

DETROIT PUBLIC SCHOOLS  
Office of Inspector General



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*Inspector General*

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File number: 2013-FA-0005

## AUDIT REPORT

**TO:** William Aldridge, Chief Financial Officer  
Karen Ridgeway, Superintendent of Academics  
Donya Odom, Principal, Communication Media Arts 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

**FROM:** Odell Bailey, Deputy Inspector General - Audits

**DATE:** April 22, 2013

**SUBJECT:** Communication Media Arts High School – Financial Audit

### **BACKGROUND**

Communication Media Arts (CMA) High School offers students a safe, positive, and caring “small” high school experience that prepare students for higher learning through a rigorous academic program. CMA is a 21<sup>st</sup> century school that utilizes multi-media resources and technology to enhance student achievement. CMA has a 98% graduation rate.

For the current school year, CMA has an enrollment of 511 students. Ms. Donya Odom has served as Principal of the school for 2 ½ years. The bookkeeper during the period of the audit was Ms. Karen Anderson-Rodgers, who retired in November 2012. Ms. Kelley Gee is the current bookkeeper, and has been in this position since January 2013. 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. CMA, 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 \$87,562.84 in its general checking account and paid out \$107,539.43. As of December 31, 2012, the balance in this account was \$211,547.56.

The major sources of funds deposited into the school's account include: fundraising activities, vending commission 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. CMA has 9 activity accounts including the general account. The other accounts are: Athletics, Physical Education, Library, Journalism, Student Council, Senior Dues, National Honor Society, Crystals, and the Skillman Good Schools Grant.

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.

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## EXECUTIVE SUMMARY

We determined that over 40 percent of the 81 disbursements reviewed were unallowable and not in accordance with District procedures. Some of the items purchased included over \$1,300 in professional development for teachers, over \$700 in computer related repairs, \$600 for security services to district employees who should have been paid through the normal payroll process and over \$350 for bottled water in the office area. We also noted that an outside contractor was paid to provide DJ services at school events, which is an allowable expense. The concern is that the payments exceeded \$600 for 2011 and 2012. Under IRS regulations, if an independent contractor is paid \$600 or more in any given year, the contractor's payment should be reported on a 1099-Misc.

The school has a practice of allowing a payee to co-authorize payments to themselves. We found 5 checks totaling over \$1,100 in payments to the principal or assistant principal that was requisitioned by the same employees. The School Financial Procedures Manual specifies that a check requestor (i.e., payee) should not be the same person who authorizes a payment. The school has a third authorized check signer who should have been used in these situations. For example, if a check is due to the principal, then the assistant principal and bookkeeper should authorize the check disbursement.

Our review of fundraising activity at the school revealed only one area of noncompliance related to the principal signing the Profit and Loss statement within 5 days after the activity was completed. Overall, the school followed procedures regarding fundraisers. We did, however, note that fundraising documentation could be improved by

- Establishing a binder/folder for each fundraiser where all required documentation is maintained,
- Providing a better description of the activity on receipt tickets,
- Adding the ticket number to the Profit and Loss Statement when pre-numbered tickets are used, and
- Preparing a checklist of required documentation for fundraisers to ensure that all required steps are met.

These are additional measures that are not required, but should help improve the documentation and compliance of fundraising activities held at the school. By revisiting the procedures for cash disbursements with activity sponsors and the bookkeeper, we believe the principal can address most of the non compliance noted during this audit.

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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 CMA 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 CMA 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**

### **DISBURSEMENTS VIOLATE DISTRICT POLICY AND IRS REGULATIONS**

We noted certain disbursements made by school officials that violated district procedures and IRS regulations for paying independent contractors. Some of the violations noted included unallowable expenditures, payees co-authorizing checks to themselves and a payment to an independent contractor that should have been reported on an Internal Revenue Service 1099 form.

#### **General School Funds Used to Support Unallowable Expenditures**

In our review of cash disbursements for the audit period, we identified 32 of 81, or nearly 40 percent of the disbursements were for expenditures that did not have a direct benefit for students. These disbursements represented approximately 13 percent of the \$35,806 in disbursements reviewed. In addition to the test sample, we reviewed other months not selected in the sample and found additional disbursements for similar unallowable purchases.

These included:

- \$ 1,317.70 in professional development related expenses for staff
- \$ 356.25 for bottled water in the office area
- \$ 770.08 in computer related repairs including rewiring an outlet in the computer room
- \$ 600.00 in security services for student events.

The SFPM specifically requires that general school funds expenditures be directly related to student extracurricular and/or curricular activities, or be spent for the direct benefit of students. Schools are provided Title 1 dollars and budgeted discretionary funds, which typically would be used to cover professional development and office supplies including bottled water and computer related expenditures. When schools purchase or repair computer related items without the involvement of the District's Information Technology Department, there is no assurance that the department can service these items going forward.

Although the use of campus officers and security guards to provide security at student-related events is not prohibited, the issue is that; as district employees, they should be paid through the Office of Payroll. When this does not occur, it bypasses the normal payroll procedures that withhold funds for tax purposes and the District could be in violation of IRS regulations. Even where the security officers are not District employees, they should not be paid directly by the school; but rather, through the community use process.

#### **Payee Authorizes Checks to Self**

We found 5 occasions when the principal or assistant principal authorized checks that were made payable to themselves. In each case, they both signed the checks; however, District procedures prohibit check requestors (i.e., payees) from authorizing checks.

As shown in table 1.1 below, the total amount of these check disbursements was \$1,100.09, but one check made payable to the principal was for \$849.52. In the school’s response to our survey, which preceded the audit, there are three check authorizers mentioned—the principal, assistant principal and the bookkeeper. In these situations, the bookkeeper should have signed in place of the person the check was made payable to, which avoids this situation.

**Table 1.1: Payees and Check Authorizers**

Payee	Amount	Date	Check Number	Check Signers
Donya Odom	\$ 849.52	8/29/2011	10255	Tiffany Cox/Donya Odom
Donya Odom	84.81	9/07/2011	10260	Tiffany Cox/Donya Odom
Tiffany Cox	62.90	9/01/2011	10256	Tiffany Cox/Donya Odom
Tiffany Cox	67.93	3/09/2012	10342	Donya Odom/Tiffany Cox
Donya Odom	\$ 34.93	3/09/2012	10341	Tiffany Cox/Donya Odom
<b>Total:</b>	<b>\$1,100.09</b>			

Going forward, the school should avoid having a payee authorize a check and use an alternate person when this situation arises. District procedures require that two authorized signatures be on each check disbursing school funds. Each school is also required to have between 2-4 check authorizers. If necessary, the school could add another person as a check authorizer. Currently, they have three authorized signers.

**Violation of IRS Regulation**

We noted four occasions when the school hired and paid someone to perform Disc Jockey (DJ) services for student events during the audit period. Further review determined that the payee (who is not an employee) for the first three events was also the payee for the September 17, 2012 check for \$1,000. IRS regulations require that companies and government organizations that pay independent contractors must file a 1099-Misc if the annual amount paid is \$600 or more.

**Table 1.2: Amounts Paid for DJ Services 2011-2012**

Date	Payee	Amount
10/11/2011	Marwan Faulkner	120.00
10/18/2011	Marwan Faulkner	500.00
1/17/2012	Marwan Faulkner	125.00
9/17/2012	G. Fam Promotions	1,000.00

Since the annual amount for 2011 and 2012 exceeded \$600.00, disbursements to this payee should have been reported to the District’s accounts payable office, to ensure that a 1099-Misc form is prepared and reported for this individual.

In addition, when schools contract for services even when a formal contract is not prepared, it can expose the District to certain liability risks. To this extent, having the Procurement and Logistics Department review any terms of the agreement prior to executing the agreement would be a recommended practice, particularly when the amounts are several hundred dollars.

### **Additional Measures Will Improve Fundraiser Accountability**

Our review of fundraising activities at CMA found that for the 11 fundraisers reviewed, we noted only 1 area of non compliance related to obtaining the principal's signature on the profit and loss statement within 5 days after the activity was completed. Overall, the school is doing a good job complying with procedures for fundraisers. However, we observed that additional measures could be implemented to improve the documentation and accountability over fundraising activities. These include:

- Establishing a binder/folder for each fundraiser where all required documentation is maintained,
- Providing a better description of the activity on receipt tickets,
- Adding the ticket number to the Profit and Loss Statement when pre-numbered tickets are used
- Preparing a checklist of required documentation for fundraisers to ensure that all required steps are met.

Implementing these suggestions will help to ensure that fundraiser activity is properly documented in accordance with district procedures and documentation is readily available for verification. Collectively, implementing these suggestions will improve accountability over fundraising activities at the school.

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## **CONCLUSION**

Most of the disbursements using school funds were for items and services that directly benefited CMA's student body. In some cases, however, we noted disbursements for items that appear to be more for staff member benefit than for the direct benefit of students. These include bottled water for the office area, professional development for teachers, teacher's website services and computer related repairs. Also, the practice of co-authorizing checks that are made payable to one of the individuals signing the check is not permissible. It can create an appearance of conflict and should be avoided. When schools employ contractors for services, this should be done with the input and consultation of the Procurement and Logistics (P&L) Department. This way, any requirement for payments can be determined and addressed in the agreement. Even when no formal contract is prepared, we believe it is in the best interest of the District for the school to obtain input from the P&L Department.

In our opinion, the noncompliance identified in this audit of CMA school funds is primarily attributable to certain school practices that have, over time, superseded district procedures. However, when non compliance is not addressed and allowed to continue it can create an environment that can lead to abusive practices.

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**RECOMMENDATIONS:**

We recommend that the Principal of CMA ensure that:

- District procedures for disbursements are revisited with the bookkeeper and activity sponsors to ensure that school funds are only used for items and services that directly benefit students,
- Employees who provide security services are paid through the proper district process,
- Check payees are not co-authorizing payments to themselves. By using the third authorized check signer, this can be avoided,
- Payments to contractors who provide services to the school are reported to Accounts Payable to ensure IRS regulations related to payment to contractors are not being violated, and
- Department of Procurement and Logistics is consulted prior to entering into any agreement with outside contractors.

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




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## AUDITEE COMMENTS

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To: The Office of the Inspector General  
From: Donya Odom, Principal of Communication and Media Arts High School   
Subject: Response to High School Audit Findings  
Date: April 10, 2013

### Executive Summary Responses, Pg. 3

1. The Binder that was suggested was not required by the District however, it has been created and is currently in use for the purpose of maintaining Fundraising Records.
2. All receipts for activities include a detailed explanation describing what activity the tickets are for and all tickets with preprinted ticket numbers.
3. This is a correction for the district to include a space on the profit and loss statements for ticket number ranges.

### AUDIT FINDINGS RESPONSES / RECOMMENDATIONS

1. Disagree: The \$770.08 in computer related repairs/ wiring of outlet in computer lab, referred to as unallowable and not for direct student benefit. The District, at the time of the purchase of 10 Battery Packs for the Mac/Apple laptops, did not have a contract with Mac/Apple Computer Company. The laptops were purchased by the District some years ago before my tenure as principal. *These funds were used to maintain district equipment for student use. Without a contract, there was no way to use district funds to maintain student use of the laptops.*  
The Electrical line in the Mac/Apple Lab is required to run a lab and the air conditioning unit is required during the hot months. The district would not install the required line to support the 40 computers and the Air Conditioner unit. The lab would not be used if the line was not installed which would provide a great disservice to the students at CMA.

2. Agree: The Absopure bottle water unit in the main office does not directly benefit students. That account contract was cancelled effective April 12, 2013.
3. Agree/ with explanation: CMA will adhere to the district's established procedures regarding security services and report approved security services to accounts payable to ensure all IRS regulations are met.
4. Disagree: All Professional Development Services directly benefit students' learning and achievement. All of the supporting documents were provided to the auditors. The monthly reconciliation meeting with HMD approved of the use of these funds. Also under Title I, these expenses were allowed. Yes, Title 1 funds should be used, but only if the school has it available; which CMA does not. CMA's Title 1 resources are allocated to staff 3 positions at 103,000.00 each. We are not a school wide Title 1 school; therefore we don't have the resources within our budget to develop our teachers to ensure the success of our students. However, we do have the funds in our school's bank account.
5. Agree: A third party signer must sign all checks that are reimbursed to the requestor and/or approver in the event they are the Principal and the Assistant Principal. This process is already in place and evidence will show that, Mrs. Gee the bookkeeper is the third approved signer for check requests. Payees are not signers. This process was established through First Independence Bank. The bookkeeper and administrators have reviewed the district's policies regarding disbursements / reimbursements.
6. Agree: All contracts/agreements must receive approval from Department of Procurement and Logistics. There was not any finding in the audit that states we entered into a contract without approval. However it is my understanding that the school will consult with Procurement and Logistics for approval when entering agreements.

Please note there was not any evidence presented that would support the professional development expenses being used benefits teachers and not the students. Our school's web site is used to communicate with parents and students regarding instruction and academic expectation. Please visit our website at [CMAhigh.com](http://CMAhigh.com) and click on any staff member.