

Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

August 1, 2013

MEMORANDUM

To: Ms. E. Lancellotti Dempsey, Principal
Northwest High School

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

Subject: Report on Audit of Independent Activity Funds for the Period
January 1, 2012, through March 31, 2013

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 July 8, 2013, with you, Mrs. Lori Knight, school business administrator, and Mrs. Kathy McCauley, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated March 23, 2012, 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

Effective internal control includes the receipt and review by the principal of the unopened monthly bank statement, bank reconciliation report and ledger reports in a timely manner. Review of these important reports must be evidenced by the principal's signature and date. We

found that required reports were not consistently produced each month, and those that were on file in the school were not always signed and dated by the principal. We recommend you initiate a process that ensures this important internal control process occurs monthly (see MCPS Financial Manual, p. 20-8).

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. 20-5). 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 random sample of disbursements, we found prior approval was not obtained when required for many purchases. Some disbursements did not have adequate documentation to fully explain the reason for the expenditure, and invoices were not always signed by the receiver. By requiring prior approval and complete documentation, the principal retains control over the expenditure of IAF funds. 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.

In accordance with the MCPS Financial Manual, p. 20-4, the expenditure of general funds to provide refreshments for staff meetings and staff appreciation was \$45 per staff FTE per fiscal year through June 30, 2012. Also, staff development accounts must be limited to funding sources that are clearly not designated student funds. Although you did not exceed your amount allowed for staff refreshments and appreciation for fiscal year 2012, we found instances in which expenditures for these items, and for staff development, were incorrectly classified and recorded in various accounts. Such commingling increases the time required to determine whether or not guidelines have been followed and decreases the value of your financial reports for decision making. We recommend you correctly classify and record these transactions for more accurate accountability. It should be noted that the April 16, 2012, memorandum from the Chief Operating Officer (COO) adjusted the expenditure guideline from \$45 to \$60 per FTE effective FY 2013.

All equipment acquired by a school whether by gift or by purchase becomes the property of MCPS (see MCPS Financial Manual, p. 20-13). 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 found several items of equipment were acquired using IAF that were not added to the school inventory as required and affixed with barcodes. We recommend appropriate staff become familiar and comply with property control procedures.

The procurement of goods and services must adhere to MCPS policies, regulations, and guidelines, and must adhere to the Division of Procurement's Procurement Manual. Athletic field maintenance services should be requested by requisition through the MCPS Financial Management System (FMS) to ensure that vendors have been approved to perform needed

services. We found that field maintenance services had been paid directly from the school's IAF, and that a vendor used for a field maintenance service was not on the approved MCPS bid list. We recommend that the school adhere to MCPS policies and regulations for procurement of goods and services.

Extension of credit or loans to MCPS employees, or to any person other than a student, is prohibited. We found that the school issued a large advance to an employee to cover expenses related to a school activity. Although the individual eventually turned in receipts to document the expenditures, the return of receipts was not timely, and the receipts indicate that a personal credit card, which may have earned a personal benefit, was used to make the purchases.

Fund raising at the school must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund Raiser*. Although most sponsors are submitting fund raiser request and completion reports, and reports are signed by the business administrator and you, most forms were not properly completed so that results could be evaluated, and we could find no evidence that reports had been analyzed by financial staff to ensure that funds due to the school had been remitted, remaining inventories had been accounted for and secured, and losses or discrepancies explained. In addition, we found that fund raiser transactions were sometimes comingled in class or club accounts, and sometimes we found disbursements for pizza but could find no receipts for that day's sales. Following internal control procedures provides for accountability of funds raised as well as the opportunity to evaluate the results at the conclusion of the event.

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 (see MCPS Financial Manual, p. 20-11). When we reviewed the yearbook activity, we found that although the sponsor kept records of sales, giveaways, and returns, we did not find an ending inventory report on file. The sponsor did not account for 65 books, or at an average selling price of \$75, approximately \$4,875. In addition, the vendor reported \$600 in online yearbook sales after the cutoff date of April 30. The school did not receive credit on the vendor's final yearbook invoice for these late sales. We recommend the yearbook sponsor be counseled and assisted with the record-keeping required for this activity, and that the financial staff analyze the final invoice to ensure that all credits due to the school have been included.

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). Taxable merchandise includes yearbook, school store, fundraiser items, physical education clothing, and other items that become the personal property of the individual making the purchase. Our examination revealed that taxes were not collected on all items sold to students, and that sales tax was not properly calculated on the items reported. In addition, the school did not retain documentation for the taxes reported to the state. We recommend that the school comply with these requirements.

Summary of Recommendations

- Monthly financial reports must be reviewed and approved by the principal;
- Expenditure of funds must be approved by the principal prior to procurement;
- Record accounting transactions in conformity with the IAF chart of accounts;
- Equipment control must comply with MCPS Regulation EDC-RA;
- Services procured through FMS ensures MCPS vendor approval;
- Funds should not be advanced to an MCPS employee;
- Fundraiser completion reports prepared by sponsors must provide sufficient information to analyze results;
- Yearbook profit or loss statement must be prepared to account for all activity (repeat); and
- Sales tax should be properly calculated and collected on resale items.

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:

Mr. Bowers
Dr. Statham
Dr. Schiavino-Narvaez
Mr. Sanderson
Dr. Garran
Mrs. DeGraba
Mrs. Milwit
Mrs. Chen

Fiscal Management Action Plan

School: Northwest High School

Principal: Lance Dempsey

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
Monthly financial reports must be reviewed and approved by the principal	Ms. McCauley has created a binder to keep all original documents for the end-of-month financial reports. All bank reconciliations have been signed by Ms. Knight and Ms. Dempsey. Receipts and Disbursements report has been run for each month since March 2013. All bank statements have been signed by Ms. Dempsey. The reports that were run but not required are irrelevant as they are our worksheets.	Immediately and ongoing	
Expenditure of funds must be approved by the principal prior to procurement	Business Office has reminded staff that all purchases must be preapproved or they are responsible for payment. Gift cards are avoided at all cost; however, if cards are purchased for student reward, a list and signature of receiver will be required. All orders placed online, via phone or credit card will now be signed by the receiver verifying shipment of all goods and services.	Immediately and ongoing	
Record accounting transactions in conformity with the IAF chart of accounts	Business Office has reminded administrative staff that the General account is for student use only. All staff appreciation, refreshment and professional development expenses will be charged to 0020.0000, 0021.0000 and 0013.0000 respectively. In prior audits, Ms. Dempsey was given permission to use the General account for these types of expenses.	Immediately and ongoing	
Equipment control must comply with MCPS Regulation EDC-RA	Business Office has been informed that direct ship items need to be barcoded by the school; therefore, the small utility truck, Strobel string bass and Yamaha tuba has been barcoded and information forwarded to John Ricketts. Ms. Knight has located the iPads and will have them	May-August 2013	

Services procured through FMS ensures MCPS vendor approval	barcoded immediately. Ms. Knight and Ms. McCauley met with Ms. Rossiter to inform her that the vendor she was using for athletic field maintenance was not on the bid list. Ms. Rossiter contacted Mr. Hyman and he is now an approved vendor.	July 2013	
Funds should not be advanced to an MCPS employee	Business Office has spoken to Mr. Cosby regarding the policies and procedures for obtaining a check request and using the cash to purchase supplies rather than putting it on a personal credit card; however he has since been terminated. We had sent several emails requesting receipts in a timely fashion to no avail. Shaun Cosby, the stipend employee, was paid in error due to the fact that the Business Office was unaware that she was an MCPS employee; however, she has been terminated. Business Office has met with Ms. Greenlee and Ms. Cosby on several occasions to discuss proper handling of funds.	Immediately and ongoing	
Fundraiser completion reports prepared by sponsors must provide sufficient information to analyze results	Business Office was left with the responsibility of completing fundraiser reports because sponsors did not take the time to complete them before exiting for summer break. Ms. McCauley is meeting with each sponsor individually as fundraisers are approved. She is reiterating the entire process and ensuring sponsor's use the correct accounts for fundraisers vs. club/class accounts. Ms. McCauley reviews each check request to verify funds are applied to the appropriate account.	Immediately and ongoing	
Yearbook profit or loss statement must be prepared to account for all activity	Business Office met with Ms. Mason to assist her with properly completing the profit/loss statement. The 65 yearbooks that were unaccounted for on the statement are in Ms. Mason's yearbook room. There was never a loss in the amount of \$4,875.00.	July 2013	
Sales tax should be properly calculated and collected on resale items	All T-shirt sales will be conducted through a fundraiser account allowing for proper tax to be paid. Business Office will use the correct tax calculation and keep a running record to attach to the annual sales tax payment.	Immediately and ongoing	

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