MEMORANDUM

To: Dr. Louise J. Worthington, Principal
   John T. Baker Middle School

From: Roger W. Pisha, Supervisor, Internal Audit

Subject: Report on Audit of Independent Activity Funds for the Period
         January 1, 2013, through September 30, 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 December 22, 2014, with you and Ms. Pamela Ingram, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 1, 2013, 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 IAFs must be in accordance with good business practices that include sound accounting procedures and internal controls. Those entrusted with MCPS resources are responsible for establishing and maintaining effective controls to ensure that programs meet the
school's goals and objectives (see MCPS Financial Manual, p. 20-1). We found many weaknesses in controls including an account with activity that was renamed mid-year and used for a new purpose, bank reconciliations routinely performed by the financial specialist rather than by a staff member independent of financial activities, and activities that appeared to have significant revenue shortfalls that were not discovered or investigated. Also, we noted that IAF School Funds Online (SFO) software output was not always verified prior to issuing checks and receipts causing subsequent problems with bank reconciliations, and additional effort of staff to resolve discrepancies and make correcting entries. We recommend that financial staff review IAF Guiding Principles and other relevant information in the MCPS Financial Manual to ensure compliance, and that processes be initiated to ensure the integrity of SFO output prior to release of checks and receipts.

Chapter 20 of the MCPS Financial Manual contains a standard chart of IAF accounts with guidance on structure and utilization to provide consistency in reporting. We found instances of nonconformity in which transactions were not classified properly in appropriate accounts. For example, some expenses for a dance were recorded in the SGA account rather than the dance activity account. MCPS and PTA reimbursements, and a $3,000 donation for furniture were recorded in the general account rather than more appropriate descriptive accounts that precluded locating the corresponding expenses for these transactions. Restricted funds such as ICB reimbursements, lost textbook funds, and athletic allocations were sometimes inappropriately deposited to or transferred to general, student recognition, and PE accounts. We found that sales of SGA shirts were commingled in the SGA account, rather than recording in a separate sales sub-account. Such commingling renders it difficult to evaluate the results of activities but it appears that a loss on the shirts went undetected. We recommend that the school's accounts be brought into compliance with the latest chart of accounts, and that guidelines for uses of funds be reviewed.

Disbursements from IAF must be controlled in a number of ways. The purpose of each disbursement must be fully explained on MCPS Form 280-54, Request for a Purchase, 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, and reviewed by the financial specialist and you to ensure that purchases benefit the school. In our random sample of disbursements, we found that many disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. We noted some receipts for expenditures reimbursed to staff that appeared to include personal items. By requiring complete documentation and ensuring that payments are for goods or services that benefit the school, the principal retains control over the expenditure of IAF funds. We recommend that Form 280-54 include complete descriptions of purchases, that complete documentation be attached to fully explain the reason for the purchase, and that invoices be reviewed by the financial specialist and you prior to signing and releasing checks.

Prior written authorization must be obtained from the Chief Operating Officer (COO) for certain procurements requiring the disbursement of $7,500 or more. In addition, the Department of Materials Management (DMM) should be contacted to determine if any donated or used
furniture is available prior to the consideration of using IAF funds. We noted new furniture with a cost in excess of $9,000 was purchased with IAF for the counselor’s office without first contacting the DMM to determine if furniture was available to meet the needs of the school and without the approval of the COO (see MCPS Financial Manual, p. 20-5).

Only the signature of the principal or acting principal may obligate the school by contract for the purchase of equipment, supplies, or services procured with IAF, and all contracts must be signed by an authorized representative of the contractor. Any contract involving liability or risk of injury that could place MCPS, the school, or any MCPS employee at risk for potential legal damages must be approved by the COO. We found that contracts for a DJ, field trip buses, a performing group, and an entertainment company who provided outdoor inflatables for a school activity were either unsigned, or signed by sponsors or the financial specialist. In addition, the contract with the vendor who provided the inflatables was not authorized by the COO (see MCPS Financial Manual, p. 20-5).

In order to properly control receipts, cash and checks collected by sponsors for IAF activities should be submitted promptly and intact to the financial specialist together with MCPS Form 280-34, Remittance Slip. All receipts must be deposited on the last working day of each month and before each weekend or holiday (see MCPS Financial Manual, p.7-4). Cash should be counted in the presence of the remitter, and a receipt that is supported by the Form 280-34 should be issued promptly. We continued to find instances in which there was a delay in issuance of receipts. The financial specialist collected obligations through June 12, 2014, held the funds until they were deposited on July 11, 2014, and then did not record the receipts in the general ledger until August 5, 2014. We found that some sponsors were holding funds collected rather than remitting them to the financial specialist on a daily basis. To improve controls, we recommend adoption of the procedures in the MCPS Financial Manual.

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, they are not submitting the current version of the completion report at the conclusion of the activity so that results could be more effectively evaluated. Some fund-raisers did poorly and staff were still attempting to sell merchandise that was purchased in prior years. Review of the completion reports was by the financial specialist only, and we could not determine if you were apprised of losses or discrepancies. A completion report for an activity involving the sale of items should include the total number of items for sale, purchase cost of each, selling prices, and any remaining inventories to determine whether all sums collected were remitted to the financial specialist. Following 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 as well as the number of books distributed free of charge. In addition, the sponsor must maintain a detailed record of all books sold at specific prices including any online sales, a
detailed list of any yearbook giveaways, books returned to the vendor for credit, and the number of unsold books remaining. At year-end the sponsor must prepare a statement of profit or loss which reconciles books purchased with books distributed (see MCPS Financial Manual, p. 20-13). Although we did not find an amended yearbook contract, sales reports, final invoice, or other items needed for reconciliation of the activity, we were able to obtain sufficient documents from the sponsor and the former yearbook vendor to evaluate the results. From our review, we determined that although the school made a small profit, we could not account for 43 books. We recommend the yearbook sponsor be counseled and assisted with the record-keeping required, and that complete records are submitted to the financial specialist for reconciliation of the activity.

Sponsors of field trips should have a complete class or club roster of student names to annotate the amount each student 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 should also be used to estimate future trips. We again found that not all sponsors are providing completed data at the conclusion of each trip, and that data is not being compared to the final account history report nor used for planning future trips. We also found instances in which students were overcharged and those funds used to cover expenses of non-paying students. We recommend trip sponsors use MCPS Form 280-41, Field Trip Accounting, or its equivalent, for recording of trip fees and provide complete data to the financial specialist at the completion of each trip for reconciliation of the activity. We further recommend trip planning be reviewed to ensure established fees are commensurate with trip expenses (see MCPS Financial Manual, p. 20-9).

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 that must be reported to MCPS for the total amount of the invoice billed to the school to be adjusted accordingly. We found that outdoor education fees deposited to the school’s IAF were not sufficient to reimburse MCPS for the number of students reported to MCPS as paying the full fee. We recommend that staff review the procedures for the OEEP, and that the financial specialist complete a reconciliation of the activity at its conclusion to ensure that all fees due the school have been collected and properly reported.

Sales of PE uniforms should comply with the requirements outlined in the Handbook for the Operation of School Stores. We continued to find weaknesses over the accounting process for the sale of uniforms, and records of sums collected from students could not be reconciled to records of sales. To improve controls, we again recommend tracking of uniform sales on a spreadsheet that can be reconciled to records of account activity. In addition, inventory records should be adjusted for sales, purchases, giveaways, and for garments that are damaged or
obsolete. The inventory record should be compared to a physical count that is performed at least annually. The inventory should be secured at all times to lessen the likelihood of a loss.

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 that a teacher used funds from the collection of course fees to purchase scissors, markers, cutting mats, batteries, and other general classroom supplies. Many items were purchased from local vendors when available in the MCPS Warehouse or from approved online vendors. It did not appear that sponsors turned in fee collection records to the financial specialist for reconciliation of fees collected to receipts. We recommend that a reconciliation be completed by the financial specialist to ensure that the school received sums due from students, that staff making purchases of supplies adhere to MCPS procurement procedures, and that staff review student fee guidelines to ensure that fees collected are used appropriately.

Summary of Recommendations

- IAF must be managed in accordance with sound accounting practices and effective internal control procedures;

- Accounting transactions must conform to the IAF chart of accounts;

- Purchaser must confirm receipt of goods or services prior to disbursement;

- Purchase documentation must be adequate to support disbursements;

- Contracts must be signed by the principal;

- Certain procurements of $7,500 or greater, and contracts involving potential liability for legal damages also require prior approval of the COO;

- Funds collected by sponsors must be promptly remitted to the financial specialist (repeat);

- Funds remitted by sponsors must be promptly verified, receipted, and deposited in the bank by the financial specialist (repeat);

- Fund-raising must conform to Guidelines for Sponsoring an IAF Fund-Raiser;

- Yearbook profit or loss statement must be prepared by the sponsor to account for all activity;
- 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;

- Physical Education uniform sale and inventory processes should comply with the requirements outlined in the *Handbook for the Operation of School Stores* (repeat); and

- Guidelines for assessment and use of course fees must be followed.

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. Navarro
Dr. Statham
Mr. Sanderson
Dr. Williams
Mrs. DeGraba
Mrs. Milwit
Mrs. Chen
Fiscal Management Action Plan

School: John T. Baker Middle School  Principal: Dr. Louise J. Worthington  Date: 2/1/15
Approved by associate superintendent:  Date of approval: 2/4/15

Findings and Recommendations of School’s Financial Report

The management of IAFs must be in accordance with good business practices that include sound accounting procedures and internal controls. Those entrusted with MCPS resources are responsible for establishing and maintaining effective controls to ensure that programs meet the school’s goals and objectives (see MCPS Financial Manual, p. 20-1). We found many weaknesses in controls including an account with activity that was renamed mid-year and used for a new purpose, bank reconciliations routinely performed by the financial specialist rather than by a staff member independent of financial activities, and activities that appeared to have significant revenue shortfalls that were not discovered or investigated. Also, we noted that IAF School Funds Online (SFO) software output was not always verified prior to issuing checks and receipts causing subsequent problems with bank reconciliations, and additional effort of staff to resolve discrepancies and make correcting entries. We recommend that financial staff review IAF Guiding Principles and other relevant information in the MCPS Financial Manual to ensure compliance, and that processes be initiated to ensure the integrity of SFO output prior to release of checks and receipts. Chapter 20 of the MCPS Financial Manual contains a standard chart of IAF accounts with guidance on structure and utilization to provide consistency in reporting. We found instances of nonconformity in which transactions were not classified properly in appropriate accounts. For example, some expenses for a dance were recorded in the SGA account rather than the dance activity account. MCPS and PTA reimbursements, and a $3,000 donation for furniture were recorded in the general account rather than more appropriate descriptive accounts that precluded locating the corresponding expenses for those transactions. Restricted funds such as ICB reimbursements, lost textbook funds, and athletic allocations were sometimes inappropriately deposited to or transferred to general, student recognition, and PE accounts.

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<th>Description of Resolution And Person(s) Responsible</th>
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<td>School Financial Specialist (SFS) will review the MCPS Financial Manual, and sign up for a refresher SFS training. Accounts will not be reused unless they have been inactive for a complete fiscal year. A new account will be activated and used by the SFS. Access was granted to school IA to reconcile the monthly bank statement. She is independent of financial activities. Mrs. Nixon is still authorized to perform the bank reconciliation in the event IA is not available. Bank reconciliations will take precedence to be completed by the 10th of each month.</td>
<td>January 2015</td>
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<td>Disbursements from IAF must be controlled in a number of ways. The purpose of each disbursement must be fully explained on MCPS Form 280-54, Request for a Purchase, 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, and reviewed by the financial specialist and you to ensure that purchases benefit the school. In our random sample of disbursements, we found that many disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. We noted some receipts for expenditures reimbursed to staff that appeared to include personal items. By requiring complete documentation and ensuring that payments are for goods or services that benefit the school, the principal retains control over the expenditure of IAF funds. We recommend that Form 280-54 include complete descriptions of purchases, that complete documentation be attached to fully explain the reason for the purchase, and that invoices be reviewed by the financial specialist and you prior to signing and releasing checks.</td>
<td>All staff have been instructed to complete Form 280-54, Request for a Purchase, giving a detailed description of items to be purchased. They are to submit the form to SFS for review/approval. SFS will then submit completed form to principal for review/approval. SFS will then return the form to the sponsor. Individual sponsor meetings will be held with SFS and principal to ensure appropriate practices are used in future.</td>
<td>January 2015</td>
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<td>Prior written authorization must be obtained from the Chief Operating Officer (COO) for certain procurements requiring the disbursement of $7,500 or more. In addition, the Department of Materials Management (DMM) should be contacted to determine if any donated or used furniture is available prior to the consideration of using IAF funds. We noted new furniture with a cost in excess of $9,000 was purchased with IAF for the counselors' office without first contacting the DMM to determine if furniture was available to meet the needs of the school and without the approval of the COO (see MCPS Financial Manual, p. 20-5).</td>
<td>DMM will be contacted in future prior to ordering office furniture.</td>
<td>January Forward</td>
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<td>Only the signature of the principal or acting principal may obligate the school by contract for the purchase of equipment, supplies, or services procured with IAF, and all contracts must be signed by an authorized representative of the contractor. Any contract involving liability or risk of injury that could place MCPS, the school, or any MCPS employee at risk for potential legal damages must be approved by the COO. We found that contracts for a DJ, field trip buses, a performing group, and an entertainment company who provided outdoor inflatables for a school activity were either unsigned, or signed by sponsors or the financial specialist. In addition, the contract with the vendor who provided the inflatables was not authorized by the COO (see MCPS Financial Manual, p. 20-5).</td>
<td>Principal will sign all contracts for the purchase of equipment, supplies, or services. Permission will be requested by the COO for any future events using inflatables at Baker MS.</td>
<td>January Forward</td>
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**Findings and Recommendations of School’s Financial Report**

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<td>Sponsors will be reminded to turn in all monies collected daily in a timely manner with appropriate completed form 280-34 and/or attached spreadsheet.</td>
<td>January 2015</td>
<td>Professional Staff Mtg. January 2015</td>
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<td>SFS will deposit in a timely manner all obligations collected.</td>
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<td>SFS will work with each sponsor prior to the fund raiser to go over all the necessary information that must be provided when they are completing their reports. The new version of the fund-raiser completion form will be used.</td>
<td>January</td>
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Fund-raising at the school must conform to the **Guidelines for Sponsoring and Independent Activity Fund-Raiser**. Although sponsors are submitting a fund-raiser request form for your approval to conduct an activity, they are not submitting the current version of the completion report at the conclusion of the activity so that results could be more effectively evaluated. Some fund-raisers did poorly and staff were still attempting to sell merchandise that was purchased in prior years. Review of the completion reports was by the financial specialist only, and we could not determine if you were apprised of losses or discrepancies. A completion report for an activity involving the sale of items should include the total number of items for sale, purchase cost of each, selling prices, and any remaining inventories to determine whether all sums collected were remitted to the financial specialist. Following internal control procedures provides for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the activity.
### Findings and Recommendations of School's Financial Report

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<td><strong>The yearbook sponsor is required to keep detailed records of the number of books sold, the price charged as well as the number of books distributed free of charge. In addition, the sponsor must maintain a detailed record of all books sold at specific prices including any online sales, a detailed list of any yearbook giveaways, books returned to the vendor for credit, and the number of unsold books remaining. At year-end the sponsor must prepare a statement of profit or loss which reconciles books purchased with books distributed (see MCPS Financial Manual, p. 20-13). Although we did not find an amended yearbook contract, sales reports, final invoice, or other items needed for reconciliation of the activity, we were able to obtain sufficient documents from the sponsor and the former yearbook vendor to evaluate the results. From our review, we determined that although the school made a small profit, we could not account for 43 books. We recommend the yearbook sponsor be counseled and assisted with the record-keeping required, and the complete records are submitted to the financial specialist for reconciliation of the activity.</strong></td>
<td>FY2015</td>
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| **Sponsors have been informed individually and again during a pre-service meeting that prior to the start and end of a field trip he/she will meet with SFS to set a timeline to ensure that all necessary financial paperwork is completed in a timely manner.** | January Forward |  |

| **Sponsor will use a class or club roster to provide payment information consisting of (student payment amount, cash or check number, waiver, scholarship or reduced fee and student not attending trip.) Sponsor will turn into SFS before departing on field trip.** |  |  |

### Sponsors of field trips should have a complete class or club roster of student names to annotate the amount each student 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 should also be used to estimate future trips. We again found that not all sponsors are providing complete data at the conclusion of each trip, and that data is not being compared to the final account history report nor used for planning future trips. We also sound instances in which students were overcharged and those funds used to cover expenses of non-paying students. We recommend trip sponsors use MCPS Form 280-41, *Field Trip Accounting*, or its equivalent, for recording of trip fees and provide complete data to the financial specialist at the completion of each trip for reconciliation of the activity. We further recommend trip planning be reviewed to ensure established fees are commensurate with trip expenses (see MCPS Financial Manual, p.20-9).** |  |  |
### Findings and Recommendations of School's Financial Report

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<td>Outdoor Education had a revenue shortfall for both 2014 and 2015. Obligations were issued for 2014. The 2015 shortfall is due to students attending that had not paid by the event dates and did not request waivers. ODE was early for Baker MS this year taking place in September. SFS is working on creating a spreadsheet of student payments from SFO receipts and OSP online payments by credit card so that she can reconcile the account. Obligations will then be issued for students owing. A spreadsheet will be requested by the staff members collecting funds for next year and must be attached to each Remittance Sheet. Prior to leaving for ODE coordinator must send the final complete spreadsheet electronically to SFS for reconciliation of the account.</td>
<td>FY16</td>
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<td>PE Uniforms had a revenue shortfall due to inconsistent inventory counts which may have occurred when tie-dye hoodies were ordered but not remembered sponsor due to incorrect invoice from vendor. An invoice was discovered by auditor for $29 t-shirts, which were hoodies. Sponsor will be required to complete for 280-54 listing all items of PE clothing that will be ordered with approval of principal prior to placing the order. Sponsor must complete Profit and Loss Statement prior to the end of fiscal year.</td>
<td>June 2015</td>
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Sales of PE uniforms should comply with the requirements outlined in the *Handbook for the Operation of School Stores*. We continued to find weaknesses over the accounting process for the sale of uniforms, and records of sums collected from students could not be reconciled to records of sales. To improve controls, we recommend tracking of uniform sales on a spreadsheet that can be reconciled to records of account activity. In addition, inventory records should be adjusted for sales, purchases, giveaways, and for garments that are damaged or obsolete. The inventory record should be compared to a physical count that is performed at least annually. The inventory should be secured at all times to lessen the likelihood of a loss.
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<td>A spreadsheet will be requested by the staff members collecting funds and must be attached to each Remittance Sheet. Sponsor must send a final completed spreadsheet of all funds collected electronically to SFS for reconciliation of the account.</td>
<td>January 2015</td>
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**Note:** A copy of the approved plan is to be sent to the Internal Audit Office, CESC, Room 11.