Detroit Public Schools
Office of the Auditor General

DEPARTMENT OF CASH MANAGMENT

REVIEW OF FOURTH QUARTER DISBURSEMENTS AT CLOSING SCHOOLS

School Year 2009-10

REPORT NO: 10-012

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The Office of the Auditor General, as part of its risk assessment, identified an engagement to review the April, May and June expenditures of schools scheduled to close in 2010.

OBJECTIVE, SCOPE
& METHODOLOGY

The objective of this engagement was to identify schools and administrators who may have used the opportunity of their school closing to frivolously and/or maliciously deplete cash reserves.

The scope of our review were large dollar amounts and/or unusual disbursements from schools scheduled to close during the summer of 2010.

Our methodology included reviewing each school's ledgers, bank statements, cancelled checks and supporting documentation such as receipts and invoices. The number of schools and specific schools identified to close has continued to change over the summer, as of the date of this report, we reviewed the following schools. We completed our field work on October 29, 2010.

1. Boykin
2. Burt
3. Campbell
4. Coffey
5. Cooley
6. Cooley North Wing
7. Crary
8. Detroit High School of Technology
9. Drew
10. Duffield
11. Fitzgerald
12. Fleming
13. Hanstein
14. Holcomb
15. Jamieson
16. Jordan
17. Lessenger
18. Malcolm X
19. McColl
20. McFarlane
21. McKenny
22. McKinney Day Treatment
23. Owen Academy
24. Taft
25. Turning point
26. Westside Multicultural

As of September 3, 2010, Crossman and Fleming Elementary School had not submitted supporting documentation of their financial activity to the Department of Cash Management as required by policy; they were subsequently submitted, but excluded from this review.

BACKGROUND

Detroit Public Schools operated 172 schools during School Year 2009 – 2010. On Wednesday, March 17, 2010, as part of the Master Facilities Plan, the Emergency Financial Manager announced the closing of 45 schools and other facilities. Community Town Hall meetings were held and changes were made to the total number of buildings and schools closing based on input from the parents and community. On Monday, June 7, 2010, a revised Master Facilities Plan was announced which listed 32 schools along with one support building to close during the Summer of 2010. The newly revised Master Facilities Plan called for a total of 45 building to close in a three-year period.

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During the last quarter of school year 2008 – 2009, the Office of the Auditor General performed a cash procedures review of the 194 schools open at that time. Based on our review, we noted some schools had poor cash handling procedures and other schools where misappropriation of funds were discovered.

REPORT DETAILS

After reviewing the disbursements of the closing schools, we did not note any payments that would appear to be a malicious attempt by administrators to deplete the cash reserves. However, we identified some disbursements that appeared initially to be unusual; but after further investigation were appropriate. We also noted weaknesses in cash management processes that should be addressed at the remaining opened schools.

The combined bank balances of the closing schools at April and June were $157,339.81 and $90,828.20, respectively, a reduction of $66,511.61. This does not reflect all the disbursements made for the month of June, as deposits were made during the month.

A separate report was provided to management on Burton International, as an allegation of possible fraud was reported and found to be without merit.

Westside Multicultural

The account balance at Westside Multicultural decreased from $18,612 to $442 in June, the final month the school was open. This represented a 98 percent reduction in the account balance and warranted further investigation. The significant majority of these expenditures were for the purchase of 14 Hewlett Packard laptop computers and 3 Apple iPad computers for $15,013 and $3,423, respectively. These items were purchased as part of a Skillman grant awarded to the school. We reviewed the Skillman proposal and subsequent expenditure report, noting these items were approved for purchase as proposed in the grant.

Lessenger Elementary/Middle School

The disbursements requiring investigation at Lessenger were for registration materials and hotel costs for a conference that took place in August 2010, after the school was closed. The payments were not made from the school's general fund account, but from the Skillman Foundation Grant. As confirmed by the grant summary report submitted to Skillman, Lessenger was awarded funds with the objective "to improve student achievement, by providing additional professional development opportunities for staff." These funds were properly disclosed in their summary report to Skillman and expended within the grant approved spending year, October 2009 through September 2010.

Weaknesses in Cash Management Processes

Based on our review of the cash management process over the last quarter of closing schools, we noted non-compliance with District cash management policy and ineffective practices as follows:

- Two fundraisers where documentation was not present to validate their approval.
- Check Request forms were not utilized for disbursements.
- Three instances when a Check Request form was not approved.
- The Principal requested and approved a Check Request.
- Three instances when checks were not dual endorsed.
- Twenty-two disbursements where no documentation was present to support expenditures.

RECOMMENDATION

We recommend the Department of Cash Management closely monitor the cash management systems in place at schools to ensure cash receipts and disbursements are properly documented, processed, accounted for and distributed. In addition, adequate training should be provided to clerical and other staff serving as bookkeepers in the schools.

CONCLUSION

Based on our review of expenditures for the last quarter, April, May and June 2010, we noted purchases were appropriately made as detailed in their respective grant proposals and subsequent summary reports. We did not identify any expenditure which appeared to be inappropriate or considered a misappropriation of funds.

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Our review was performed in accordance with U.S. General Accounting Office Government Auditing Standard and Standards of the Institute of Internal Auditors.

This report is intended solely for management and should not be used for any other purpose. This restriction is not intended to limit the distribution of the report which is a matter of public record.

Odell W. Bailey, CIA
Auditor General