

DETROIT PUBLIC SCHOOLS
Office of Inspector General



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Inspector General

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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Nina Hicks, Principal, Davis Aerospace 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: Davis Aerospace Technical High School – Financial Audit

BACKGROUND

Davis Aerospace Technical High School (Davis Aerospace) offers a one-of-a-kind learning experience, serving approximately 200 students in grades 9 through 12. Its students are engaged in a technical college preparatory curriculum for careers in aviation, aerospace, science, technology, engineering and mathematics. The only program of its type in the State of Michigan, the students learn to maintain and fly Cessna aircrafts and can earn their private pilot license prior to graduation.

Ms. Nina Hicks has served as Principal of the school since September 2006. Ms. Hicks also fulfills the role of school bookkeeper / school treasurer. Each month, a third party firm, contracted through the Division of Finance - Cash Management (Office of Accounting), prepares the monthly financial reports and bank reconciliations. They also prepare an internal control checklist and conduct interviews with the principal, designed to identify any financial irregularities, and bring these to the attention of both the principal and the Cash Management department, which provides oversight of the school's cash management process.

Each year, as part of the annual budget process, principals receive discretionary funds to operate their schools. These funds are held on deposit at the district level. In addition, Davis Aerospace, 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 \$41,839.21 in its general checking account and paid out \$60,631.58. As of December 31 2012, the balance in this account was \$108,839.06.

The major sources of funds deposited into the school's account include: fundraising activities and fees received from students for class trips, proms, yearbooks 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. Davis Aerospace has 12 activity accounts including the general account. These accounts are: Athletic Administration, JROTC, Aircraft, Journalism, General, Student Council, Senior Class, Robotics, National Honor Society, Chess club, Flight training, and Guidance and Counseling.

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

The financial records prepared by school officials substantiate that all amounts submitted were recorded on pre-numbered duplicate receipt forms and all disbursements were made by school check, based on supporting documentation and formal approval by the Principal. However, we noted the following areas of non-compliance related to cash receipts and disbursements: unallowable or inappropriate expenditures totaling over \$5,000, which should have been funded with district- provided discretionary funds, rather than general school funds from the school's account. Furthermore, in some instances, we found a lack of documentation to support approvals for fundraising activities by the Principal and/or Assistant Superintendent, as well as documentation to support fundraiser proceeds and disbursement transactions. Additionally, funds totaling \$335 could not be accounted for; while other funds totaling \$4,249 were deposited into the school account without record of receipt.

A review of school records also revealed untimely preparation, review and approval of monthly financial statements. Similarly, we noted a lack of timeliness in depositing funds collected during the summer months. As result of these internal control deficiencies, the risk of misappropriation or loss of general school funds increases.

In addition, the school practice of entering into service agreements with vendors who provided services that included: venues for prom and homecoming, professional photography and printing of the yearbooks, as well as orders for senior cap and gowns violates district policy. These services totaled \$12,671 for the audit period. Although the expenditures were allowable, entering into contracts that are not approved by the district's Office of Procurement and Logistics poses a liability risk to the district. Furthermore, because these purchases were not required to be competitively bid--there is no assurance that the school received the best price for the services rendered.

We also noted that the school has no bookkeeper, and that the Principal handles all the bookkeeping responsibilities. Segregation of duties is one of the most important internal controls to limit conflicting responsibilities. Its fundamental premise is that an individual should not be in a position to initiate, approve, undertake, and review the same action. Specifically, the School Financial Policies and Procedures (SFPM) manual provides guidance on the functional responsibilities of the principal, as separate from a school treasurer/bookkeeper. Keeping these two functions separate provides a system of checks and balances of all financial activity that occurs at the school.

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.

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 Davis Aerospace 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 Davis Aerospace 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 Used In Lieu of District Discretionary Funds

Cash Management's policies and procedures require that general school funds be spent for the direct benefit of students only, or on expenditures that are directly related to student extracurricular and/or co-curricular activities. Moreover, such funds may not be used to pay for basic routine operating or maintenance expenses incurred by the school, which typically would be paid for with the school's discretionary funds.

For the audit period July 1, 2011 through December 31, 2012, unallowable or inappropriate expenditures totaling over \$5,000 were paid from the Davis Aerospace checking account.

Of this amount, the school spent:

- \$1,705 for postage meter rental fees,
- \$2,828 for other equipment maintenance, school accreditation fees and domain name web-hosting fees.
- \$275 for cleaning supplies on main office furniture and
- \$419 on garage door repairs.

These goods and services should have been paid for with the school's budgeted funds in accordance with the policies and procedures issued by the Office of Procurement and Logistics. The School Financial Procedures Manual (SFPM) only requires schools to expend general school funds on "general office and school supplies that require funds in excess of the amount provided in the Board of Education budget."

Service Agreements Entered By School Officials

Payments totaling \$12,671 were also made to vendors performing services related to contractual agreements. Included in this amount were payments for photography, prom and homecoming event venues, senior cap and gowns and yearbook printing costs. The school did not contact the Office of Procurement and Logistics for guidance related to these contracts, nor did they report payment information to the Accounts Payable department in order to facilitate preparation of a form 1099 for Internal Revenue tax reporting purposes, when applicable.

Emergency Financial Manager Order 2010-28 states, "Only Detroit Public Schools employees can enter into agreements to acquire goods and services consistent with approved contracting and procurement policies and procedures. Applicable policies and procedures include execution of (1) a District contract and/or purchase order through the Office of Procurement and Logistics or (2) an authorized P-Card transaction. In addition, nominal and incidental expenditures can be made from authorized school (or department) based checking accounts." In regards to this provision, the SFPM stipulates that "...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. All (financial) contracts must be entered into with the Board of Education serving as the legal entity."

Failure to Follow Procedures Resulted In Lost Funds

The principal's failure to follow the department of Cash Management's Year End Closing procedures created the opportunity for funds to be lost or stolen. District procedures related to end of the fiscal year (i.e., June 30th) clearly state:

All available funds held at the school should be receipted and deposited. It is important to ensure that no funds are left in the safe or elsewhere in the school, or held as "deposits in transit" during the summer months when there's no activity at the school

Funds totaling \$335 were recorded as a June 2011 deposit-in-transit, but could not be traced to a bank deposit in subsequent months. We noted that in an adjustment was made to the October 2011 bank reconciliation in the school's records to reflect these funds as "lost". However, this did not occur until January, 2012 when the third-party firm's contract was renewed. We also did not see any evidence that the school prepared a Theft Report for the "missing" funds, but the principal stated she was not aware the funds were missing until the reconciliation for June was prepared several months later.

Given that the school does not have a bookkeeper and the volume of cash transactions are fairly large, we believe the District bears some of the responsibility for the missing funds. First, the principal has on numerous occasions requested that a bookkeeper be assigned but no actions have been taken to date on this matter. Second, Cash Management should have been aware that the school failed to follow end of the year procedures as there were no deposits made for June.

Notwithstanding this, the principal has the ultimate responsibility for collecting and safeguarding all general school funds and she failed to follow procedures. According to the principal's survey response prior to the audit, she has not been trained on Cash Management procedures since 2005. This could imply that she was unaware of the end of the year requirement. However, our records of participants at the 2011 Cash Management training sessions indicates that she received training twice in 2011. Yet, regardless of whether or not she received training in the last couple of years, she did not adequately safeguard the funds as required by the SFPM, which states,

"All cash on hand must be locked in a safe or a secured restricted area prior to deposit. ...failure to abide with proper safeguarding procedures can result in mishandling or loss of school funds, reduced accountability; potentially placing the school on financial supervision and disciplinary action for individuals."

Lack of Segregation of Duties

The principal currently serves as the school's bookkeeper, but has made several requests to the Cash management department to have a bookkeeper assigned. One individual should not have sole authority for collection, receipt and custody of funds without any checks and balances. The SFPM also provides guidance on the role of a school treasurer/bookkeeper, as separate from that of the school authority (principal).

During our review, we noted that the principal also handled all incoming general school funds, undertaking the bookkeeping duties of cash receipt and documentation. Although the SFPM states; "The ultimate responsibility for all financial activities is vested in the school principal", best practices dictate that school principals delegate the responsibility for the receipt, deposit, and disbursement of school funds, to another individual in the school; in order to ensure proper segregation of duties. Although the principal does not have an assigned bookkeeper, she indicated in her survey response prior to the audit that she had a clerical staff who participates in the financial record-keeping for the school. Until such time a bookkeeper is assigned, this individual could provide the necessary checks and balances required to ensure cash procedures are met, which will enhance the effectiveness of the school's internal controls.

Poor Cash Receipt Practices

The SFPM requires that funds deposited agree to receipt and deposit records. Accuracy is very important to ensure that receipt forms document the exact amount of cash (currency, checks and/or money orders) received for deposit. School personnel responsible for the receipt of school funds should prepare pre-numbered triplicate receipt forms, or Form AC-1 (Report of Cash Deposit) to record and post the receipt transactions to school ledgers. The receipt must indicate the name of the person who remitted the funds along with the amount, date of receipt, and the purpose for which the funds were collected. The school treasurer/bookkeeper is also required to prepare a bank deposit slip, which must equal the amount recorded on the receipt(s).

During our review, we noted certain deficiencies regarding cash receipts. For example: Funds totaling \$4,249 were deposited into the school account without any record of receipt. Included in this amount was \$87 received from the district's finance office. The remaining \$4,162 represented checks received that were not recorded on receipt forms, as well as receipts not recorded at the full amounts received from the remitter. The principal stated she only provided receipts for cash and was unaware that she had to prepare receipts for checks received.

In some instances, school personnel did not always issue change when funds were collected from students and parents. For example, if a student remitted \$50 to make a \$46 payment, the school did not provide change of \$4 back to the student. Even though a receipt would be prepared for \$46, in actuality, \$50 was deposited. 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.

Furthermore, we noted that the school did not use separate receipt books to document cash received for activity accounts that have large volumes of transactions like the senior class.

For example, for the month of November 2011, 110 “master” receipts totaling \$4,240, were issued to individual students to record senior dues and homecoming payments. 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”.

In other instances, we found cash receipt forms that were incomplete; missing key information such as the date, types of funds, and activity account. These forms also lacked adequate supporting documentation. Additionally, some receipt forms were not properly voided on all three copies. The SFPM requires that receipt forms be accurately completed, and supporting documentation be properly maintained. Procedures require that if it is necessary to make a correction to a receipt, the bookkeeper should void that receipt by writing “VOID” across the face of the receipt and issue a new receipt. The original of the voided receipt (white) along with both the yellow and pink copies should be maintained intact in the receipt book.

Untimely deposits and Bank reconciliations

We observed the following internal control deficiencies regarding cash deposit and reconciliation procedures:

- Three (3) instances; July and October 2011, and August 2012, where the monthly bank reconciliations were not completed, or reviewed, within 15 days after month end.
- Five (5) instances; July, August and September 2011, and July and August 2012 where receipts totaling \$4,487.89 were collected during the summer months, but not deposited until after regular school resumed in the fall.

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. Untimely deposits also increase the risk of theft and delays the availability of funds received.

School procedures require the reconciled bank statements, bank reconciliation, cash receipt, cash disbursement, and/or general ledger be submitted to the department of Cash Management by the 15th of the following month. Additionally, all deposits must be made in a timely manner. The District’s school deposits are handled by the armored car service. The District does not authorize any individual to take deposits directly to the bank. The principal acknowledged our findings, but explained that the services offered by both the accounting firm and armored car service for deposit pick-ups, were not made available to schools during the summer months; and that this is a Cash Management issue.

Fundraiser Activities Deficiencies

During our review of expenditures and receipts, we noted items purchased and proceeds deposited related to fundraising activities. However, we identified some deficiencies related to these activities. For example, 83 percent, or 5 of 6 fundraising activities tested were not approved by the principal. Additionally, none of them were approved by the Assistant Superintendent, as required. Furthermore, the Profit and Loss Statements that were maintained did not accurately reflect the transactions related to the fundraiser. In some instances, we were unable to trace proceeds and disbursements to school financial records. The absence of fundraiser approval and accuracy in completion of profit and loss statements prevents the Principal from monitoring the existence and profitability of activities conducted by groups in the school.

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.

We also noted one instance whereby a bake sale fundraiser activity was held to benefit a shelter for the homeless. Even though the principal approved this event, we find that it was a violation of fundraiser policy. The SFPM states; “ Fundraising activities should be for the benefit of the school, or a particular group of students within the school.”

CONCLUSION

Schools are authorized to maintain checking and savings accounts to manage general school funds consisting of the activity accounts in the school that have been funded through various student activities and donations to the school. These funds are only to be spent for the educational benefit of students. Each Principal is responsible for protecting the interest of their students and upholding the public trust vested in this position. This includes ensuring that school funds intended for the benefit of students are closely monitored and used only for that purpose. To accomplish this, school administrators must adhere to District policies and procedures designed to accomplish this objective.

The School Financial Procedures Manual (SFPM) is provided as the primary guidance for all school personnel responsible for checking accounts in the performance of their financial duties. Since the SFPM is in no way exhaustive of all the district’s financial policies and procedures, it is also imperative that Principals work closely with the department of Cash Management and Office of Procurement and Logistics for guidance related to purchases of goods and services. Going forward, the Principal should (1) assign someone to the bookkeeping duties, (2) refer to the SFPM and other applicable District policies to ensure purchases, disbursements and fundraising activities are conducted in compliance with these district policies and procedures.

RECOMMENDATIONS

We recommend that the Principal of Davis Aerospace High School:

- Use discretionary funds to pay for routine operating and maintenance expenses, to the extent such funds are available.
- Consult the Office of Procurement and Logistics before entering contractual service agreements.
- Designate an employee to serve as bookkeeper and work with the Cash Management department to ensure that person is trained on cash management procedures.
- Ensure that receipts for cash and checks received are prepared and documented. Also, all incoming funds should be recorded for the exact amount received.
- Ensure expenditures from the account are in compliance with district policies and procedures, including applicable Emergency Financial Manager Orders.
- Ensure compliance with fundraising requirements for proper approval before fundraisers are held. Also, that Profit and Loss statements are timely and adequately supported, and that proceeds are used for the benefit of the students only.

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

- Ensure procedures are followed especially at year end to secure and deposit general school funds in a timely manner, and furthermore, that month-end financial reports be prepared timely and accurately to reflect a true financial position of the school.

Our review was performed in accordance with U.S. General Accounting 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

MEMORANDUM

TO: Wilbert V. Marsh, Inspector General

FROM: Nina Graves-Hicks, Principal

DATE: April 16, 2013

SUBJECT: Audit Report dated: April 8, 2013

This memorandum is being written in response to the aforementioned Financial Audit of Davis Aerospace Technical High School.

Davis Aerospace Technical High School and its school personnel work diligently to adhere to all district financial protocols and procedures to ensure that any funds collected and disbursed are done so properly and the funds are safeguarded and used as intended.

AUDIT FINDINGS:

General School funds Used in Lieu of District Discretionary Funds:

DISAGREE that these funds were not expended for the benefit of students. **As indicated in the SFPM “Nominal and incidental expenditures can be made from authorized school based checking accounts.”** Furthermore, the Office of Procurement takes an *extremely long time* to process simple requisition requests which constantly impedes the ability of school’s to provide the services and resources to students.

Service Agreements Entered By School Officials:

AGREE that the proper protocol was not adhered WITH mitigating circumstances.

The vendors that Davis Aerospace works with have capped their prices for the past six years because of our school’s good working relationship and reputation. Many of the “popular” vendors/venues are too expensive and unwilling to work with our school given the limited budget we have for these activities. These vendors/venues work with Davis Aerospace because we pay on time versus having funds pending through contracting and procurement.

Failure to Follow Procedures Resulted in Lost Funds:

DISAGREE that there was failure to secure and safeguard funds during summer months

All appropriate precautions are taken to secure and safeguard all funds received by the school. I have not failed to follow procedures as this portion of the audit section implies. It is unreasonable and unrealistic to expect that the Principal of a high school also serve as the bookkeeper in addition to the voluminous number of other operational and instructional responsibilities that must be accomplished daily. Two half day, hurried sessions should not be considered “proper training” given the level of accountability for this job. Additionally, I repeatedly asked for assistance from both Geraldine Mann and Bernadette Kakooza to no avail (See attached emails dated 12/1/11 and 12/12/11). All funds were secured in the school’s vault, inside the safe. The district should provide Armored Car service so that deposits can continue during summer months.

Lack of Segregation of Duties:

DISAGREE as this may be unavoidable until a properly trained Bookkeeper is assigned.

Request: Please assign a trained and bonded bookkeeper for Davis Aerospace High School.

It is difficult to separate duties in a small school. The personnel options are limited for individuals who are *willing* to assume and *assist* in handling district/school funds. It should be duly noted, that if clerical personnel or any other staff member is unwilling to assume the duty, the principal has to assume the responsibility, especially in a small school.

Poor Cash Receipt Practices:

AGREE with mitigating circumstances. Funds deposited agree to receipt and deposit records. "Funds totaling \$4,249 *were deposited* without any record of receipt." There was no mismanagement of funds. **There was no shortage and all funds received were deposited, even those where a receipt was not written.** **Request:** Please assign a properly trained bookkeeper to remove the responsibility from the Principals duty/assignments.

Untimely deposits and Bank Reconciliations:

DISAGREE. This is a Cash Management issue not Principal/School issue. The district does not have armored car pick up during the summer months.

I **disagree** that the onus of this finding is on the Principal.

Fundraiser Activities Deficiencies:

DISAGREE. The audit narrative is misleading to say 83 percent were not approved. It should indicate only 5 out of an entire year. Five did not have Asst. Superintendent approval because he resigned from Detroit Public Schools. All subsequent forms were approved.

Below are requests for assistance prior to assignment of a third-party vendor.

The screenshot shows an email interface with a header and a main body. The header includes the sender "nina.hicks" and the recipient "Geri Mann". The subject is "HELP CANT RECONCILE-DAVIS AEROSPACE". The main body contains the text of the email, which discusses reconciliation problems for October and provides contact information for Nina Hicks, Principal of Davis Aerospace Technical High School.

From: "nina.hicks" <nina.hicks@detroitk12.org>
To: "Geraldine Mann" <geraldine.mann@detroitk12.org>; "Bernadette Kakooza" <bernadette.kakooza@detroitk12.org>
Re: **HELP CANT RECONCILE-DAVIS AEROSPACE** December 12, 2011 8:48 AM
From: "nina.hicks" <nina.hicks@detroitk12.org>
To: "Geri Mann" <geraldine.mann@detroitk12.org>
Subject: Fwd: HELP CANT RECONCILE-DAVIS AEROSPACE

Gerri
Just checking to see if you or Bernadette could make heads or tails of my monthly financials. I am at a stand still for completing the remaining months. Will there be another work session?

From: "Geri Mann" <geraldine.mann@detroitk12.org>
To: "Nina Hicks" <nina.hicks@detroitk12.org>
Sent: Monday, December 5, 2011 9:29:01 AM
Subject: Fwd: HELP CANT RECONCILE-DAVIS AEROSPACE

Im still working on it. I forgot to print one of the documents.

Gerri Mann
Principal Accountant
Office of Accounting
Fisher Bldg
313-873-4241 (phone)
313-873-3718 (fax)(private fax)

Hello Ladies

I tried!!!! I have not been able to reconcile for October. I'm still a little confused from the training obviously. Can you help? I have attached the documents that I have been able to complete (properly I hope).

You may reach me at 313-347-7500 (hotline) or 313.310-2066 (cell)

--
Nina Hicks
Principal
Davis Aerospace Technical High School
(313) 866-5401
(313) 866-5408
nina.hicks@detroitk12.org
www.davisaerospace.org

Note:

The response to this report was limited to two pages as a directive from the Office of the Inspector General. A more comprehensive and narrative response is available upon request.