TO: William Aldridge, Chief Financial Officer  
Karen Ridgeway, Superintendent of Academics  
Lisa Phillips, Principal, Cass Technical High School

CC: Roy S. Roberts, Emergency Manager  
Kevin A. Smith, Chief of Staff, Emergency Manager  
Delores A. Brown, Deputy CFO and Chief Accounting Officer  
Rebeca Luna, Assistant Superintendent  
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: Cass Technical High School – Financial Audit

BACKGROUND
Cass Technical High School (Cass Tech) is a nationally recognized school of excellence, and has earned distinctions such as: the U.S. Department of Education’s Blue Ribbon School, featured as one of America’s Best High Schools in Redbook magazine, earned the title of being a Grammy Signature High School, and was named a Demonstration School by NABSE (National Alliance of Black School Educators). In the field of athletics, its football team made recent history, winning two consecutive years as the Michigan High School Athletic Association Division 1 State Football Champions (2011 and 2012).

For the current school year, Cass Tech has an enrollment of 2,258 students, in 9-12 grade levels. Ms. Lisa Phillips has served as Principal of the school since August 2010. Ms. Niki Timmons was the school’s accountant for the period January 2012 through January 2013. Currently, the school has a bookkeeper, Ms. Joyce Campbell; who has worked in this position since August 2012. 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. Cass Tech, 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 $931,874.56 in its general checking account and paid out $698,587.70. As of December 31, 2012, the balance in this account was $278,669.46. The school also maintains a savings account with First Independence bank. As of December 31, 2012, the balance in this account was $3,839.09.

The major sources of funds deposited into the school’s account include: fundraising activities, donations, school store sales and monies raised through student 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. Cass Tech has approximately 90 activity accounts including the general account.

The other accounts are grouped as to their specific purposes; for example: Academic Clubs (English, Mathematics, Social Studies, etc), Student Activities (Student Council, Graphic Arts, Academic Games, Marching Band, Senior Class, Build On, Orchestra, Concert Choir, etc), Academic Clubs (Distributive Education Clubs of America - DECA, Dance Workshop, CT Vision Newspaper, Cass Earth club, Ceramics and Jewelry, Advertising Art, National Honor Society, Medical Careers, World Languages, Business Teens, Performing Arts, JROTC, etc), Athletic programs (Football, Basketball, Swim, Cheerleading club, Golf, Chess, Soccer club, Softball, Tennis, Volleyball, etc), and other administrative accounts, such as: Athletics Administration, Student Affairs, Advanced Placement, and (restricted) Staff Social Fund.

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 (GSFs).

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 ensure that school monies are properly accounted for, and that the school is operating in compliance with the District’s financial policies and procedures. It is essential that the principal maintains adequate internal controls; to assure students, parents and all concerned taxpayers that school funds are handled properly and for the direct benefit of students only. However, our audit revealed that the school did not always comply with district guidelines in regards to the proper use of general school funds. We found that checks totaling $42,206 were issued to support staff related expenses ($3,945), purchases or maintenance of copier equipment ($19,389), purchase of food at parents’ meetings ($2,810), purchases for non-students ($3,468), payments to employees for services performed outside of regular work hours ($389), purchase of office supplies and basic routine and operational supplies ($2,433); as well as purchases of Apple technology products ($9,772). Due to the questionable purchases of technology products, we have recommended the Office of Inspector General - Investigations further investigate this matter and pursue appropriate action as warranted.

We also noted some areas of non-compliance related to cash receipts. For instance, we identified funds totaling $47,248 that were deposited without record of receipt in school files. Furthermore, we noted that pre-numbered receipt forms were not always used in sequential order; nor were funds deposited in a timely manner. 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 completely.

We also determined that the cash disbursement process was not always in compliance with cash management policy. In some cases, required approvals were not obtained, supporting documentation was not retained, and we also identified records where the payee and amounts of the check disbursements did not agree with the supporting invoice or payment receipt.

Our review of athletics revenue and the ticket management processes revealed that adequate controls were maintained regarding segregation of roles between custody of game tickets, and reconciliation of ticket sales. However, we found that athletics revenue was not always adequately reported and deposited in a timely manner; which increased opportunities for fraud and abuse of funds. Additionally, we found controls lacking over fundraising activities. There was no mechanism in place to maintain documentation evidencing approval by the Principal and Assistant Superintendent, as required. In instances where Profit and Loss Statements were completed, we could not validate the completeness of fundraiser documentation because approval forms were missing in school files to provide an adequate audit trail.

The audit also revealed purchases such as a $36,079 disbursement for yearbook publication that exceeded the competitive bidding threshold and the hire of a non district employee for disc jockey services which violated district procedures for independent contractors. The concern here is that the school may not be getting the best price or value for some of its purchases. We believe that the school should consult the Procurement and Logistics Office for assistance with compliance and possible vendor options that will help ensure the school obtains the best price and value for needed goods and services.

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 within the proper timeframe, in order 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 Cass Tech school’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 Cass Tech 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

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

The School Financial Procedures Manual (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”.

In our review of cash disbursements for the audit period, we identified several payments totaling $42,206 where GSFs were used to pay for expenditures that did not directly benefit the students. These included:

- $3,945 was used to pay for staff professional development and conferences for staff;
- $19,389 was used for purchase and maintenance of Toshiba copier equipment;
- $2,810 was spent on food at parents’ meetings that included some students;
- $3,468 was spent by other individuals and groups that are non-students;
- $389 was paid to DPS employees for services performed outside of their regular hours;
- $2,433 was used for basic routine and operating expenses, and miscellaneous supplies;
- $9,772 was used to purchase apple technology products.

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 the SFPM prohibits schools from making purchases for outside individuals or groups, or donating school funds, because this is generally considered a gift of public funds; no matter how worthy the cause.

Furthermore, any payments to district employees should be processed through the district’s Office of Payroll, and not the school checking account. Additionally, parental involvement grant funds are provided to schools via the budgetary process, and are intended for expenditures related to the parents’ participation activities in the school. As it relates to copier (technological) equipment purchases, the district mandates that such equipment should be purchased and maintained via the PeopleSoft e-procurement system, since the district is under contract with Toshiba company for copier purchases and maintenance plans.
Regarding purchases for apple technology products, these expenditures require approval and inventory by the Division of Technology and Information Services (DTIS). Given the amount expended, it’s also possible some of the items could be capital assets which are only identified through processed invoices in Accounts Payable. We also question the school’s purchase of these products and are therefore referring this matter for further review and investigation.

**Untimely Bank Reconciliations**

We noted that bank reconciliations for 4 out of 6 months sampled (or 67%) were not prepared, reviewed, or approved by the principal within 15 days following month-end, as required. For example, reconciliations for the months of September 2011 and February 2012 were not completed and or signed by the Principal until November 2011 and end April 2012, respectively. Additionally, April and September 2012 reconciliations were not completed until end May and end October 2012, respectively.

Also, we found no evidence that November 2011 reconciliation was reviewed by the principal. The principal’s signature indicates that they have been made aware of the financial transactions for the month, which is important as the person who is ultimately responsible for school funds. 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**

We tested the receipt process and bank deposits for the audit period, and noted the following areas of noncompliance:

- Pre-numbered duplicate receipts were not used in sequential order for 5 out of 10 items tested in each month- a 50% exception rate;
- Relevant documentation to support cash receipts was missing for 4 out of 10 items tested in each month - a 40% exception rate;
- Receipts were not deposited timely, in accordance with armored car schedule, for 15 out of 20, or 75% of the items tested. At one time, funds totaling $24,098 were held for as long as 4 months at the school before deposit was made.
We also identified $47,248 deposited in December 2012 that was not receipted in the school ledger. Furthermore, there were 51 instances where receipts were not posted to the cash receipts ledger using the proper cutoff dates. However, the adjusting entries in school records for these receipts, made in June and September 2012, did not properly reference to the receipt numbers for verification of appropriateness of posting to the general ledger. In another instance, a master receipt documented a total amount of $674 that was received, but the referenced 4 supporting subsidiary receipts only reflected a total of $70; a difference of $604.

We also noted one instance where a refund was made using cash on hand. We identified some inscription “refund of $30” on a May 2012 receipt, and upon further testing to bank deposit, confirmed the amount that was deposited as relates to the specific receipt was short $30.

Furthermore, we noted frequent deposit discrepancies (9 out of 18 months) documented on the monthly bank statements, which revealed lack of proper verification of funds prepared for deposit. For example, a deposit was adjusted by the bank due to a shortage in the amount of $1,055. The school stated that the deposit, made in October 2011, totaled $16,226, but the bank verified the amount received for deposit was $15,171. Overall, the amount of variances identified due to deposit credit and debit adjustments reported on the bank statements was a net amount of $737.43. The SFPM requires that receipt forms be accurately completed to provide an audit trail of all funds received for deposit. Deposit tickets should reference the receipt numbers for amounts included in the deposit. Accuracy is very important to ensure that funds deposited agree to receipt, ledger and deposit records.

Collectively, these discrepancies raise concern about the practices that have impeded controls in place to ensure accountability and transparency. In addition, the failure to use pre-numbered receipts, as well as maintain their sequence as required, impairs the controls intended in the receipt process. Furthermore, such incomplete and or incorrect receipt and deposit records impact deposit verifications intended to identify potential frauds and errors. At conclusion of the fieldwork, this issue was discussed with school officials who acknowledged the need for accurate completion and posting of cash receipts, as well as the benefit of proper record maintenance.

All cash received should be deposited intact and in a timely manner.

**Inadequate Cash Disbursement Procedures**

During our review of cash disbursements, we noted that the school did not always follow cash management procedures related to cash disbursement processing. For example:

5 out of 20 disbursements made, or a 25% exception rate, were not properly approved by the principal; 7 out of 20 disbursements, or a 35% exception rate, did not have the required supporting documentation. Furthermore, we also identified 7 out of 18 payments, or a 39% exception rate, where the payee and amount of the check disbursement did not agree with the supporting invoice or payment receipt.

The SFPM indicates that a Check Request Form (or Reimbursement Request Form) should be completed in advance of the expenditure, and authorized in writing by the principal, before the bookkeeper disburses funds. Checks should be issued only when supported by original vendor
invoices or receipts specifying the goods/services purchased, purpose for the expenditure and the amount owed to the vendor.

District guidelines also require that the availability of funds be verified before check issuance, and the activity account to be charged should be indicated on the check request form. Adequate oversight of the disbursement process is necessary to assure the effectiveness of cash controls and compliance with district guidelines. Without these basic control procedures, the risk that general school funds may be misused or misappropriated is significantly increased.

**Lapse in Deposits of Athletics revenue**

We noted that there was a lapse in athletics revenue deposits for the months of November and December 2012. Upon further review, we determined that the school did not make any athletic revenue deposits during this period; rather, we were informed that funds from ticket sales were accumulated in a safe. Deposits were not made for a long period of time; even while the former school accountant was an on-board employee. We noted that the accountant left at the onset of the audit in January 2013, and that the last deposit made was on 10/26/2012. As of the date of completion of the fieldwork, the total of athletics revenue that was not deposited was $5,086; which included funds from ticket sales for 2 football games played on 9/28/2012 and 10/31/2012.

The SFPM indicates:

> “Upon completion of a game, the school bookkeeper or responsible school official should ensure that gate receipts from pre-sales and current gate sales are counted, verified and immediately bagged for deposit into the district’s athletics revenue depository account.”

Failure to deposit funds in a timely manner increases the risk of theft or misappropriation of funds. School personnel involved in the athletics revenue collection, reconciliation and deposit processes should obtain the necessary training to ensure that revenue collected from ticket sales is accurately reported and deposited.

**Fundraiser Activities Deficiencies**

We examined documentation related to fundraising activities, and identified these deficiencies: Several fundraising activities did not have the required Approval Form on file; however, we determined from receipt and disbursement records that the fundraiser activities were held. For example; an English department fundraiser reported total proceeds of $24,930 on a Profit and Loss Statement completed in January 2012, but we found no evidence of approval for this event. Another event to raise funds for Homecoming in October 2011 had a completed Profit and Loss Statement reporting $56,176 in total proceeds, but we found no approval form in school files. Fundraising procedures require both the approval of the Principal and Assistant Superintendent to monitor the existence and profitability of activities conducted by groups in the school.
While it is plausible that approvals were obtained for the fundraisers in question, poor filing procedures and inadequate maintenance of fundraiser documentation raises questions about the ability to account for fundraisers held at the school. Completed Profit and Loss Statements should be maintained attached to the respective approval forms in school files. This establishes accountability and allows evaluate whether funds collected (and deposited) from an event agree with profitability projections. It is also important to ensure that the fundraising did not continue beyond the established end date.

The SFPM states:

1. No fundraising activity should take place without **prior** written approval of the Principal (and Assistant Superintendent). A completed and approved “**Request for Approval for Fundraising Activity**” form should be maintained in school files for audit purposes.

2. The fundraiser sponsor is responsible for completion of a “**Profit and Loss Statement**” not more than **five (5) days** after the fundraiser has ended. A completed copy of this statement should be submitted to the bookkeeper/school treasurer and forwarded to the principal for review and approval. Copies of all invoices, receipts, etc. must be attached to the form.

**Non-compliance with Procurement Policy and Purchases of Goods and/or Services**

We identified certain purchases made by the school without any documented evidence that the Office of Procurement and Logistics was consulted in order to ensure that the school was obtaining the best price and value for the products and services it purchased. In some cases, payments were made for services relating to contractual agreements, which violate district policy.

These purchases included the following:

- $36,079 for the class of 2012 yearbook publication;
- $17,000 for 2012 graduation venue;
- $18,988 to one vendor for senior class caps, gowns, tassels and other memorabilia;
- $21,192 to one vendor for miscellaneous services;
- $2,160 to one vendor for customized polo shirts;
- $4,212 to one vendor for customized t-shirts;
- $4,295 for photography services;
- $600 for DJ services.

It is the policy of the District that the procurement office assists in obtaining competitive bids for the purchases of goods, supplies, materials or equipment, to ensure that district schools and departments are paying no more than the best available value. Bids should be obtained for purchases of goods in excess of $3,000, and the approval process is increased for purchase of goods that cost more than $15,000. Although there is no state regulation that requires competitive bidding process for services, best practices dictate that a strategic sourcing process should be followed to prevent fraud and favoritism, and to protect public funds.
Additionally, non-district personnel performing services have to complete a Internal Revenue Service W-9 form, in order for the Accounts Payable department prepare a 1099 form at year-end for tax reporting purposes for individuals paid in excess of $600. Furthermore, because individual schools are not recognized as legal entities, principals do not have the legal authority to enter into any contracts or lease purchase agreements without guidance from the Office of Procurement and Logistics.

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 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.

Some of the violations identified in this audit are a result of practices that, over time have negated controls established to ensure accountability and transparency. This is a dangerous trend and should be addressed through corrective actions. Given the many student activities at Cass Tech, the importance of complying with procedures is magnified. We do recognize the many competing priorities that a principal has to address on a daily basis, which is why it is most important to have trained, knowledgeable staff managing student funds. Ultimately, regardless of who is assigned to manage student funds, the principal is held responsible for the accountability and safeguard of student funds.
RECOMMENDATIONS:

We recommend that the Principal of Cass Tech take action to ensure:

- General school funds are only used for the direct benefit of students;
- All incoming funds are receipted, accurately recorded in school ledgers and agreed to deposit records;
- District procedures are followed for the disbursement of school funds;
- School personnel involved in financial responsibilities receive the necessary cash management training;
- District procedures are followed regarding reporting and documenting fundraiser proceeds and disbursement transactions;
- Guidance is sought from the Office of Procurement and Logistics when competitive bidding is warranted for school purchases.

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.

We recommend that the Office of Inspector General – Investigations department:

- Investigate the school’s purchase of apple products which may or may not be in violation of the Division of Technology and Information Services’ rules.

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

Cass Technical High School

TO: Wilbert Marsh, Inspector General, DPS
FROM: Lisa Phillips, Principal, Cass Technical High School
DATE: April 16, 2013

SUBJECT: Response to Audit Finding – Cass Tech HS

In response to the Financial Audit, I have provided an explanation for the following audit findings:

**General School Funds Used to Support Non-Student Related Expenditures**

- $3,945 used to pay for staff professional development
  - All of the staff professional development expenditures were used to benefit students in all academic areas, especially Advanced Placement and for Common Core Instruction. Per the School Financial Procedures Manual (SFPM), monetary donations can be used for professional development for teachers and administrators.

- $19,389 used to purchase and maintain Toshiba copier equipment
  - These items were purchased using departmental activity funds and directly benefit the students. Due to the lack of textbooks and lack of materials for MME, teachers must utilize the copiers to educate children. Per the School Financial Procedures Manual (SFPM), maintenance of equipment purchased with school funds is an allowable cost.

- $2,810 spent on food for parent’s meetings
  - Per the School Financial Procedures Manual (SFPM), monetary donations can be used for parental involvement and parental educational activity funds. Documentation was provided to support that students attend these meetings along with their parents. Monies were to be reimbursed to the school from the Title I Parent Involvement account. (Documentation to support this from the Title I Parent Liaison).

- $3,468 spent on donations and gifts to other individuals and groups
  - Per the School Financial Procedures Manual (SFPM), “voluntary collections are allowed from a student group or school. These collections may then be forwarded to the needy student, family or nonprofit organization.” We now recognize that cash donations must be made directly to the intended student, family or nonprofit organization.
• $2,433 was used for basic routine and operating expenses and miscellaneous supplies
  o Of the $2,433 identified in basic routine and operating expenses, $1,140 (47%) was purchased using donated funds. Per the School Financial Procedures Manual (SFPM), we recognize that these items should have been purchased via funds provided to us from the District.
• $9,772 spent on Apple technology
  o The $9,772 used for Apple products was needed because of its sophisticated technology. All teachers will be able to utilize the I-pads with their students for extensive researching, experimentation, and the promotion of “out-of-the-box” and critical thinking skills in our students. The Apple I-pads and Products were requisitioned in 2011 before the District purchased Netbooks and to date we have only received a few of them. About three weeks ago, we received the first shipment from 2011 of sixty (60) i-pads that have just been tagged with Asset Tag Numbers and are being issued to students starting this week.

Inadequate Cash Receipt and Deposit Processing
• Other noted instances of noncompliance (deposit discrepancy, non-sequential order, cash payments, unsupported receipts, disbursements, check requests, fundraiser activities, etc.)
  o During the audit period tested, several issues came to my attention regarding noncompliance. Immediate action was taken to resolve the issues. Appropriate corrective action was taken with the school accountant at the time. When the corrective action was not followed by the school accountant, appropriate action was taken to obtain additional services from the third party accounting firm. In addition, appropriate steps were taken to obtain the right skill set for the accounting position. The school recently added a new bookkeeper and is interviewing for an accountant. Corrective action has been taken to ensure the district cash management policies are followed going forward.

Areas of Concern
• Since I was never trained in the competitive bidding process, I was left to make decisions based on the situations presented. For example, there are no cited procedures for competitive bidding at the school level. The yearbook, senior package, homecoming, graduation and prom contracts had been approved by our Assistant Superintendent who turns the contracts into Procurement and Logistics for approval; therefore, past practice, once central level approvals have been secured, we utilized funds earmarked for this purpose to pay the contracted vendors.
• I would like for it to be noted that I called for assistance due to the work performance of the accountant who resigned right before this audit. I have documentation stating that we needed assistance in the bookstore because we did not have adequate personnel present for weeks or when needed.

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