

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-0027

AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Robert Avedisian, Principal, Charles R. Drew Transition Center

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Delores A. Brown, Deputy CFO and Chief Accounting Officer
Clara Flowers, 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: Charles R. Drew Transition Center – Financial Audit

BACKGROUND

Charles R. Drew Transition Center (Drew Center) is a unique post-secondary vocational center for students who are moderate or severely cognitively impaired, visually impaired, hearing impaired, physically impaired, or otherwise health impaired, and students with autism. These special education students, ages 18-26 are offered a continuum of services for students with disabilities through individual assessment to ensure their access to age-appropriate learning and simulated work environments.

For this current school year, Drew Center has an enrollment of 625 students. Mr. Robert Avedisian has served as Principal of the school since August 2011. Ms. Debra Carrington has served as the school's bookkeeper since September 2011. 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. Drew Center, 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 \$38,270.53 in its general checking account and paid out \$41,994.14. As of December 31, 2012, the balance in this account was \$3,217.07.

The major sources of funds deposited into the school's account include: fundraising activities, senior dues and monies raised through student-run activities such as a clothing resale store, beauty salon, post office, food store, and a laundry facility. 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. The school maintains only one general fund activity account for all student activities. Besides this activity account, the school has a restricted activity account that is used to maintain dues collected from staff and to fund staff related social activities.

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. The principal should ensure the maintenance of a uniform system of records that can reliably reflect the financial status of the various student activities. However in our review of school records, we noted that the school did not maintain separate general ledger activity accounts to support individual accountability and reporting of transactions for the various student activities. Without such detail, we have no assurance that revenue generated from specific activities was used to benefit the group of students that collected or raised the activity funds.

Other concerns included the failure to follow cash receipt procedures to ensure that receipt forms were always completed for all incoming funds. We identified funds totaling \$1,372 that were deposited without record of receipt in school files. Furthermore, copies of checks sent for deposit were not always maintained in school files. At a minimum, this deficiency presents a risk of not having the required payer information available in the event that collection procedures become necessary as result of deposit of a "non-sufficient funds" check.

We also determined 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 \$2,413 were issued to support staff development and appreciation events, and to provide funding for activities involving other outside groups. Adequate measures should be taken by the principal to maintain strong internal controls to assure students, parents and all concerned taxpayers that school funds are handled properly and for the direct benefit of students only.

In our review, we 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 Drew Center'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 Drew Center 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 4 out of 6 months sampled (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 and October 2011 were not completed until February 2012. Additionally, July and October 2012 reconciliations were not completed until end September 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 succeeding 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

In our review, we noted that funds totaling \$1,372, which included a \$800 check received from Absolute Software that refunded the school for a stolen computer, as well as other miscellaneous checks received by the school, were deposited without record of receipt in the school ledger, or check copies maintained in the school files. Due to this deficiency, the available cash balance per the school's receipt ledger was under-stated.

The SFPM indicates; "All incoming funds should be recorded on pre-numbered triplicate receipt forms, or Form AC-1 (Report of Cash Deposit). 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. Copies of checks received for deposit should be attached to receipt copies maintained in school files."

Furthermore, all deposit tickets should reference the receipt numbers included in the deposit. It is important that all checks and or money orders included in the deposit be listed individually on the deposit ticket (by check or money order number and dollar amount) to provide an audit trail.

Lack of General Ledger Activity Accounts

In our review of school records, we noted that the school did not maintain separate activity accounts to support accountability and reporting of transactions for individual student activities. We determined that the school receives revenue from student-run activities such as; a clothing resale store, food mart, post office, flower shop, beauty salon, as well as collects student fees for senior class activities. All revenue and disbursement transactions were reported in one ledger activity account, known as the School Fund, which impacted the ability to track the cost effectiveness of individual student activities, maintain a reliable system of checks and balance, as well as keep track of the available balance to support each student activity.

Maintainance of sub-ledgers, or activity accounts, is integral to proper accounting of a school's transactions. By having each activity separately reported, activity account sponsors and or the bookkeeper should have better control over the funding and expenditures of individual activities. Within this scope, funds are to be used to benefit the students that contributed to a particular activity account's revenue accumulation. The SFPM indicates; "It is important to maintain separate activity accounts because money held for groups of students or for any specified purpose must be spent to benefit that same student group or for an intended purpose. Funds held in the various activity accounts may not be commingled, unless proper transfer measures are implemented."

Furthermore, the SFPM states; "In every school, there should be at least one account that is used for the general benefit of the student body as a whole. This account, often supervised by the principal, is commonly referred to as the School Fund; and should be used for receipts and expenditures that benefit students but cannot be identified with any individual student group. Examples of such transactions are: donations to the school that are not targeted to a specific cause, bank service charges, general appropriations from the district, and any other miscellaneous receipts and or expenditures."

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

We identified 14 payments totaling \$2,413 where GSFs were used to benefit outside groups and staff, rather than students and their activities. These included:

- \$2,033.78 to purchase various breakfasts and lunches for school staff, as well as refreshments served at staff professional development and appreciation events;
- \$329 for refreshments for Wayne RESA and LSCO meetings; and
- \$50 to sponsor a cleanup exercise organized by the "Friends of River Rouge" group.

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. Moreover, such funds may not be used to pay teacher/staff expenses or for any other items that would normally be paid for with discretionary funds provided by the district. While it should be noted that the school should have used the staff-funded activity account for the staff social expenditures, GSFs should not be used to support activities for outside entitites like the Local School Community Organization (LSCO); who are required to maintain their own account.

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 Drew Center ensure that:

- All incoming funds are receipted, and that supporting documentation of receipts including copies of checks received for deposit, are maintained in the school records.
- Separate general ledger activity accounts are used to record transactions for the various student activities.
- 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

Charles Drew Transition Center
9600 Wyoming
Detroit, Michigan 48204
Phone: 313-873-6880 Fax: 313-651-0157
Robert Avedisian, Principal

Wilbert Marsh, Inspector General
Odell W. Bailey, Deputy Inspector General for Audit

This is a response to the three recommendations in the audit report on the Charles R. Drew Transition Center, dated April 8, 2013.

- **All incoming funds are receipted, and that supporting documentation of receipts including copies of checks received for deposit, are maintained in the school records.**
 - **Corrective Action:** In reference to the check from Absolute Software, the check was received in the mail, but not receipted because we did not know who to receipt it to. However a copy of the check was kept in our records and clearly stated on the deposit slip. From this point forward Drew Transition Center will use two receipt books, and two different deposit slips one for checks and one for cash. In addition all checks have been and still will be maintained in the school records.
- **Separate General Ledger Activity Accounts are used to record transactions for the various student activities.**
 - **Corrective Action:** The elementary template that Haynes, Moffett, and Davis (HMD) use is not conducive to recording the separate transactions at Drew. We have requested that HMD provides us with the High School template, which will allow us to record the various activities separately. We have always maintained our records of the various student activities; however the auditors sent by your office worked from HMD's ledgers and not the ledgers available in the main office.
- **General school funds are only put to use for the direct benefit of students.**
 - **Corrective Action:** The \$50.00 check for the "Friends of River Rouge" was for the benefit of the students. The Drew students participated in the program and the \$50.00 was a required payment. Furthermore, the principal will insure that any monies used from the checking account will only be used for students. There will only be two authorized signatures for checks, Debra Carrington (Secretary/Bookkeeper) and the principal, Robert Avedisian.

GENERAL COMMENTS:

I became principal of the Charles Drew Transition Center in August, 2011. The Detroit Public Schools did not provide accounting services until February, 2012. From that point forward we have had monthly reconciliations. Debra Carrington who is secretary/bookkeeper started managing the accounts for Charles Drew, August, 2011. She had no experience as a bookkeeper. She has now become much more efficient at maintaining the books. This was demonstrated to the principal when the auditors sent by the inspector general said, "These were the cleanest books they have seen".

Regarding the \$2,413.00 funded for staff development and outside groups, many of these events involved students and was not described correctly. Henceforth we will provide more detail in the descriptions.

SUMMARY STATEMENT

Results from the auditor's report have provided much insight into the bookkeeping activities at Drew. We will use this information to insure that Charles Drew is in full compliance with the financial protocol in the Detroit Public Schools.

Respectfully Submitted,

Robert Avedisian
Principal