


Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

April 27, 2015

MEMORANDUM

To: Dr. Alan S. Goodwin, Principal
Walt Whitman High School

From: Roger W. Pisha, Supervisor, Internal Audit 

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

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 30, 2015, with you, Dr. Christopher Garran, associate superintendent of high schools, Mr. James Campbell, business administrator, and Mrs. Joy Garnett, financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 19, 2014, and the status of present conditions. We discovered that some findings noted in previous IAF audits had not yet been completely resolved. 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 procedures and internal controls. We again found that staff did not have adequate

procedures in place for proper control and oversight of IAF for some of the school's processes. The financial specialist made inefficient input to the accounting software that produced unreliable output for managerial decision making with many transactions lacking descriptions to fully explain the activity. We noted frequent bank and account number corrections as well as voided checks and receipts. The financial specialist received notices from the bank for non-sufficient funds checks, deposit corrections, and other bank debits and credits, but the staff member performing the monthly independent bank reconciliation was not made aware of these notices to be able to accurately balance the checking account. Journal entries were input using the debits and credits on the bank statement rather than first researching their validity. One debit was actually a bank error, but financial staff did not question or research the error, and recorded an adjusting entry that resulted in an IAF loss of funds. It did not appear that financial staffs were monitoring commissions due the school for follow up on those not received. We recommend financial staff review internal controls guidance (see MCPS Financial Manual, Chapter 20-1).

Sponsors of school activities that involve the collection or disbursement of IAF should be provided an account history report for each month in which their account has a balance or transactions have been recorded. Sponsors are required to verify the accuracy of these reports. We again found that reports were not issued on a consistent monthly basis, were not inclusive of all activity, and all sponsors did not sign and return reports issued. We recommend sponsors be given a monthly statement of their accounts and required to verify that all transactions have been correctly recorded. After any discrepancies are resolved, the statements should be signed and dated by the sponsor to attest to their accuracy. A procedure should be established to ensure that all statements are independently reviewed and returned (see MCPS Financial Manual, p. 20-9).

The MCPS Financial Manual, p. 20-10, provides guidance on IAF account structure and utilization for consistency in reporting. We found instances of nonconformity resulting in some transactions not being classified properly in appropriate accounts, making it difficult to evaluate the outcome of activities. A large negative balance had accumulated in the MCPS Reimbursement account since July 1, 2014, due to no reimbursement for expenses recorded. We noted accounts with positive balances which had neither receipts nor expenses recorded during the school year and when not restricted as to use should be closed by transferring the balance to a benefitting account or to the general account as appropriate. We recommend that the school's accounts be brought into compliance with the current chart of accounts, and the guidelines for uses of funds be reviewed. We further recommend that a schedule be established for periodic review of account balances to ensure that funds are spent timely and that financial staffs review the status of negative balance accounts monthly for prompt resolution.

Transfers between general ledger accounts may be made only after MCPS Form 281-46, *IAF – Transfer*, has been executed by both the account sponsor and the principal. Once recorded, transfer forms should be sequentially filed with documentation attached to fully explain the reason for the transfer. We again found that some transfers were recorded without the documentation attached. To improve internal controls, we recommend that transfers be approved

only when fully documented, and that once approved, the financial specialist records the transfer (see MCPS Financial Manual, p. 20-10).

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. 20-4). Invoices for goods or services must be signed by the purchaser to indicate satisfactory receipt. In our random sample of disbursements, we again found disbursements that did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. By requiring complete documentation, the principal retains control over the expenditure of IAF funds. In addition to the above weaknesses, we found that in one instance the school spent funds in excess of the amount approved by the chief operating officer for a large purchase, and did not obtain approval for the additional amount. We recommend that Form 280-54 be prepared by staff and signed by you at the time verbal approval is sought, and that complete documentation be attached to fully explain the reason for the purchase.

Some staff collecting funds for field trips, fund raisers, and other student activities were holding funds rather than remitting them timely to the financial specialist. We noted that an unverified amount of money left unattended in a sponsor's classroom could no longer be found. The loss of these funds was brought to the attention of the school resource officer, but it was not immediately reported to authorities as required by MCPS Regulation ECC-RA, *Loss of or Damage to Montgomery County Public Schools Property*. Also, the financial specialist held school funds for extended periods before making deposits to the bank. To improve cash handling internal controls, we recommend adherence to established procedures for prompt remittance and deposit of funds (see MCPS Financial Manual, pp. 7-3, 7-4).

An advance of funds to a staff member for allowable IAF expenditures must be issued by check to the staff member for conversion to cash. The advance must be routinely monitored for timely return of receipts documenting expenses and any unspent cash for deposit. We noted some advances to staff and others as well as a lack of accountability for them, finding no clear process for tracking the return of receipts and remaining cash. One such advance in the amount of \$2,480, was disbursed on January 2, 2014, to a student group parent volunteer who had not yet returned receipts and/or unspent funds at the time of our audit, but was subsequently received. We found no indication that the financial specialist had followed up with the parent to obtain receipts or unspent funds since the advance was made. We recommend that a clear process for the advance of cash to staff or parent groups be developed that enables financial staff to track the funds from issuance of the check to the timely return of receipts and unspent cash.

All equipment acquired by a school whether by gift or by purchase becomes the property of MCPS (see MCPS Financial Manual, p. 20-15). 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 again found equipment items purchased that had not been added to the inventory. We recommend financial staff ensure all such purchased items are barcoded for property control.

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. 18-5). We again found that sales tax remitted to the State of Maryland was not inclusive of all taxable sales activities, and tax was not correctly calculated on some sales. We recommend that financial staff more closely analyze activities for which sales tax must be collected to ensure that the appropriate amount is calculated for remittance to the state.

The amount the school owed to MCPS was understated by \$16,000 in the FY 2014 annual financial report. This included payables for substitutes used in FY 2013 and 2014, sales tax, AP workbooks delivered to the school in April, and other invoices not paid as of June 30. In order for the principal to make informed decisions on IAF management, it is important that sums owed by the school be correctly reported. Because the amount a school owes is reported at fiscal year-end and not part of the regular monthly report given to the principal, it is important that MCPS invoices be paid promptly so that monthly reports more accurately reflect availability of IAF resources.

Sponsors of field trips should have a complete class or club roster of student names to annotate the amount each student paid, the date paid, eligible students who did not participate in the trip, and students who received waivers, scholarships or reduced fees. This data should be provided to the financial agent at the completion of each trip, and compared to remittances recorded in the trip account history report. The data also should be used to estimate future trips. We again found that although sponsors were able to provide fee collection data upon our request, they had not all submitted completed data at the conclusion of each trip so that data could be compared to the final account history report. We recommend financial staff establish a process to ensure that sponsors submit completed MCPS Forms 280-41, *Field Trip Accounting*, or its equivalent, to provide comprehensive fee collection data at the completion of each trip, and for comparison to trip costs (see MCPS Financial Manual, p. 20-10).

Admission receipts for athletic and non-athletic events should be controlled according to MCPS Regulation DMB-RA, *Control of Admission Receipts*. Admissions must be controlled with serially numbered tickets, separation of duties, use of the required MCPS Form 280-50, *Tickets and Cash Report of Admissions Manager*, for tracking and reconciling sales, and perpetual inventory of tickets. Unsold tickets for all events must be retained for audit. We found that the ticket controller had not retained unsold tickets for some non-athletic events, and the report auditor did not receive and verify unsold tickets and cash returned from ticket sales to enable reconciliation of the ticket report. Receipts for sales of dance tickets were comingled with tee shirt sales, and tickets for Homecoming were sold at two different prices and sales were not reconciled daily. Such comingling renders it impossible to reconcile tickets sold to cash remitted. Also, we did not find that the school had a process for reporting distribution of complimentary tickets. We recommend that staff involved with ticket sales for admission events review and comply with procedures contained in the above cited regulation.

Sales of PE clothing should comply with the requirements outlined in the *Handbook for the Operation of School Stores*. The school had discontinued selling PE clothing in a prior year, but

resumed selling it again in FY 2014. We noted some weaknesses over the accounting process for the sale of clothing items, and business staff had not obtained an ending inventory from the account sponsor for FY 2014. To improve controls, we recommend compliance with the above cited handbook.

Students may be charged course fees approved by the Office of School Support and Improvement (OSSI) for materials required for a course that are either consumed by the student or become the personal property of the student. We noted balances accumulating in course accounts indicating that either students had been charged more than necessary or all associated expenses had not been recorded in the course accounts. We recommend that prior to requesting approval, staff review OSSI guidelines and determine fees commensurate with the cost of materials. If approved, staff should monitor their account history reports to ensure the collection of fees and expenditures for materials are charged to the appropriate accounts.

Summary of Recommendations

- IAF must be managed in accordance with sound accounting practices and effective internal control procedures (repeat);
- Monthly account history reports must be provided to sponsors for affirmation of transaction correctness and returned to the financial specialist (repeat);
- Accounting transactions must conform to the IAF chart of accounts;
- IAF should be managed to reduce and eliminate negative account balances;
- Inactive accounts should be closed;
- Transfers between accounts should be fully documented (repeat);
- Purchaser must confirm receipt of goods or services prior to disbursement (repeat);
- Purchase documentation must be adequate to support disbursements (repeat);
- Certain expenditures require prior approval of the COO;
- Funds collected by sponsors must be promptly remitted intact with MCPS Form 280-34 to the financial specialist;
- Funds remitted by sponsors must be promptly verified by the financial specialist and deposited;
- Advances of funds must be monitored;

- Furniture and Equipment control must comply with MCPS Regulation EDC-RA;
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland (repeat);
- IAF annual reports must include any accounts receivable and payable;
- 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 (repeat);
- Field trip planning should be reviewed to ensure established fees are commensurate with trip expenses;
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA;
- Physical Education uniform sale and inventory processes should comply with the requirements outlined in the *Handbook for the Operation of School Stores*; and
- Course fee accounts should be monitored for collection of funds and materials expenses.

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. Christopher S. Garran, associate superintendent of high 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. Garran
Mr. Sanderson
Mrs. Chen
Mrs. DeGraba
Mrs. Milwit

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MAY 27 2015

Attachment

Fiscal Management Action Plan

School: Walt Whitman High School

Principal: Dr. Alan Goodwin

[Signature]

Date of approval: 6/1/15

Approved by associate superintendent:

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
Some accounting procedures not in place for IAF processes. Frequent banks and account corrections. A commission payment was not received.	The financial specialist will make banks correction entries throughout the month prior to the actual monthly bank reconciliation. The bank account has always balanced each month. Greater detail is being placed on all account postings and vendor commissions that are due. Mrs. Joy Garnett, Mr. James Campbell The business office has retained the services of a staff member to assist the financial specialist with clerical responsibilities. Ms. Blenda LeGrande	April 2015	Final Specialist assistant in place.
Account History Reports not distributed each month.	Activity sponsors will receive their Account History Report monthly. A compliance follow up list of sponsors has been established to monitor sponsor report return and signature indicating review. Reimbursements will be submitted on a monthly basis. Mrs. Joy Garnett	April 2015	The compliance follow up checklist is currently being used and reviewed by the principal.
Some account transaction postings were to the appropriate accounts and all negative account balances were resolved on a monthly basis.	Account transaction postings will be made in compliance with the chart of accounts. Reimbursements will be hand-delivered monthly. Mrs. Joy Garnett. Negative account balances will be monitored and resolved monthly and account closures will occur yearly. Mr. James Campbell, Mrs. Joy Garnett	May 2015 June 2015	Accounts are being identified for transfer to the appropriate accounts.
Transfer of funds between IAF accounts need more comprehensive documentation.	Transfers will have more detailed explanations and attached documentation as needed. Mrs. Joy Garnett	May 2015	

<p>Requests for Purchase did not have actual invoices signed by the requester even though the MCPS Form 280-54 was executed and properly signed. Some Requests did not fully explain the reason for the expenditure for the attached invoice. A large purchase was made without proper chief financial officer (COO) approval for the full expenditure.</p>	<p>Every Request for Purchase MCPS Form 280-54 will be signed initially by the requester and will be presented to the financial specialist for availability of funds and presented to the principal for approval. Disbursement will not be made unless the corresponding invoice is signed by the requester and indicated that all good and/or services have been received or performed in good order. Dr. Alan Goodwin and Mrs. Joy Garnett</p> <p>The noted finding of a large school purchase without full chief operating officer (COO) approval was inaccurate. The additional funds expended from the donations account were for other unrelated purchase orders that did not require prior COO approval.</p>	<p>June 2015</p>	
<p>Some collected funds and deposits were not processed on a daily basis.</p>	<p>Staff will continue to be strongly advised on a regular basis to deposit funds directly in the business office or secure drop box on a daily basis. Received funds will be deposited on a daily basis. Mrs. Joy Garnett, Dr. Alan Goodwin, Mr. James Campbell</p>	<p>May 2015</p>	<p>Principal email to staff and personal notification to necessary staff members.</p>
<p>Some advance of funds not monitored on a regular basis.</p>	<p>A cash advance register will be used to track all cash advances for timely resolution and documentation. Mrs. Joy Garnett</p>	<p>June 2015</p>	
<p>Acquired equipment not added to the school inventory by barcode.</p>	<p>The one (1) computer purchased by a teacher, with donated funds, is being barcoded. Mr. James Campbell</p>	<p>May 2015</p>	<p>Barcode request acknowledged by MCPS.</p>
<p>Retail Sales Tax not collected on all sales.</p>	<p>Sales Taxes will be collected on all appropriate sales and remitted to the State of Maryland. Mrs. Joy Garnett</p>	<p>June 2015</p>	
<p>All MCPS invoices not listed on the End-of-Year report.</p>	<p>The End-of-Year report will include all payables and receivables. Mrs. Joy Garnett</p>	<p>June 2015</p>	

<p>Some trips did not have all required documentation.</p> <p>Some admissions did not include MCPS numbered tickets and were not retained.</p>	<p>All required documents will be prepared by sponsors and collected. Mrs. James Campbell, Dr. Alan Goodwin</p> <p>The serially numbered tickets will be used in conjunction with the serially numbered wrist bands for SGA running events. MCPS Form 280-50 will be used for complementary tickets. All unused tickets will be retained. The financial specialist, who receipts the admissions funds, will write the receipt number on the MCPC Form 280-50 which is always used for all athletic admissions. T-Shirts are no longer utilized for admissions to SGA events and Homecoming tickets have single pricing.</p> <p>The SGA sponsor will share the stipend with another staff member who will assist with accounting and transaction functions. Mr. James Campbell, Mrs. Joy Garnett, Mr. Wayne Jacobson, Mrs. Sheryl Freedman</p>	<p>June 2015</p> <p>May 2015</p>	<p>Events concluded with MCPS Form 280-50's and remaining tickets. SGA sponsor assistant has been assigned.</p>
<p>End-of-Year inventory not taken for P.E. clothing.</p> <p>Some student course fee accounts had accumulating balances.</p>	<p>The final inventory has been taken and all sales permanently discontinued. Ms. Nancy Kull</p> <p>Teachers will continue to be advised of the necessity to collect fees in accordance with OSSII guidelines. Certain classes will no longer be charged fees. Dr. Alan Goodwin, Mr. James Campbell</p>	<p>May 2015</p> <p>May 2015</p>	<p>Staff member advised to end sales.</p> <p>Staff members advised and certain fees discontinued.</p>