



DETROIT PUBLIC SCHOOLS

Office of Inspector General

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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Natasha Baker, Chief Innovation Officer
Ricardo Martin, Principal, Detroit Collegiate Preparatory Academy High School

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Delores Brown, Deputy CFO and Chief Accounting Officer
Lawanda Taylor, Director, Cash Management department

THRU: Wilbert V. Marsh, Inspector General

FROM: Odell Bailey, Deputy Inspector General - Audits

DATE: April 22, 2013

SUBJECT: Detroit Collegiate Preparatory Academy High School – Financial Audit

BACKGROUND

Detroit Collegiate Preparatory Academy High School (DC Prep) offers Detroit students a college-going learning experience to prepare them for academics and careers. The high school provides a college preparatory curriculum allowing students to explore college courses and visit college campuses, participate in Upward Bound Detroit, work at internships, engage in community service and academy based projects. Nearly \$10 million in renovations were completed in 2012 and classes began in September.

Detroit College Prep is located inside Northwestern High School, serving approximately 117 students in grade levels 9 and 10. Mr. Ricardo Martin is the principal, and Ms. Cheryl Chapman is the school bookkeeper. 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. DC Prep 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 \$10,389.52 in its general checking account and paid out \$4,354.21. As of December 31, 2012, the balance in this account was \$6,036.31.

The major sources of funds deposited into the school's account include: fundraising activities and fees received from students such as senior dues.

School personnel are required to ensure accountability, fiscal integrity and proper accounting procedures for the receipt, deposit, disbursement, and recording of funds. However, the principal has the ultimate responsibility for all financial activities at the school. The District's School Financial Procedures Manual (SFPM) and the School Financial Administrative Manual provide 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 school did not consistently document cash receipts in accordance with District procedures and collected funds were not deposited in a timely manner. We found that the remitter names were not always captured on the cash receipt form prepared by the bookkeeper. In addition, when an error is made in preparing a cash receipt, the procedures require that the bookkeeper void the receipt on the face of the original receipt and keep all 3 copies of the receipt intact in the receipt booklet. For one receipt prepared for over \$1,700, the original voided copy of the receipt was not maintained in the master receipt booklet as required. This could indicate that funds were collected and receipted, but never deposited.

The school failed to have funds deposited in a timely manner when considering the scheduled armor car pick up service. That is, of the 30 receipts tested for timely deposit, 24 were not. Further review determined that 20 of these 24 receipts were deposited 27 days after their scheduled pickup date. When the armor car service arrives at the school, the District has to pay \$75, whether or not a deposit bag is picked up or not. School officials should ensure that deposit bags are prepared the night before the scheduled pick-up as required by district procedures.

To facilitate the safekeeping of funds, the Cash Management Department should assist the school in finding a safe from a closed school or one in the warehouse. Currently, school funds are being maintained in a drawer, which violates cash handling and security procedures. Until such time, the department should provide guidance on adequate safekeeping of school funds.

The audit also identified minor violations regarding expenditure of funds. Specifically, nearly \$80 was spent to purchase pizza for a Parent Appreciation Event in September 2011 and a pancake breakfast with parents in November 2011 that was paid for with general school funds in the amount of \$70.85. While both activities represent an effort by the school to engage parents, they are prohibited expenses. Most schools have grant funding available for such expenditures or they can use discretionary budgeted funds to pay for these activities. We also found that sales taxes were erroneously paid on four occasions totaling \$471. This resulted in the school paying over \$20 in sales taxes that were not required.

We acknowledge that the school had just opened its door for students in September 2011 and the principal had not attended the District's financial training for principals and bookkeepers. The principal should consider obtaining the necessary cash management training. Doing so should help the school be compliant with cash management and other procedures of handling school funds.

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 Detroit Collegiate Preparatory Academy High School's cash receipts and disbursements for the period July 1, 2012 (School opened in September 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 policies, SFPM and SAFM, to assess the extent to which Detroit Collegiate Prep Academy 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

Bank Deposit Timeliness

We tested the timeliness of bank deposits by comparing the receipt date to the deposit ticket date. Of the 30 receipts tested, 24 or 80 percent were not deposited timely. For 7 of the 30 receipts, it took over 60 days from the date the receipt was prepared to the date they were deposited. District procedures require that receipts be deposited as soon after collection as possible. Twenty of the receipts were prepared between August 2, 2012 and September 17, 2012. Each one of these receipts was deposited on October 16, 2012. However, the first available armor car pickup after these dates was September 19, 2012. As such, the 20 receipts were deposited 27 days after the available scheduled pickup date of September 19, 2012. The next available armor car pickup after this date was October 3, 2012. This means that the armor car service visited the school two times without picking up these receipts. Each time the service comes to a school, the District has to pay \$75 whether or not a deposit bag is picked up or not.

District procedures require that deposit bags are prepared the night before a scheduled pickup. If for any reason, it is determined that a deposit bag will not be ready for pick up, the school bookkeeper is to notify the armor car service at least 24 hours in advance, to avoid the expense. The procedures also require that the principal ensure that staff members are available to facilitate the pickup of funds by the armor car service.

We also noted that DC Prep has a different armor car service schedule than Northwestern High School. The two schools are located in the same building. If the armor car schedule was modified to pick up receipts from both schools on the same day, it would save the District money. (Update: 4/12/13 – *As part of the District's Strategic Plan, the 2 schools will be merged effective SY2014; therefore, this specific issue is no longer a concern*)

Cash Receipt Preparation

The audit found that cash receipts are not always documented in accordance with District procedures. Specifically, we noted receipts did not consistently capture the name of the person submitting the funds for deposit. This limits the ability to verify transactions in the event of a dispute. In addition, there was no support provided for funds received from students and staff. When funds are collected from students, the remittance should be supported by individual receipts from the sub ledger or activity receipt booklet or a transmittal letter that shows the date, name of student, and amount collected. When such documentation is not obtained, this can result in cash receipts that are not properly supported and can limit the ability to verify such transactions.

District procedures are designed to ensure accountability over funds while providing full transparency on where the funds come from, how they will be spent and when they were spent.

We also noted that a receipt dated January 10, 2012 was voided, but the original copy of the receipt was not maintained as required. When the original copy of a voided receipt is not maintained in school files, it could indicate that the money was received and the recipient was provided with a copy of the receipt, but the funds were never deposited.

Safe Needed to Protect Funds

Detroit Collegiate Prep does not currently have a safe to ensure the protection of donated and collected school funds. In accordance with District Procedures, funds should never be held in the bookstore or left unsecured overnight. Schools should ensure that all funds are stored in a tamper evident bag and locked in a safe or stored in a restricted area prior to pick up. We were informed that because the school was recently opened within Northwestern High School, there was no safe when the principal arrived at the school. However, the principal has requested that one be provided on several occasions. At the present time, the funds are held in a desk drawer. This poses a greater risk of theft.

The Cash Management Department should secure a safe from a closing school or the District's ware house to ensure that school funds are properly safeguarded. In the interim, the principal and bookkeeper have to take the necessary precautions to ensure the funds are adequately safeguarded.

Unallowable Cash Disbursement

In September 2011, when the school first opened to accept students, we noted an expense for \$79.50 to a local pizzeria for a parent appreciation night. The principal also held a pancake breakfast for parents in November 2011 that was paid for with general school funds in the amount of \$70.50. School financial procedures disallow food expenditures for staff or members of the public including parents. Most schools receive some Title 1 funding that is intended to be used for parent groups for such purposes or principals can use budgeted discretionary funds for such purchases. We recognize that the importance of engaging parents in their students school activities, but school funds cannot be used for this purpose. We further noted that at the time of the expense, the principal had not received the District's financial training where these guidelines are reviewed and discussed.

Sales Tax Paid

The District is exempt from paying sales taxes and no purchase with school funds should be charged sales taxes, but the onus is on the purchaser to inform the store merchant of this status and provide the required tax exemption form. A total of \$471.50 with sales tax was paid on four purchases in September and October 2011. The amount of sales tax that was erroneously paid was \$23.55. While the amount is not significant, it represents costs that should not have been incurred and reduces the amount of funds available for their intended purpose.

CONCLUSION

The importance of following district procedures for cash collections is critical to the effective operation of internal controls in place to ensure accountability. When cash receipts are not properly completed or voided and procedures are not followed, it reduces the accountability over the funds and raises concern about the integrity of the oversight for funds being provided by the school. Moreover, school personnel may not have been aware of the restrictions on using school funds to purchase food for parents or that school purchases are not assessed sales tax due to the District's exempt tax status. However, it is the responsibility of the principal to ensure that

procedures are complied with in the handling of school funds. At the same time, the timely deposit of school funds is the most effective procedure for ensuring funds are properly safeguarded. The delays in depositing funds for this school are attributable to a lack of armor car service which did not start until November 2011, the District's failure to renew the contract for the third-party firm in a timely manner for School Years 2010-2011 and 2011-2012, and the school's failure to have deposit bags prepared for pick-up. Ultimately, untimely deposits increase the risk that funds can be lost or stolen. This is particularly true for Detroit Collegiate Prep which does not currently have a safe to store the funds until deposit is made. Untimely deposits also limit the availability of funds for their intended purpose.

Concerning improper disbursements and paying sales taxes on purchases made with school funds, we hope this report serves as a reminder and assists in enforcing compliance with district procedures.

RECOMMENDATIONS:

We recommend that the Principal of Detroit Collegiate Preparatory Academy:

- Request financial training where cash collection and disbursement procedures are covered to ensure you and other members of your team are knowledgeable of and adhere to district procedures for cash handling as set forth in the District's School Financial Procedures Manual (SFPM),
- Ensures that bank deposits are prepared the night before scheduled pick up as required by the SFPM to ensure timely deposits,
- Ensure that amounts on the cash receipt ledger that are available for deposit are in fact deposited unless they are collected after the scheduled pick up in which case they would be a deposit in transit.

We recommend that the District's department of Cash Management:

- Work with the Auxiliary and Operations Division to identify a safe that can be provided to the school for the safekeeping of school funds.

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 COLLEGIATE PREPARATORY HIGH SCHOOL

Audit Finding: Bank Deposit Timeliness

Response

During the periods listed above, clerical IV Cheryl Chapman was on leave late August 2012 to October 2013. I did not want a temporary clerical to handle this. I agree with the findings.

Ms. Chapman is aware and she agrees that her leave late August to October, which included her use of sick days, caused the receipts not to get deposited on time. We have no problem with that. Ms. Chapman's situation came before the DPS human resources department. She was nearly terminated. As a principal, I cannot operate the school without a highly trained clerical. Consequently no clerical was available to prepare pick-up bags and/or receipts throughout this period of time. In addition, it is important to know that the first couple of times we were not listed for pick up. The dates did change. So the district should not receive a bill where there is no pick-up or reschedules take place on the armor car's part. Clarity around payment on pick-ups is needed if reschedules or cancellations occur. Overall, we will do a better job of communicating.

Audit Finding: Cash Receipt Preparation

Response

Ms. Chapman acknowledges the fact that she did not consistently write some names of the person submitting the funds for deposit on a consistent basis. I have spoken with her about this and she acknowledges that this procedure will be followed in the future for funds collected from individual students and staff. Moving forward she will write names on the receipts and the remittance will be supported by individual receipts from the sub ledger or activity receipt booklet or a transmittal letter that shows the date, name of student and amount collected to verify the authenticity of transactions. At all times we will document. Our apologies for any misunderstanding around this area.

Audit Finding: Safe Needed to Protect Funds

Response

As stated above, we did not nor do we currently have a secure school safe for here. If the Cash Management Department could deliver a safe to us, funds can be protected. Or if the safe I had brought over from the closed school could be repaired, that could save some funding. The plan for next school year is to budget for the repair to fix and reset the combination on a safe that was acquired from the closed schools warehouse. We are extremely uncomfortable leaving any monies near drawers so if this could be handled before school is out that would be the best solution. Please send a contact in the Cash Management Department.

Audit Finding: Unallowable Cash Disbursement

Response

We were given starter checks in Sept. 2011 because we were a brand new school. Our school codes had to be generated. In order to recruit families into the school we did write checks from the account to pay for pizza and pancake breakfast. We did not have any other sources of income. Title I funds were not issued to DCP until February 2012. So we did not have extra monies to handle these expenses. Now that we have Title I funding, this will be corrected moving forward. However, I will attend the district's next financial training on guidelines and procedures relative to all financial processes.

Audit Finding: Sales Tax Paid

Response

As a new high school, DCP made many purchases to launch and get off the ground. If the district would like me to reimburse the \$23.55 in paid taxes, I will. As a new brand school, we needed to function as a school right away. Part of functioning is feeding families. With many of the \$471.50 purchases we move very fast not realizing that we did not use the necessary tax forms to insure that we did not employ our non-profit status. As of today, I am happy to report that we corrected this problem.

Summary

Thank you for keeping Detroit Collegiate Prep responsible to the practices of handling finances. Be assured that our staff will be clear as to the protocols in the near future. We appreciate the oversight.

Ricardo Martin, Principal