


Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

July 5, 2017

MEMORANDUM

To: Mrs. Kimberly N. Hayden Williams, Principal
Col. E. Brooke Lee Middle School

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

Subject: Report on Audit of Independent Activity Funds for the Period
November 1, 2015, through May 31, 2017

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 and are charged with determining the manner in which funds are raised and expended for activities such as field trips, admission events, and fund-raisers. They are responsible for ensuring that the IAFs are administered in accordance with MCPS policies, regulations, and procedures.

The 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 the 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.

At our June 20, 2017, meeting with you and Mrs. Ida Ghazarian, school financial specialist, we reviewed the status of the conditions described in our prior audit report dated January 13, 2016, 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

Retail sales tax must be collected by the school and remitted to the State of Maryland on the sales of all taxable merchandise. Taxable merchandise includes yearbooks, school store and fund-raiser items, physical education clothing, and other items that become the personal property of the individual making the purchase (refer to *MCPS Financial Manual*, chapter 18, page 2). We found

that sales tax was collected and remitted only on yearbook sales and not physical education clothing, choral apparel, music uniforms and various other clothing sales. We recommend attaining full compliance with sales tax requirements by working with sponsors to determine activities for which sales tax must be collected, and to ensure that prices are set appropriately to include the tax so that activities do not operate at a loss.

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 a \$76 fee to reimburse MCPS for the cost of personal expenses associated with the program. Students unable to pay the OEEP fee receive waivers that must be reported to MCPS so that the total amount of the invoice billed to schools is adjusted accordingly. A school may also charge an activity fee in addition to the OEEP fee. If the combined total amount a student can afford to pay for the Outdoor Education fee plus the school's activity fee equals \$76 or less, the entire combined amount received from the student is to be remitted to Outdoor Education (refer to *OEEP Grade 6 Residential Program Handbook and Planning Information*, page 41). We found that the school did not correctly report all funds collected from students who were identified as needing assistance which then resulted in an underpayment to MCPS. We also noted you collected funds from more students than for whom you were billed, indicating an inaccurate head count. We recommend that you review the procedures for reporting students needing financial assistance with the OEEP sponsor and that the financial assistance forms are reviewed for accuracy before they are submitted. We also recommend you reconcile your account to determine that all students who paid and attended were properly reported to MCPS.

MCPS Regulation DMB-RA, *Control of Admission Receipts*, sets forth procedures for the control of admission receipts for school events. The accounting for these events 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 (refer to *MCPS Financial Manual*, chapter 20, page 13). We noted several admission events in which tickets were sold but MCPS Form 280-50 was not properly completed to reconcile tickets issued with tickets returned and sales receipts. We noted tickets for drama productions were printed and numbered at the school by the event sponsor, and unsold tickets were not always returned to the ticket controller. This effectively eliminated the vital internal control that results from having all tickets distributed and returned to a ticket controller who is independent of the event sponsor. Other weaknesses include the lack of a perpetual inventory of tickets and the use of the same type of ticket for different admission prices at the same event. We recommend that procedures for sale of tickets be reviewed with appropriate staff prior to events for compliance with the above cited MCPS requirements.

Summary of Recommendations

- Tax must be collected on all taxable sales and remitted to the Comptroller of Maryland.
- OEEP sponsor records must correctly report funds collected and waivers granted for all participating students.
- Admission events must be conducted in accordance with MCPS Regulation DMB-RA.

Other matters were discussed and satisfactorily resolved. We appreciate 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 Unit within 30 calendar days of this report through Mrs. Diane D. Morris, director of school support and improvement of secondary schools. In your response, please share a detailed plan for addressing these issues, including appropriate staff training and support. The Office of School Support and Improvement will follow up on this audit.

RWP:MJB:lsH

Copy to:

Members of the Board of Education

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FINANCIAL MANAGEMENT ACTION PLAN		
School: Col. E. Brooke Lee Middle School	Principal: Mrs. Kimberly Hayden Williams	Fiscal Year: FY 17
Associate Superintendent: Dr. Darryl L. Williams	Director: Mrs. Diane D. Morris	
Strategic Improvement Focus: As noted in the financial audit for the period <u>November 1, 2015 through May 31, 2017</u> , strategic improvements are required in the following business processes : <ul style="list-style-type: none"> • • 		

Action Steps	Person(s) Responsible	Resources Needed	Monitoring Tools /Data Points	Monitoring: Who & When	Results/Evidence
The spirit wear and any other items sold that becomes property of the student will be priced appropriately for tax collection.	Ida Ghazarian Sponsors	Prior notice and approval of any flyers going to the parents.	Pre-approval of any information going to parents by the Principal. September 2017	Principal Financial Specialist June 30, 2018	
Activity fees for Outdoor Education will be reduced to \$4.00 and students who are not able to pay the activity fees will be covered by the school. The \$4.00 fee is for snacks (s'mores around campfire, nature related presentation).	Ida Ghazarian Sponsors	Notice to sponsors about new rules.	Pre-approval of any information going to parents by the Principal. September 2017	Principal Financial Specialist January 2018	
Each sponsor will be provided with different tickets for each activity; a record of the number of tickets will be kept and signed to acknowledge a receipt of the tickets. The tickets will be handed to those responsible for ticket sales by the sponsor. Upon completion of the program, the sponsor will return all unused tickets and funds to the Financial Specialist. The Financial Specialist will reconcile to ensure that the value of unsold tickets plus funds deposited equals the value of tickets issued.	Ida Ghazarian Sponsors	Drama tickets will be ordered through a printing co.	Ticket Reports Form 280-50 June 30, 2018	Ida Ghazarian Sponsors November 2017 April 2018	

OFFICE OF SCHOOL SUPPORT AND IMPROVEMENT (OSSI) REVIEW & APPROVAL

☒ Approved

☐ Please revise and resubmit plan by _____

Comments: _____

Director: _____

Riane Morris

Date: _____

7/17/17