



DETROIT PUBLIC SCHOOLS

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AUDIT REPORT

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Mary Kovari, Principal, Detroit Institute of Technology College Prep at Cody

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
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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: Detroit Institute of Technology College Preparatory High School at Cody
– Financial Audit

BACKGROUND

Detroit Institute of Technology College Prep High School at Cody (Cody DIT) is part of the Detroit Rising Self-governing Network of schools within the Detroit Public Schools district. 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 DIT is a small high school turnaround initiative that uses best practices including extended day, project and inquiry based learning infused with technology and student enrichment to increase student achievement and college readiness. The school has an enrollment of approximately 257 students in grades 9 through 12 who undertake college prep courses; 2 years of a foreign language (Spanish or French) as well as 2 years of Career and Technical Education. Ms. Mary Kovari has served as Principal of the school for 3 years. The school has no official bookkeeper. A teacher, Tamyra Rhodes-O'Neill, assists with the bookkeeping responsibilities.

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. Cody DIT, 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 \$14,901.29 in its general checking account and paid out \$16,883.55. As of December 31, 2012, the balance in this account was \$5,630.12.

The major sources of funds deposited into the school's account include: fundraising activities and fees received from students such as 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. Cody DIT has 4 activity accounts including the general account. The other accounts are: STEM (Science, Technology, Engineering & Mathematics) Coalition, Student Council, and Senior Class.

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 prevent mishandling of funds and to safeguard against loss. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining cash procedures responsibilities that ensure accountability from receipt to the deposit of funds. The ultimate responsibility for all financial activities at the school level rests with the school principal. It is essential that the principal designates other school staff to assist as check signers and undertake other financial responsibilities. However, in our review of school and bank records, we noted a need to address the designation of authorized account signers for the school, who in our opinion, should be staff members at the school. We also identified a need for financial training for all school personnel that are involved in processing cash transactions.

Additionally, we noted areas of non-compliance related to the use of general school funds for expenditures that did not directly benefit the students. Expenditures totaling \$1,074; which included \$350 for moving expenses during the school expansion, \$498 for staff conferences and \$226 for a staff luncheon, were paid with GSFs, instead of discretionary or staff-provided funds. The principal should ensure that funds are used in compliance with cash management guidelines regarding the appropriate use of general school funds.

Other concerns included; failure to follow cash receipt procedures to ensure that receipts were always prepared for funds deposited in the school account. Resultantly, deposits totaling \$1,015 were not recorded in the school ledgers. Failure to record all cash receipts leads to understatement of the cash available to support school activities. Also, receipt forms were not adequately supported with documentation including copies of checks sent for deposit. 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.

The audit revealed that monthly financial reports were not always prepared within the proper time frame to ensure compliance with district policies and procedures. The third-party firm hired to prepare school bank reconciliations reports to the Cash Management Department. As such, we believe this department should be proactive in ensuring that accounting services are in place to perform monthly bank reconciliations and preparation of other required financial reports on a timely basis in accordance with their contract.

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 DIT 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 Cody DIT school 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

Improper Selection of Authorized Signers on School Account

Cody Detroit Insitute Technology (Cody DIT) has 3 authorized signers on the school account; namely, Principal Kovari, Acting Bookkeeper/teacher Tamyra Rhodes O’Neill and Michelle Parker, who is the principal for Cody Medicine and Community Health Academy. With respect to the latter individual, although this does not necessarily constitute a policy violation, we find that the selection of an individual that is not an employee of Cody DIT, but principal for a different school limits the oversight this control was designed to ensure. At a minimum, when any individual authorizes disbursements at a school, he or she assumes the responsibility and liability for these expenditures. The SFPM indicates that;

“Before (you) affix your signature on a check, the authorized signer is responsible for reviewing the disbursement package to verify that: (1) the purchase was pre-approved on a properly completed check request form, (2) that the expenditure is valid (proper supporting documentation, sufficient funds are available to cover the disbursement, and that it is charged to the correct activity account); and (3) that it is a proper use of general school funds”.

Since Principal Parker is not an employee at Cody DIT, it is questionable whether she would be in the best position to determine whether a disbursement meets all elements defined above; and most importantly, that the specific expenditure is in the best interests for Cody DIT.

The SFPM requires each school to have “a minimum of two and maximum of four check signers.” From our review of the preliminary survey completed by Principal Kovari prior to the audit fieldwork, we noted 3 names, including Principal Kovari, of individuals at Cody DIT that participate in the financial recordkeeping for the school. The principal should consider designating the third individual, who is a clerical, to be an authorized check signer; or if not feasible, consider any other suitable individual employed at Cody DIT, for this responsibility.

Use of General School Funds for Non-Student related items

Cash Management’s policies and procedures require that General School Funds (GSFs) be spent for the direct benefit of students only. However, we noted instances where funds totaling \$1,074 were used to pay for expenditures that did not directly benefit the students. For instance, \$350 was used to pay for moving expenses during the school’s expansion in August 2012. Additionally, \$724 was used to pay for staff expenditures, which included \$226 for a staff luncheon and \$498 on conferences for the staff. These expenditures were not made for the direct benefit of students, nor were they otherwise related to students’ extra-curricular and co-curricular activities. Schools are provided budgeted discretionary funds, which typically would be used to cover basic routine operating or maintenance expenses incurred by the school, as well as staff development (conference) expenditures. Other social expenditures for staff members should be paid with funds collected from the staff, and (restrictively) held on deposit in the school account for convenience of the staff.

The SFPM states that general school funds are monies collected and held on deposit in a school checking or savings account to be used for the direct benefit of students only. The school principal acts as trustee for these school funds collected on behalf of the students.

Untimely Bank Reconciliations

We noted that bank reconciliations for 5 out of 6 months sampled (83%) were not prepared, as well as reviewed and approved by the principal within 15 days following month-end, as required. 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 a responsibility of the Division of Finance (Cash Management department). However, it appears that the contract for FY2013 School Accounting Services was not signed off until mid September 2012; but still required the firm to prepare reconciliations for the fiscal year beginning with July 2012.

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 following month. In order for schools to comply with this requirement, 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 Procedures Regarding Cash Receipt Processing

During our review, we noted certain deficiencies regarding processing of cash receipts. For example, funds totaling \$1,015 were deposited into the school's account without any record of receipt. Included in this amount was \$454 received from the district's finance office. The remaining \$561 represented monies that were collected by the school. When cash transactions are not accurately recorded, reconciling differences result, which leads to under-statement of the school's available cash, as well as failure to provide an auditable trail of cash received and deposited. Additionally, we also noted that receipt forms were not supported with copies of checks that were deposited.

The SFPM requires that receipt forms be accurately completed to provide an audit trail of all funds received for deposit. Funds should be recorded on pre-numbered triplicate receipt forms, or Form AC-1 (Report of Cash Deposit). If any checks are included in a deposit, they should be endorsed "For Deposit Only (Name of school)" at the back of the check, copied, and the copy of the check maintained as supporting documentation for the cash receipt form(s) in school files. Besides providing an audit trail, this procedure ensures the necessary payer-identifying information is available to pursue collection in the event that checks are returned due to insufficient funds on the payer's account. The receipt number is used as a reference number when recording or posting the receipt transaction to the ledger. The receipts total should agree to the total amount of funds deposited in the school account.

Lack of adequate training on financial responsibilities

The principal stated that she attended financial management training in September 2012. Also, we recognize that the school does not have an official bookkeeper, and that the Principal delegated this responsibility to a teacher. However, we also noted from the preliminary survey responses that this individual has not received the required training in order to effectively and efficiently perform the bookkeeping responsibilities. Our observation of school and banking records confirmed the necessity for school officials to receive this training.

For example, we identified several instances where checks issued by the school were rejected by the “Positive Pay system” because they were not properly uploaded into the online banking system. Due to this deficiency, the school incurred bank service fees. The Division of Finance implemented a Positive Pay accounts payable system, to facilitate processing of check disbursements, as well as prevent fraudulent check transactions. School officials involved in this process are required to obtain the necessary training to maintain the proper controls over this process.

Additionally, in our review of fundraiser documentation, we were unable to reconcile the fundraiser proceeds to the cash deposits because of inadequate recordkeeping practices. Also, the financial records were not properly organized and filed by month, which affected the ability to readily obtain the required documentation. We also noted that several fundraiser documents were either missing the principal’s approval signature, or appeared to have been completed and approved after the fundraiser was held. The principal stated that fundraiser expenditures “*whenever possible*, are made by school check, but all expenditures have receipts/invoices”, which gives the impression that *not all* expenditures are paid by school check, as required.

With regard to fundraiser activities at the school, fundraiser policy requires that all fundraisers be pre-approved by the principal, and that appropriate receipts or invoices supporting fundraiser events should be maintained in school files for audit review. The principal is required to make certain that all receipts and expenditures are monitored on a regular basis, as well as ensure that invoices are paid in a timely manner. The staff member assigned to handle bookkeeping duties is required to prepare school checks for all expenditures, hence assuring that employees are discouraged from the use of cash to purchase fundraiser items.

CONCLUSION

School principals are ultimately responsible for the collection, distribution, and accounting for all GSFs. 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. It is also necessary that school personnel involved in financial responsibilities obtain the necessary training to perform these duties, as well as assure an efficient system of internal controls is in place to provide accountability over general school funds.

RECOMMENDATIONS:

We recommend that the Principal of Cody DIT:

- Designate another school staff member in place of Principal Parker as authorized signer on the school account.
- Ensure budgeted discretionary funds are used to pay for school operational and staff development activities, to the extent such funds are available. Also, that staff social expenditures are paid with funds collected from the staff.
- 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.
- Ensure that training is obtained for personnel involved with financial responsibilities.

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

- Take the required action to ensure that accounting services, including preparation of monthly bank reconciliations are available to ensure timely preparation of school financial records throughout the year.

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

1. The school has no official bookkeeper. A teacher, Tamyra Rhodes-O'Neill, assists with the bookkeeping responsibilities. The school needs a bookkeeper and plans to put this in place by the 2012-2013 school year.
2. The principals were told, at a principal's meeting near the end of the 2011-2012 school year, by Cash Management designees that we had to have three signers on the checking account. Cash Management suggested my colleague, Michelle Parker, be a signer on the account since not enough available personnel from the school attended the meeting. We would not have done it this way if Cash Management, at the time of the meeting, stated this was unacceptable practice. We will remove Michelle Parker's name from our account and assign a DIT person to assume this responsibility.
3. Please be aware, I am a fairly new principal working with new staff since 2009. I have had little if any training in the use of checking accounts and what could and could not be used for certain expenses. I did not fully understand until this audit that money spent had to directly tie to the student. However, I am submitting "Examples of acceptable expenditures from General School Funds" to defend these expenses as appropriate.

The use of the \$350.00 was used to move equipment. The school moved from the 2nd floor to the first floor and according to the manual, expenditures from general schools funds may include, "small repairs, moving or maintenance of equipment purchased with school funds." The \$724.00 expenses in staff expenditures included conferences and a luncheon. The conference that was paid for included four Detroit Institute of Technology students to attend. These students and teachers were part of a conference presentation with the South East Michigan Stewardship Coalition – a program run by Eastern Michigan University. The \$498.00 was spent on the lodging for both students and teacher. Since students could not go without a teacher, we believe that the expenditure was a "responsibility of the district". The staff luncheon for \$226.00 also included students. We believe that this expenditure is justified because it "directly promoted the general welfare, morale or educational experience of the students." None-the-less, we will refrain from making these kinds of expenditures now that that there is clarity around exactly what is acceptable and what is not concerning the general fund.

4. The principal was in her first year of the position and did not have appropriate training on cash management procedures. She did not realize it was necessary to make a receipt when depositing a check. The \$454.00 cited was a direct deposit by the district and we were not even aware that it had been made to the account, nor was it cited when the reconciliation took place. We do not feel we should take responsibility for this error because first, we were not aware of the procedure nor can we account for what the district does and we depend on the bank accountant to guide us in the process. Please remember – we have no bookkeeper. That being said, the other \$561.00 were deposits made to the account and once the principal, who was also doing the books, learned of the process, the error did not reoccur.

5. The principal stated that she had financial training but this training is only in regards to the "P-Card" system and not the check maintenance system. We also believe that a bookkeeper needs to be hired for the school, even if this is shared with another school.

We agree that the fundraising "paperwork" was not done properly because it was the school's first year in doing any kind of fundraising activity. The principal is confused by the statement "whenever possible" since ALL school expenditures are paid by school check. All fundraisers are preapproved by the principal and the principal does make certain that all receipts and expenditures are monitored on a regular basis. As stated before, the principal will move to obtain the services of a bookkeeper next year.

Recommendations made will be accepted as follows:

1. The principal will designate another staff member in place of Principal Parker as authorized signer on the school account.
2. The principal is committed to ensuring that budgeted discretionary funds are used to pay for school operational and staff development activities, to the extent such funds are available. Also, that staff social expenditures are paid with funds collected from the staff.
3. The principal is committed to ensuring 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.
4. The principal is committed to ensuring that training is obtained for personnel involved with financial responsibilities. The principal must obtain information on when this training occurs or will occur. We will contact cash management to get this information.

Mary Kovari, Principal
4/16/13