IAF, and to monitor transaction activity in an effort to reduce the number of errors (see MCPS Financial Manual, Chapter 20-1).

Reconciliation of the school's monthly bank checking account statement must be completed by a person independent of daily accounting transaction input (see MCPS Financial Manual, pp. 20-9, 20-27). We found no clear evidence that the reconciliation was completed independent of the financial specialist. We recommend that the staff member designated to perform the bank reconciliation each month be provided the bank statement, a list of journal entries for the month, and any other documentation necessary to independently perform the reconciliation.

MCPS Form 280-54, *Request for a Purchase*, is used to obtain principal approval to proceed with an intended purchase. After the purchase is completed, the purchaser must submit the invoice or documented evidence of purchase, annotated to indicate the satisfactory receipt of the goods or services, to the financial specialist (see MCPS Financial Manual, pp. 20-6, 20-7). In our sample of disbursements, we found invoices were not always signed by the receiver. In addition, some disbursements did not have adequate documentation to fully explain the reason for the expenditure. We recommend that complete annotated documentation be attached to fully explain the reason for the purchase.

Retail sales tax must be collected by the school and remitted to the State of Maryland on the sales of all taxable merchandise (see MCPS Financial Manual, p. 18-2). Taxable merchandise includes yearbooks, fund-raiser items, physical education clothing, and other items that become the personal property of the individual making the purchase (see MCPS Financial Manual, p. 18-2). Our examination revealed that taxes were not collected on all items sold to students, and that not all taxes collected were remitted to the state. We recommend that the school develop a process to determine activities for which sales tax must be collected and ensure that prices are set appropriately to include the tax so that activities do not operate at a loss.

Fund-raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. Although fund-raiser requests were approved by you, we found that many of them had not first been reviewed by the financial specialist. The financial specialist is responsible for being familiar with MCPS rules and regulations as well as any applicable law, communicating requirements to staff, and verifying that procedures are followed. We found that one sponsor of a fund-raiser had sold items at cost and did not account for the additional expense of sales tax. Another sponsor sold items at a price that did not include expedited shipping and

sales tax expenses. When all expenses associated with these fund-raisers are considered, both of them generate a loss rather than a profit. Neither activity had been reviewed by the financial specialist prior to your approval. We recommend that the financial specialist review all fund-raiser requests prior to your approval (see MCPS Financial Manual, pp. 20-12, 20-13).

Sixth grade students at each middle school in MCPS participate in a three-day, two-night residential outdoor environmental education program (OEEP) for which they are assessed an activity fee to reimburse MCPS for personal expenses associated with the program. Students unable to pay the OEEP activity fee receive waivers. Any waivers must be reported to MCPS so that the total amount of the invoice billed to school is adjusted accordingly. We found that the school did not correctly report all students who were identified as needing assistance, and that resulted in an overpayment to MCPS in FY 2015. In addition, the school collected approximately \$1,400 more than expected for the FY 2016 activity since some students may have paid the full cost, but attended only partial days, or received waivers. Also, we noted a \$100 extension error on the billing memorandum causing the school to be overcharged. We recommend that you review the procedures for reporting students needing financial assistance with the sponsor, that financial assistance forms are reviewed for accuracy before they are submitted, and that all invoices are checked for accuracy by the financial specialist prior to issuing payments.

#### Summary of Recommendations

- IAF must be managed in accordance with sound accounting practices and effective internal control procedures;
- Reconciliation of the school's monthly bank checking account statement must be completed by a person independent of daily accounting transaction input;
- Purchaser must confirm receipt of goods or services prior to disbursement;
- Purchase documentation must be adequate to support disbursements;
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland;
- Fund-raising requests must be reviewed prior to approval to ensure the activity meets the goals of the school; and
- OEEP (Outdoor Environmental Education Program) sponsor records must correctly report funds collected and waivers granted for all participating students.

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 Mrs. Elizabeth Thomas, director of middle schools. The Office of School Support and Improvement will follow up on this audit.

RWP:DKH:sd

Copy to:

Dr. Zuckerman

Dr. Statham

Dr. Navarro

Dr. Williams

Mrs. Chen

Mrs. DeGraba

Mrs. Milwit

Mrs. Thomas

**Fiscal Management Action Plan**

School: Ridgeview Middle School

Principal: Monifa B. McKnight

Approved by community superintendent: \_\_\_\_\_

Date of approval: \_\_\_\_\_

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
<p>There was not enough procedures put in place to monitor use of IAF account resulting in accounting transfers, journal entries, duplicate entries, account number errors, voided checks and receipts.</p>	<p>Financial Specialist (FS) in collaboration with principal will draft a memo to go out to all sponsors indicating the importance of them deciding initially which account funds will be allocated to for each transaction to avoid requests for changes. This memo will address that transfers will be limited when there is an error on sponsors part.</p> <p>Financial specialist will check to be sure to complete transactions while in process and not continue to address interruptions to avoid mistakes in paperwork- i.e. transfers, journal entries, account numbers, etc.</p> <p>When sponsors are making a deposit with remittance forms, the FS will review the form against the schools funds online form to double check the sponsor's work to avoid error. (form 280-34).</p>	<p>April 2016 -ongoing</p>	<p>Memo will be drafted and reviewed to provide to all sponsors in August 2016.</p> <p>At monthly meetings, principal and Financial specialist will review ledger and spot check any transfers made and discuss reasons why to ensure that only necessary transfers, voided checks, etc. are made.</p>
<p>Reconciliation of the schools monthly bank checking account statement should be completed by a person independent of the schools FS.</p>	<p>The school has identified the principal's administrative assistant, Ms. Greenwood, as the person completing the monthly reconciliation report. Ms. Greenwood is now able to and will continue to complete the reconciliation report independently. The FS will provide the bank statement, list of journal entries for the month, and any other necessary documents to Ms. Greenwood prior to her completing the monthly report.</p>	<p>April 2016- ongoing</p>	<p>The principal will address any questions regarding the reconciliation report from Ms. Greenwood.</p>
<p>MCPS form 280-54 Request for a Purchase needs appropriate</p>	<p>FS will instruct sponsors to initial and date all invoices from purchases made when items are</p>	<p>April 2016- ongoing</p>	<p>This documentation will be required by the FS from the sponsors before</p>

<p>follow up to show that goods/services received were satisfactory and the requester confirms receipt of item and satisfaction for record purposes.</p>	<p>received, particularly prior to payment being disbursed. This documentation will be attached to the original purchase request (Form 280-54)</p>		<p>any payment or disbursement is made in the future to vendors.</p>
<p>Retail tax must be collected by the school and remitted to the State of MD on taxable merchandise. S</p>	<p>FS will draft a memo in collaboration with principal and share with all sponsors that outlines that all sponsors cannot enter into an agreement with a vendor without collaboration from the FS to ensure sales tax is accounted for in agreements made with vendors and sponsors.</p>	<p>August 2016-ongoing</p>	<p>Memo will be drafted and reviewed to provide to all sponsors in August 2016.</p> <p>At monthly meetings, principal and Financial specialist will review and address any questions with vendor contracts that may arise.</p>
<p>Fund-raising at the school must conform to Guidelines for Sponsoring an Independent Activity Fund Raiser</p>	<p>All fundraisers will be treated like field trips requiring that the financial specialist will review these fund raisers prior to the principal approval process.</p> <p>The FS will work with sponsors to ensure their charge for fundraisers is inclusive of any additional charges in addition to the cost of product/materials.</p>	<p>April 2016-ongoing</p>	<p>The fund raisers will be approved like field trips at the bi-monthly FS and principal meeting to approve charges, etc for fundraiser.</p>
<p>Outdoor Ed program sponsors must correctly report funds collected and waivers granted for all participating students.</p>	<p>FS will have work with the OE program coordinator to keep a running list (that is collaborated on weekly) to ensure that reports are filled out correctly for full and partial waivers given to students.</p>	<p>August 2016-</p>	<p>The administrator for 6<sup>th</sup> grade will work with the FS and outdoor coordinator to ensure that this process is implemented with fidelity.</p>

*Note: A copy of the approved plan is to be sent to the Internal Audit Office, URSC suite 3380*