

# DETROIT PUBLIC SCHOOLS

## Office of Inspector General



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### AUDIT REPORT

**TO:** William Aldridge, Chief Financial Officer  
Natasha Baker, Chief Innovation Officer  
Johnathon Matthews, Principal, Cody Academy of Public Leadership

**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:** Cody Academy of Public Leadership – Financial Audit

#### **BACKGROUND**

Cody Academy of Public Leadership (Cody APL) school is 1 of the 9 self-governed Detroit Rising College Preparatory Schools. These schools 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.

Cody APL is committed to preparing students for College and Career readiness by exposing students to a rigorous college prep curriculum that emphasizes the importance of critical thinking skills. For the current school year, 384 students attend the school in grades 9 through 11. Mr. Johnathon Matthews has served as Principal of the school for 4 years. Ms. Annie O’Ree has served as bookkeeper for this same period. Ms. O’Ree receives records and deposits cash receipts and writes checks for expenditures. A third-party firm contracted through the Division of Finance - Cash Management department (Office of Accounting), prepares the monthly financial reports and bank reconciliations. Cody APL, 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 \$20,070.10 in its general checking account and paid out \$13,101.64. As of December 31, 2012, the balance in this account was \$6,811.60.

The major sources of funds deposited into the school's account include: donations, fundraising activities and fees received from students such as Reserve Officers' Training Corps (ROTC), National Honor Society (NHS) and senior dues. 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.

School personnel are required to ensure accountability, fiscal integrity and proper accounting 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.

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## **EXECUTIVE SUMMARY**

Based on a review of the school's financial records, we observed that inter-fund transfer forms used to document transfer of funds between activity accounts, were not properly completed. For instance, the forms lacked reference numbers, a description of the purpose of the transfer, and approvals of both the disbursing and receiving sponsors of the activity accounts involved. Although transfer of funds between activity accounts does not impact the general ledger and bank account balance, it is important to ensure that all activity account transactions are properly documented and reported.

The audit also identified opportunities for improvement in the cash receipt process. For activity accounts that collect a large volume of cash from students, we noted a need for a more efficient process, which involves the activity sponsors using sub ledger (separate) receipt books to document cash received for activity accounts that have large volumes of transactions. We noted, for example, that regarding the senior class and ROTC activity accounts for the months of September and October 2011, 60 "master" receipts and 80 "master" receipts, totaling \$900 and \$1,200, respectively, were issued to individual students, for receipt of senior class and ROTC dues. Individual student payments should be receipted by the activity sponsor, and provided to the bookkeeper on a regular basis, who will in turn, verify the cash receipts and issue one (master) receipt for the total cash amount submitted by the activity account sponsor.

In our review, we also determined the need for the Cash Management Department to plan and implement procedures to provide for the efficient safeguarding and accountability of general school funds at all times. This was certainly the case for funds collected during the summer months while regular school is in recess. The audit revealed that bank reconciliation services were not available during the summer months to ensure their compliance with district policies and procedures.

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## **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 Cody Academy of Public Leadership'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, Bookkeeper/Treasurer and some activity account sponsors. Furthermore, we reviewed the regulating policy, SFPM, to assess the extent to which Cody APL 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.

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## AUDIT FINDINGS

### **Improper Completion of Inter-fund Transfer Forms**

We noted that in the month of June 2012, inter-fund transfer forms, used to document transfer of funds between activity accounts, were not properly completed. Specifically, even though the principal approved the transfer of funds between activity accounts, the forms completed to document the funds transfer lacked the following required information:

- Date of transfer
- Transfer reference number
- Purpose of the transfer
- Authorizing name and signature of the disbursing sponsor
- Authorizing name and signature of the receiving sponsor
- Amount of funds available in the disbursing activity account prior to transfer of funds
- Indication whether the funds transferred were required to be repaid, or not.

The SFPM states:

*The principal should consult with teacher-sponsors or appropriate department heads in implementing a transfer of money from one ledger account to another so that it will be expended to benefit additional students or the student body as a whole.*

Additionally, specific guidelines are provided for the proper completion of inter-fund transfers in order to document that all involved personnel (sponsors) are in agreement with the transaction and furthermore, that the school maintains adequate documentation for follow-up and reporting purposes. The SFPM specifically states: “Even though transfers do not involve releasing checks, they are never to be posted without the approval signatures of the Principal and the respective activity fund sponsors involved in the transactions.”

### **Untimely Bank Reconciliations**

We observed that bank reconciliations for the following months were not prepared timely as required (i.e. within 15 days after month end): July and August 2011 were not prepared and signed off until September 2011. Also, July, August and September 2012 were completed in October 2012.

We realize the principal has no control over this issue and that the District is largely responsible because the contract for the third-party firm was not executed until January 2012 and the bank reconciliations beginning July 2011 could not be prepared until the contract was executed. Similarly, for the 2012-13 School Year, this contract was not renewed until September 2012; which impacted the timely preparation of financial reports. Regardless of the reason, the delay in preparing bank reconciliations significantly restricts the ability to provide oversight of school funds. Bank reconciliations and the associated financial records help attest to whether all receipts are accounted for and the accuracy of the accounting. When this effort is delayed by several months, there is no way of assuring all funds are being accounted for and the cause for any discrepancy that may arise.

## **Poor Cash Receipt Practices**

We noted that the school did not utilize sub-ledger (separate) receipt books to document cash received for activity accounts that have large volumes of transactions; for example, senior class and ROTC activities. For example, during the months of September and October 2011, 60 “master” receipts and 80 “master” receipts, totaling \$900 and \$1,200, respectively, were issued to individual students, for receipt of ROTC dues. The SFPM provides that an efficient way of recording activity accounts’ transactions is the use of separate receipt books for each activity account. “When activity account sponsors collect funds from students, triplicate receipt forms should be prepared. The original (white) receipt should be issued to the student/parent, and the yellow copies of receipts that agree to the individual student payments should be provided to the bookkeeper, who will in turn, verify the cash receipts and issue one (master) receipt for the total cash amount submitted by the activity account sponsor. The receipt issued by the bookkeeper is the source document for posting to the Cash Receipts Ledger”.

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## **CONCLUSION**

To ensure that all funds are being used for the benefit of students and that all monies are fully accounted for, school administrators and their financial team must strictly follow procedures designed to meet District compliance requirements. Good internal controls do not completely eliminate the chance that errors or fraud will occur, but they reduce the risk to an acceptable level. The District has taken actions to assist in the oversight of school funds by having the third-party firm prepare a monthly internal control checklist and discuss any non compliance with procedures with the principal and bookkeeper. However, the principal has the ultimate responsibility for all financial activities in the school, and ensuring compliance with District policies and procedures.

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**RECOMMENDATIONS:**

We recommend that the Principal of Cody Academy of Public Leadership:

- Ensure that transfers between activity accounts are properly documented on an “Activity Account Transfer Request Form”; which should be completed in its entirety.
- Follow established collection procedures for activity accounts to ensure a more efficient process to document cash collected from students.

We recommend that the district’s Cash Management department:

- Ensure month-end financial reports are prepared timely and accurately by the third-party firm to reflect a true financial position of the school.

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



### *Academy of Public Leadership @ Cody High School Campus*

Dear esteemed members of the Office of Inspector General (OIG),

As a dedicated colleague of the Detroit Public Schools, I share your commitment to promoting integrity and credibility to the processes and practices of our district. I appreciate your effort to identify strategies and opportunities to improve our cash management operations, and applaud your efforts in strengthening internal controls. The following statements represent the formal response for the Audit of Cody Academy of Public Leadership for the July 1, 2011 through December 31, 2012 OIG audit report:

#### **OIG Finding #1**

Based on a review of the school's financial records, we observed that inter-fund transfer forms used to document transfer of funds between activity accounts, were not properly completed. For instance, the forms lacked reference numbers, a description of the purpose of the transfer, and approvals of both the disbursing and receiving sponsors of the activity accounts involved. Although transfer of funds between activity accounts does not impact the general ledger and bank account balance, it is important to ensure that all activity account transactions are properly documented and reported.

#### **School Response 1**

Based upon the review of the documents in question, we concede that in a few occasions a portion of the inter-fund transfer form was not thoroughly completed. In each case the portion left incomplete identified Purpose of the transfer and authorizing name and signature of the disbursing sponsor. Additionally though all transactions had proper approval signature by the principal, some lacked the authorizing signature of the receiving sponsor. It is important to note that the accuracy and proper identification of the funding amounts and allocations were consistently accurate. Despite this, we will improve the thoroughness of our completion of the inter-fund transfer forms in the future.

#### **OIG Finding #2**

The audit also identified opportunities for improvement in the cash receipt process. For activity accounts that collect a large volume of cash from students, we noted a need for a more efficient process, which involves the activity sponsors using sub ledger (separate) receipt books to document cash received for activity accounts that have large volumes of transactions. We noted, for example, that regarding the senior class and ROTC activity accounts for the months of September and October 2011, 60 "master" receipts and 80 "master" receipts, totaling \$900 and \$1,200, respectively, were issued to individual students, for receipt of senior class and ROTC dues. Individual student payments should be receipted by the activity sponsor, and provided to the bookkeeper on a regular basis, who will in turn, verify the cash receipts and issue one (master) receipt for the total cash amount submitted by the activity account sponsor.



**School Response 2**

In regards to the identification of potential improvement in the cash receipt process, we are aware of the benefit of the activity sponsor maintaining individual receipt books for collection. However, due to the risk of inaccuracies and potential security issues, we have limited large financial transactions to the bookkeeper. We are currently reviewing our processes and security measures to evaluate the capacity to achieve this recommendation.

**OIG Finding #3**

In our review, we also determined the need for the Cash Management Department to plan and implement procedures to provide for the efficient safeguarding and accountability of general school funds at all times. This was certainly the case for funds collected during the summer months while regular school is in recess. The audit revealed that bank reconciliation services were not available during the summer months to ensure their compliance with district policies and procedures.

**School Response 3**

In regards to the bank reconciliation process during the summer months, the current district resources limit the ability to provide consistent and efficient safeguarding during recess. We share your hopes this issue will be rectified in the near future.

**Conclusion**

On behalf of the staff of Cody Academy of Public Leadership, I formally accept these audit findings as accurate and take each finding under advisement. To ensure that all funds are being used for the benefit of students and that all monies are fully accounted for, I and my financial team will continue to practice procedures designed to meet District compliance requirements to the best of our ability.

Sincerely,

Johnathon Matthews  
Principal  
Cody Academy of Public Leadership