

Office of Shared Accountability
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

February 10, 2016

MEMORANDUM

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

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

Subject: Report on Audit of Independent Activity Funds for the Period
September 1, 2014, through September 30, 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 January 22, 2016, with you, Mrs. Lori Knight, business administrator, and Ms. Kathy McCauley, financial specialist, we reviewed the status of the conditions described in our prior audit report dated September 19, 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 IAFs must be in accordance with good business practices that include sound accounting procedures and internal controls. Internal Controls are steps taken to ensure that the underlying data and assets are complete, reliable, and protected (see MCPS Financial Manual,

p. 20-2). One of these steps is reconciliation of revenue and expense at the conclusion of IAF activities. We found that this was not done for most activities since, in many cases, data needed had not been submitted to the financial office by activity sponsors. To ensure that all revenue and expense has been recorded to calculate activity profit or loss, we recommend that sponsors be required to submit complete financial records for financial staff to perform reconciliations.

Invoices for goods or services must be signed or initialed by the purchaser to acknowledge satisfactory receipt. In our random sample of disbursements, we again found invoices lacking this acknowledgement. Requiring sponsors to verify that services have been satisfactorily performed or that shipments of goods were complete and in good condition, assures that issues with performance of contracts or discrepancies in quantity and condition of goods can be resolved with a vendor prior to payment. We recommend that staff be reminded of their responsibility to verify receipt of goods or services prior to payment of invoices by the financial office (see MCPS Financial Manual, p. 20-6).

Equipment purchased with IAF become the property of MCPS and is subject to MCPS Regulation EDC-RA, *Control of Furniture and Equipment Inventory*. We noted that equipment purchased by the school had not been added to the MCPS inventory and affixed with barcodes. We recommend that staff review the policy to ensure that equipment is properly coded and the inventory adjusted.

In accordance with the MCPS Financial Manual, p. 20-5, the expenditure of general funds to provide refreshments for staff meetings and appreciation is \$60 per staff FTE per fiscal year. Staff development expenditures must be limited to revenue sources that are clearly not designated as student funds. We found that FY 2015 expenditures for staff refreshments and appreciation exceeded the amount allowed without the approval of the chief operating officer. Also, we found that student funds were used to pay for staff development activities that included an offsite team building activity. Additional time was required to determine whether or not guidelines have been followed because some entries for staff activity expenditures were recorded in inappropriate accounts. Such errors also decrease the value of your financial reports for decision making. We recommend accurate recording of transactions and adherence to guidelines for staff expenditures.

Use of the MCPS purchasing card must be in accordance with the requirements of the MCPS *Purchasing Card Users Guide*. By the fifth of the following month, cardholders must use the online reconciliation program to identify, describe, and review transactions. Monthly statements must be printed and provided to the principal, with all purchase receipts and invoices attached. The principal must review each cardholder's transactions and approve them by the tenth of the following month, using the online reconciliation program. We found that some cardholders had not reviewed their transactions in the online reconciliation program. We also found that the principal had not approved transactions online. Action is needed to correct these conditions and bring purchasing card usage into conformity with MCPS requirements.

In order to properly control receipts, cash and checks collected by sponsors for IAF activities should be remitted promptly and intact to the financial specialist using MCPS Form 280-34, *Remittance Slip*. Cash should be counted in the presence of the remitter, and any discrepancies resolved with changes initialed by the remitter. A receipt indicating the source and amount of funds should be issued promptly. We found that the financial specialist was not always recording the original source of funds on receipts. Sponsors did not always use the current version of Form 280-34, and changes on remittance slips to correct errors were not initialed by the remitter. 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 p. 7-3.

Retail sales tax must be collected by the school and remitted to the State of Maryland for the sales of all taxable merchandise. Taxable merchandise includes yearbook, school store, fund-raiser items, athletic resale, and other items that become the personal property of individual purchasers (see MCPS Financial Manual, p. 18-2). In our review of FY 2015 taxable sales, we found sales of yearbooks, athletic student purchases, several sales of T-shirts, and fund-raiser items when tax due was not paid to the State of Maryland. We recommend that financial staff review FY 2015 accounts with taxable sales and transfer the applicable amount to the sales tax account for payment to the State of Maryland. Also, we recommend improving compliance by teaching sponsors to recognize activities for which sales tax must be collected and to set prices appropriately that includes the tax so their activities do not generate a loss.

Fund-raising must conform to the *Guidelines for Sponsoring an Independent Activity Fund Fund-Raiser*. Although sponsors are submitting fund-raiser request and completion reports, and reports are signed by you, we continued to find that most completion forms were not properly prepared to evaluate the results. Some completion reports did not include the total number of items for sale, selling prices, or remaining inventories that made it impossible to determine whether all funds collected were remitted to the financial specialist. A charity fund-raiser had collected over \$2,000 since 2013 but had not been disbursed. We noted losses on fund-raisers where funds were not collected prior to ordering merchandise and sales tax had not been factored into the selling prices. We also found fund-raising activity and shirt sales recorded directly in class or club accounts and comingled with activity fees or ticket sales making reconciliation of activities and calculation of sales tax difficult or impossible. 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.

Control over the yearbook activity continues to need improvement. Sponsors must maintain a detailed record of books sold and prepare MCPS Form 281-25, *Statement of Profit or Loss on Sale of Merchandise*, which reconciles books purchased with books distributed. Sales records must be submitted to the financial office at the conclusion of the activity for reconciliation by the financial specialist. Although the sponsor provided sales records upon our request, they had not been provided to the financial office for reconciliation of the account. We again found that the Statement of Profit or Loss did not accurately reflect the condition of the yearbook account. The

report indicated a loss of \$792, but the actual loss was over \$9,000. We found that most books purchased online were sold below cost, and a large number of books were either unsold or given away. We recommend that the business staff work with the yearbook sponsor to ensure that records are submitted to the financial office, that a reconciliation of the activity be completed, and a Statement of Profit or Loss be prepared that reflects the actual condition of the account (see MCPS Financial Manual, p. 20-13).

Field trips must be conducted in accordance with MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Other Student Organization Trips*. We continued to find weakness in controls over these activities. Although sponsors are providing comprehensive financial information to the financial specialist at the completion of trips, we found no evidence of reconciliation of these activities by the financial specialist. We noted a field trip where fees collected exceeded the cost of the trip and another trip where dates of fees collected on accounting forms completed by the sponsor did not correspond to dates receipted by the financial specialist. In addition, we found that the sponsor of a theatre trip purchased admission tickets prior to collecting fees from students, and poor attendance resulted in a loss to the school. We recommend the pricing of trips be more closely monitored, and that all trips be reconciled to review the remissions and recording of receipts, and to estimate the pricing of future trips (see MCPS Financial Manual, p. 20-10).

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. For two ticketed events in our sample, the admissions manager did not sign the ticket reports. We noted a few shortages on some receipts for Homecoming ticket sales where remittance forms were changed without the initials of the sponsor. Athletic season tickets had previously been purchased from a vendor, but for FY 2016, tickets were printed within the school. We recommend that admission receipts for athletic and non-athletic events should be controlled according to MCPS Regulation DMB-RA, *Control of Admission Receipts*.

Summary of Recommendations

- Internal controls must be in place to ensure reliability of data and protection of assets;
- Purchaser must confirm receipt of goods or services prior to disbursement (repeat);
- Furniture and Equipment control must comply with MCPS Regulation EDC-RA;
- Staff expenditures must comply with MCPS guidelines and be accurately recorded;
- Purchase card transactions must be reviewed by the cardholder and approved by the principal using the online program;

- Cash control of school funds must be in accordance with chapter 7 of the MCPS Financial Manual;
- Tax must be collected on taxable sales and remitted to the Comptroller of Maryland;
- Fund-raising must conform to *Guidelines for Sponsoring an IAF Fund Raiser* (repeat);
- Yearbook profit or loss statement prepared by the sponsor must account for all activity (repeat);
- Field trips should conform to MCPS Regulation IPD-RA, *Travel-Study Programs, Field Trips and Student Organization Trips* (repeat); and
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA.

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 Mr. Brian W. Scriven, director 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. Williams
Mrs. Chen
Mrs. DeGraba
Mrs. Milwit
Mr. Scriven

Fiscal Management Action Plan

School: Northwest High School

Principal: Lance Dempsey

Approved by associate superintendent: _____

Date of approval: _____

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
Internal controls must be in place to ensure reliability of data and protection of assets	SBA and FS will continue to meet with activity sponsors to review policy and procedures expected to complete the reconciliation process.	Ongoing	
Purchaser must confirm receipt of goods or services prior to disbursement	All staff members who make purchases receive a packing slip marked for signature to be returned to the Business Office. SBA and FS will continue to monitor and remind staff to turn the slips in when all merchandise is received as ordered.	Ongoing	Attached to check request
Furniture and Equipment control must comply with MCPS Regulation EDC-RA	Lilly Greenlee is responsible for all audio/visual equipment and Greg Lipford is responsible for building services equipment.	2/24/16	We met with both employees. TV studio barcodes have been completed and burnisher barcode has been requested.
Staff expenditures must comply with MCPS guidelines and be accurately recorded	FS was unable to close the Staff Refreshment account in FY14 due to an outstanding invoice; therefore, the account carried a beginning balance which threw FY15 off. Staff Development account was taken from various accounts per principal's request.	Ongoing	All accounts are reviewed and closed by June 30.
Purchase card transactions must be reviewed by the cardholder and approved by the principal using the online program	SBA has talked with and re-trained cardholders to ensure monthly procedures are followed. SBA has a meeting with principal to approve past transactions.	3/3/16	All transactions to current are reviewed and approved.
Cash control of school funds must be in accordance with Chapter 7 of the MCPS Financial Manual	SBA, FS and sponsors met to discuss the procedures for submitting daily deposits. FS is now receipting deposits to the original source rather than depositor and citing the depositor in the comments section. If errors are found on deposit slip, FS is requesting that the sponsor initial every area that is changed.	Ongoing	Receipts that are written to original source is now filed rather than given to the depositor. Deposit slips are initialed correctly when necessary.
Tax must be collected on taxable sales and remitted to the Comptroller of Maryland	FS has made a list of clubs, fundraisers, etc. in which to ensure all taxable merchandise is paid to the State of Maryland.	1/25/16	

Findings and Recommendations of School's Financial Report	Description of Resolution And Person(s) Responsible	Timeline	Evidence of Completion
Fund-raising must conform to <i>Guidelines for Sponsoring an IAF Fund Raiser</i>	SBA and FS will continue to meet with fundraiser sponsors to review policy and procedures expected to prepare completion reports properly in order to evaluate the results.		The 2013 charity fundraiser check was sent. FS is separating fundraising activity from class/club accounts.
Yearbook profit or loss statement prepared by the sponsor must account for all activity	Amy Mason, SBA and FS will meet with Dena Horton to go over what is needed to properly submit the profit or loss statement and close account based on auditor's standards.	Before June 1, 2016	
Field trips should conform to MCPS Regulation IPD-RA, <i>Travel-Study Programs, Field Trips and Student Organization Trips</i>	FS is making sure that deposits match accounting forms submitted by sponsors. FS is also making sure there are no donations and monitoring price of trips.	Ongoing	
Admission events must be conducted in accordance with MCPS Regulation DMB-RA	AD, SBA and FS met to discuss season tickets. We will purchase tickets from an approved vendor for upcoming school years.	Ongoing	

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