

DETROIT PUBLIC SCHOOLS

Office of Inspector General



Wilbert V. Marsh

Inspector General

3011 W. Grand Blvd.
Fisher Building, 14th Floor
Detroit, MI 48202
wilbert.marsh@detroitk12.org

Phone: (313) 870-5664
Fax: (313) 870-3405

File number: 2013-FA-0001

AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Natasha Baker, Chief Innovation Officer
Brenda Belcher, Principal, Dr. Benjamin Carson HS for Science and Medicine

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Delores A. Brown, Deputy CFO and Chief Accounting Officer
Lawanda Taylor, Director, Cash Management department

THRU: Wilbert V. Marsh, Inspector General
Odell Bailey, Deputy Inspector General - Audits

FROM: Bernadette Kakooza, CIA

DATE: April 22, 2013

SUBJECT: Dr. Benjamin Carson HS for Science & Medicine – Financial Audit

BACKGROUND

Dr. Benjamin Carson High School for Science and Medicine (Benjamin Carson) is 1 of 9 Detroit Rising self governing schools that have been selected to operate similarly to a charter school and are being managed separately by the Chief Innovation Officer, in partnership with a Governing Council which consists of civic, community, business, local leaders and a parent representative. The school provides a college preparatory curriculum and offers unique experiences for students interested in science and medicine; including partnerships with the Detroit Medical Center, Henry Ford Health Systems, Wayne State University School of Medicine and Michigan State University College of Osteopathic Medicine.

For this current school year, Benjamin Carson has an enrollment of 219 students in 9-10 grade levels. Ms. Brenda Belcher has served as Principal of the school since August 2011. Ms. Delana Robinson has served as the school's bookkeeper for the same period. Each month, a third-party firm contracted through the Division of Finance - Cash Management department (Office of Accounting), prepares the monthly financial reports and bank reconciliations. Benjamin Carson, like other schools, maintains a checking account to manage money that is collected from and/or raised by the students and school organizations.

The school's financial transactions are processed through First Independence Bank; the district's authorized banking institution. School and bank records indicate that, between July 1, 2011 and December 31, 2012, the school deposited \$48,035.20 in its general checking account and paid out \$39,040.23. As of December 31, 2012, the balance in this account was \$9,533.45.

The major sources of funds deposited into the school's account include: fundraising activities, community grants and monies raised through senior activities. These funds are referred to as General School Funds, and are considered held in trust for the students' benefit, and generally used to support and offset the expenses for extracurricular and co-curricular student activities. Benjamin Carson has 6 activity accounts including the general account. The other accounts are: School Uniforms, Senior Class, Student Activities, Entrepreneurship Scholarship and Taylor Wilson Thompson Scholarship account.

School personnel are required to ensure accountability and fiscal integrity by complying with district procedures for the receipt, deposit, disbursement, and recording of funds. The district's School Financial Procedures Manual (SFPM) provides specific rules and guidelines for the handling of General School Funds (GSF).

This report summarizes identified internal control deficiencies and noncompliance conditions; which, if not corrected, will adversely affect the overall financial position of the school. We also make recommendations on how internal controls can be improved. Those charged with the responsibility to establish, implement and maintain effective control processes are directly addressed on the first page of this report.

We provided a draft report to the school principal for review and comment. The principal's written response is included as an appendix to this report. Additionally, relevant comments made by school personnel during the fieldwork process are included in the body of this report.

EXECUTIVE SUMMARY

District procedures require school principals to establish controls over cash to assure that school monies are properly accounted for, and that the school is operating in compliance with the District's financial policies and procedures. However, we noted some areas of non-compliance related to cash receipts. For instance, our review showed a failure to complete receipt forms for some incoming funds. We identified funds totaling \$9,905 that were deposited without record of receipt in school files. Furthermore, we found funds totaling \$2,060 that were recorded in duplicate in the cash receipts ledger; as well as funds totaling \$535 that were erroneously recorded in the ledger. We also noted that in some instances, an original receipt was not provided to persons that remitted funds for deposit. In general, these deficiencies revealed a lack of control over cash processes, and limited the assurance that receipt, ledger and deposit records were maintained accurately and complete.

We also determined that the school did not always comply with district guidelines in regards to the proper use of general school funds. For example, we found that checks totaling \$10,860 were issued to support building repairs and maintenance expenses (\$8,207); and to provide funding for travel expenses for staff (\$270) and a pediatric neurosurgeon's attendance at the new school building opening ceremony (\$2,383). According to guidance provided by the Cash Management department, the school should have used their discretionary budgetary funds to pay for these expenditures. It is essential that the principal exercises adequate measures to maintain strong internal controls; to assure students, parents and all concerned taxpayers that general school funds are handled properly and for the direct benefit of students only.

The audit also determined the need for the Cash Management department to take a proactive role in ensuring that accounting services are in place to perform monthly bank reconciliations and preparation of other required financial reports on a timely basis. The audit revealed that monthly financial reports were not always prepared within the proper time frame to ensure compliance with district policies and procedures.

**OBJECTIVE, SCOPE
and METHODOLOGY****Objective**

To determine whether school personnel properly managed and administered the school's General School Funds and if monies from the school's account were properly accounted for and spent for the benefit of students; and in compliance with the School Financial Procedures Manual (SFPM).

Scope

The subject matter of our review was the Benjamin Carson's cash receipts and disbursements for the period July 1, 2011 through December 31, 2012.

Methodology

To meet our objective, we reviewed supporting documentation for cash receipts and disbursements to assess the use of these funds. We also reviewed the supporting financial ledgers, bank statements and reconciliations to determine whether they supported the completeness and accuracy of the transactions. In addition, we conducted interviews with the Principal and other school personnel involved with financial transactions. Furthermore, we reviewed the regulating policies, School Financial Procedures Manual (SFPM), and the School Administrative Financial Manual (SAFM), to assess the extent to which Benjamin Carson is operating in compliance with the school district's financial guidelines and procedures. Our audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

Untimely Bank Reconciliations

We noted that bank reconciliations for 5 out of 6 months sampled (83%) were not prepared, reviewed, or approved by the principal within 15 days following month-end, as required. For example, reconciliations for the months of August, November and February 2012 were not completed until April 2012. Additionally, August and October 2012 reconciliations were not completed until end October and November 2012, respectively. We recognize that the principal does not have any control over scheduling of the bank reconciliation preparations, and execution of a contract for accounting services is the responsibility of the Division of Finance (Cash Management department). However, the annual contract for FY2012 School Accounting Services was not executed until January 2012, and was not renewed for FY2013 until mid-September 2012; yet the firm was required to prepare reconciliations for each fiscal year beginning with the month of July.

Bank reconciliations are part of the school's internal controls over cash; and therefore the absence of timely completion and review of monthly reconciliations reduces the assurance of the completeness and accuracy of the school's financial statements. Accurate and timely bank reconciliations can uncover differences that may need further investigating, and can uncover errors and irregularities more quickly, thus enabling the school to take corrective action. Furthermore, the SFPM requires the bank reconciliations, cash receipt, cash disbursement, and/or general ledger be submitted to the department of Cash Management by the 15th of the subsequent month. In order for schools to comply with this procedural control, the Division of Finance should implement timely execution of the annual contract for accounting services, to ensure that such services are in place at the start of each fiscal year in July.

Inadequate Cash Receipt and Deposit Processing

During our review, we noted certain deficiencies regarding cash receipts. Specifically, funds totaling \$9,905, which included \$7,902 in wire transfers from the Finance division, as well as other miscellaneous checks received by the school, were deposited without record of receipt in the school ledger. Due to this deficiency, the available cash balance per the school's receipt ledger was under-stated.

Furthermore, funds totaling \$2,060 were recorded in duplicate in the cash receipts ledger. We also identified funds totaling \$535 that were erroneously recorded in the ledger. As result of such poor bookkeeping practices, deposit amounts did not agree to amounts recorded on receipt forms and ledgers, which resulted in reconciling differences.

Additionally, for 83 percent of the sampled receipts reviewed, we noted that the bookkeeper did not provide an original receipt to staff members that collected funds for deposit. Issuing receipts to those who remit funds for deposit is important to maintain control over cash receipts, as well as assure transparency in cash transactions.

The SFPM indicates; “All funds received must be documented through written receipt forms and signed by the bookkeeper. The activity fund sponsor or remitter of the funds should get the original (white) copy of the receipt, and the yellow copy is to be maintained in the monthly receipts binder with the support documentation. The pink copy is to remain intact in the receipt book. In addition to the total amount, the receipt form should include the fund/activity account and purpose for which the funds were collected. Accuracy is very important to ensure that funds deposited agree to receipt, ledger and deposit records.”

General School Funds (GSFs) Used to Support Non-Student Related Expenditures

We identified 10 payments totaling \$10,860 where GSFs were used to pay for expenditures that did not directly benefit the students. These included:

- \$8,207 used to pay for building repairs and or maintenance work;
- \$2,653 used to fund travel expenses for a staff member’s attendance to an out-of-town conference (\$270); and for a pediatric neurosurgeon to attend the opening ceremony for the new school building (\$2,383).

The SFPM specifically requires that GSF expenditures be **directly** related to student extracurricular and/or curricular activities, or be spent for the **direct benefit** of students. Schools are provided budgeted discretionary funds, which typically would be used to cover basic routine operating or maintenance expenses incurred by the school, as well as staff development (conference) expenditures. It should also be noted that general school funds are not to be used for travel related expenses.

The SFPM states that “General school funds are monies collected and held on deposit in a school checking or savings account to be used for the direct benefit of students only. The school principal acts as trustee for these school funds collected on behalf of the students”.

CONCLUSION

School principals are ultimately responsible for the collection, distribution, and accounting for all general school funds. The principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. The School Financial Procedure Manual (SFPM) is provided as a vital tool for all school personnel to refer in performance of their financial responsibilities. Going forward, the principal should refer to the SFPM and other written guidance referred to therein to ensure compliance with district policies and procedures. The basic purpose for collecting or raising and expending of activity funds must be for the direct benefit of the students or for the general benefit of the school. Additionally, GSFs should not in any way be used to support activities outside of the students’ direct involvement.

RECOMMENDATIONS:

We recommend that the Principal of Benjamin Carson:

- Ensure that all incoming funds are receipted, accurately recorded in school ledgers and agreed to deposit records;
- Ensure that general school funds are only put to use for the direct benefit of students.

We recommend that the district's Department of Cash Management:

- Ensure procedures are in place to provide accounting services, including preparation of monthly bank reconciliations, in a timely manner.

Our review was performed in accordance with U.S. Government Accountability Office (formerly the General Accounting Office) Government Auditing Standards 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
Deputy Inspector General for Audit

AUDITEE COMMENTS

DETROIT PUBLIC SCHOOLS

MEMORANDUM

To: Wilbert V. Marsh, Inspector General

CC: Roy S. Roberts, Emergency Manager
William Aldridge, Chief Financial Officer
Natasha Baker, Chief Innovation Officer
Odell Bailey, Deputy Inspector General – Audits
Bernadette Kakooza, CIA

From: Brenda Belcher, Principal, Benjamin Carson High School/Crockett CTC

Date: April 15, 2013

Subject: Management Response – Financial Audit

I read the audit findings very closely, and with much interest, after having received the written response three months after the field work was completed. My initial reaction to the report was one of skepticism because of the disconnect between the written report and the verbal findings shared by the auditors after the completion of their field work. I do understand exit meetings are not intended to quantify the final outcomes of the audit; however, the written report included extensive and new information not mentioned in the exit meeting.

Additionally, the Office of the Inspector General sent a draft report via email on Monday, April 8, 2013 with a required response four days later – Friday, April 12, 2013. An extension to submit the response was requested and granted for Monday, April 15, 2013, given the amount of research required to provide a complete and thorough response to each finding.

As you review this document, please consider the school's explanation and supporting evidence as follows:

1. Untimely Bank Reconciliations

We do not agree with this finding for the following reasons:

During the period of January 2012 and September 2013, DPS had not contracted with an accounting firm, leaving the school without support to complete its bank reconciliations.

The financial audit report notes on page 5: *“The principal does not have any control over scheduling of the bank reconciliation preparations, and execution of a contract for accounting services is the responsibility of the Division of Finance (Cash Management Department).”*

2. Inadequate Cash Receipt and Deposit Processing

Duplicate receipts of \$2,060

We do not concur with this statement, for the following reasons:

- During the monthly reconciliation process for October 2011, these items were identified and properly adjusted off our October 2011 ledgers.
- We have implemented procedures to ensure that duplicate receipting does not occur again.

Un-receipted Funds totaling \$9,905

We do not concur with this statement for the following reasons:

- Of the \$9,905, \$4,370.44 represented a wire from the old checking account to the new checking account. Per page 67 of the School Financial Procedure Manual, wires are to be treated as credit adjustments not receipted. See attached support.
- Of the \$9,905, \$3,534.4 represented wires from the District. Per page 67 of the School Financial Procedure Manual, wires are to be treated as credit adjustments not receipted. See attached support.

- The remaining \$2,000 represented check donations received in November 2011. Although a letter was sent from the school thanking the sponsor and confirming the contribution, since November, we have implemented procedures to ensure that checks and cash received are properly receipted.
- Consistent with the School Financial Procedure Manual, the \$9,905 was properly reflected as credit adjustments on the adjustment page. As the adjustments were reflected in our general ledger, our reconciled ledgers were not understated.

Funds totaling \$535 erroneously recorded in the ledger

We do not agree that the amounts were erroneously recorded in the ledger. These amounts represent adjustments to properly state our ledger balance. Failure to include these amounts would have resulted in a misstated ledger.

83% of sampled receipts reviewed did not provide original receipts

- We do not concur with the statement that 83% of receipts reviewed were not provided to the sponsor. A copy of the receipt is provided to the sponsor upon receipt of the cash and/or check.
- Details were not provided as to which receipts were in question, nor did the auditor indicate an issue with this matter at the conclusion of the audit.

3. General School Fund Used to Support Non-Student Related Expenditures

The school used funds to support building repairs and maintenance expenses

We do not agree the school may not use funds for building repairs.

- Per page 10 of the School Financial Procedure Manual acceptable expenditures include small repairs, moving or maintenance of equipment.
- As a first step, work orders are completed to request building repairs. In most cases, work orders are not responded to in a timely manner and, thereby, may create an unsafe environment for students. In this case, plaster work and painting were completed to repair falling and/or peeling paint; glazier work was completed to replace glass; security gates were repaired and some installed after a break-in resulting in stolen equipment, and various other repairs and maintenance expenditures where required.

Travel Expenses

The school does not agree with this finding for the following reason:

- The school received donations from three sponsors to cover costs related to the building dedication program. Per page 87 of the School Manual, we are allowed to use the funds consistent with the Donor's intent. The donor's intended to help offset expenses associated with the building dedication program. Reference the attached documentation.

The school does not agree with this finding for the following reason:

- While travel expenses were paid to house the bus driver transporting students to the Health Occupations Students of America's (HOSA) Conference held in Traverse City, this trip was not incurred through personal choice – as noted in the School Financial Procedure Manual on page 11. Student travelers won in competitive events at local and regional competitions and were invited to compete at the State level to qualify for a possible national placement. Nonetheless, we have implemented procedures to ensure travel expenses are aligned with the School Financial Procedure Manual.

Response to Audit Report Recommendations

The Principal will comply with all procedures as identified in the School Financial Procedure Manual. Additionally, the Principal will:

- Ensure that all incoming funds are receipted, accurately recorded in school ledgers and agree to deposit records.
- Ensure that the general school funds are only put to use for the direct benefit of students.