

"Federation Corner" column  
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## **Disastrous Churchill audit findings underscore MCPS failings**

by Wayne Goldstein

Last week, the results of the internal MCPS 2005-2006 audit of Churchill High School's Independent Activity Funds (IAF) hit the media. The IAF for Churchill and all other MCPS schools are made up a number of accounts for activities to benefit students such as field trips, school improvements, and memorial funds. The procedures for collecting and spending monies in these various funds are detailed in the "Manual of Policies and Procedures for Administering Independent Activity Funds." The MCPS Internal Audit Unit audits various IAFs to determine if there is compliance with the manual.

The Churchill HS audit reveals that not only is this school's IAF in profound disarray, but it also underscores the inability of the Internal Audit unit or MCPS leadership to do anything about a severe problem that has existed for at least three years. In fact, the internal audit supervisor writes: "The corrective actions identified in each response [to the previous recommendations of the audit unit] were not implemented and the conditions remain unresolved. To promote resolution of these conditions, we recommend that your response to this report includes a detailed plan for corrective action to be implemented prior to the next audit." Tough words?

Here is a list of some of the problems found in the audit:

"There were deficiencies in coding and recording IAF transactions. Transactions were recorded inconsistently and in accounts not prescribed by the IAF chart of accounts... We found receipts and disbursements for fund raising activities recorded in field trip accounts, and activity from several field trips that were commingled.

"Rebates and bonuses from [corporations] were recorded directly to benefiting accounts, rather than the accounts intended for such receipts. Activity for a school trip to South America was recorded in an account titled 'Spain Trip.' Transactions for a band field trip to London were recorded in the 'Music Trip/Cruise' account. The 'Scotland Trip' account included proceeds from several fund raisers and expenses for a trip to the Kennedy Center.

"...Several accounts continue to have large negative balances. The 'Auditorium Pit Cover' account was established in October 2004 and the school subsequently paid a total of \$27,953 for the pit from this account. An additional \$68,337 of general improvements to the school were charged to this account with the only revenues being a small donation...of \$1,100 and the prohibited sale of equipment noted below.

"...Several accounts have been inactive since the prior audit. Five accounts appear to contain funds collected for scholarships or charities. Inactive accounts should be researched at year end, balances disbursed or transferred appropriately, and accounts closed if no longer needed.

"...We continue to find a serious deficiency in control over disbursements. In addition to our examination of expenditures we deemed large or unusual, we randomly selected 55 items to review for prior approval, compliance with MCPS procurement policies, appropriate supporting documentation, and timely payment.

"...Prior approval was not received for 50 percent of the disbursements reviewed. Four disbursements exceeding \$6,500 did not have approval of the chief operating officer (COO) as required... Contracts for athletic field maintenance, yearbook, drama production videos, and stipends for the 'Blast' and drama production were not signed by the principal. In addition, the vendor for the videos is an employee of MCPS, and such purchases must be pre-approved by the COO. A payment for athletic field maintenance in the amount of \$30,100 was disbursed without an invoice. A payment for athletic field maintenance expense totaling \$44,999.97 was split

into three contracts, with each contract being issued for \$14,999.99. This contract should have been competitively bid and processed through MCPS procurement.

"...The school purchased \$14,062 in staff clothing and promotional items and recorded the expense in 'Churchill Leadership,' but only \$120 collected from staff was recorded in the account... Such purchases are prohibited unless funded from staff activities or donations specified for that purpose. A staff member was paid a stipend of more than \$11,000 without documentation to show the reason for the disbursement or how the stipend was calculated. Another staff member was paid \$3,500 for choreography for the musical production without supporting documentation.

"...The school store was transferred to the boosters club at year end. An inventory was not taken prior to the transfer and a Statement of Profit and Loss was not prepared. A statement should have been prepared and included in the school's annual financial report. The booster club operated the school store and concession stand during athletic events. The receipts and disbursements for these activities are recorded in the school IAF. Sales tax has not been reported for either activity. Sales tax needs to be calculated and remitted to the state.

"...The school vending contract has an automatic renewal clause after the initial three-year period, and the vendor is an employee of the school. Contracts that have a performance period extending beyond 36 months and contracts with vendors who are school employees require prior written authorization from the COO. The school sold audio equipment used in the auditorium to Northwood High School for \$7,000. Equipment purchased with IAF funds becomes the property of MCPS and cannot be sold or disposed of by the school. All dispositions or transfers of MCPS property must be processed through the Department of Materials Management... Accordingly, the \$7,000 should be refunded to Northwood High School."

While this seems like an exhaustive and outrageous list of failures to follow the manual that also violate the most basic principles of running any business, this is only the worst of them. There are a number of other smaller ones, such as individuals using personal credit cards to pay for very expensive school items and likely receiving rebates or other personal benefits that the card provides them. All in all, the vast majority of regulations in the manual were violated, which strongly suggests they may have been violated with impunity.

Since this improper behavior has been going on for several years, with no action by MCPS officials to stop it, it is more of a MCPS failing than it is a Churchill HS failing, although it is that as well. In fact, this lack of inaction by MCPS officials is consistent with what the Baldrige judges found when they did their site visit last November and issued their list of criticisms in their "2006 Feedback Report":

"...While policies are designed outlining the expectations of ethical behaviors for key stakeholders (employees, suppliers, board) the methods of monitoring those behaviors is informal. Without involving and monitoring these important stakeholder groups, MCPS may have difficulty overcoming strategic challenges and meeting goals.

"...Although the COO tracks and monitors more than 150 measures, there does not appear to be a systematic process for how MCPS ensures alignment and integration of data and information to track overall organizational performance for all support groups and at the district level beyond academic goals... There does not appear to be a systematic process for analyzing data beyond student performance to ensure non-academic goals are met for support groups. For example, some groups such as the print shop and transportation areas had no evidence of performance measures aligned with organizational objectives or how these data are systematically collected and aggregated to ensure alignment.

"...While MCPS shares some organizational knowledge within schools and clusters, there is not a well-deployed, systematic process for systematically identifying, sharing, and implementing best practices across the organization... In the support processes where there are measures, each instance or issue is handled as a

separate and unique event, and results related to vendor and supplier performance are not aggregated or tracked.

"...No results have been available to indicate breaches of ethical behavior and organizational citizenship. Lack of results and comparisons for these measures of leadership and social responsibility could limit MCPS' ability to address the core value of providing an ethical school system and could also impede its ability to create a positive work environment and strengthen productive community partnership.

The Internal Audit Office briefly published a newsletter called "In the Loupe," a loupe being a small but powerful magnifying glass often used by jewelers. What started out as a monthly publication in May 2003 dropped to three issues in 2004, and two in 2005, with the last issue being published in August 2005. The premier addition, dated May 23, 2003, had an article titled "Ethics, Employees, and Endless Rules - Just a reminder that there is a code of ethics at MCPS. MCPS Board Regulation BBB, Ethics, contains specific criteria under which schools can enter into contractual agreements with employees. Make sure you are in compliance with this policy. Be certain that you are watching limitation amounts carefully. Some contracts may require prior written authorization of the Chief Operating Officer (COO). Maintain documentation of your efforts to receive competitive bids."

Needless to say, Churchill does not appear to have done any of that. This brings me to the question: Should MCPS employees also be allowed to provide services such as the school vending contract? While these employees' bids have to be competitive, isn't there a reason that we don't want government employees also providing goods and services to the government they work for at a minimum because of the appearance of a conflict-of-interest? Does this policy also contribute to the atmosphere of a lax morality so evident with Churchill's IAF? I don't believe that county government employees can do what MCPS employees are now allowed to do.

If MCPS still thinks it will be in a better position to apply for and win a Baldrige National Quality Award in the next few years, spectacular failures like the secret decision to close Special Education Learning Centers and now the failure to control the behavior of certain Churchill groups are causing that goal to recede into the distance at a rapid rate. It is clear that MCPS has learned nothing from the Baldrige judges' recommendations and continues to make and compound the mistakes that caused the Baldrige judges to downgrade their ratings in so many areas last fall. It is time for the rest of us to step in and start to teach MCPS leaders how to properly manage this institution.