

DETROIT PUBLIC SCHOOLS

Office of Inspector General



Wilbert V. Marsh

Inspector General

3011 W. Grand Blvd.
Fisher Building, 14th Floor
Detroit, MI 48202
wilbert.marsh@detroitk12.org

Phone: (313) 870-5664
Fax: (313) 870-3405

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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Natasha Baker, Chief Innovation Officer
Ahna Felix-Brown, Acting Principal, Detroit School of Arts

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

THRU: Wilbert V. Marsh, Inspector General
Odell Bailey, Deputy Inspector General - Audits

FROM: Bernadette Kakooza, CIA

DATE: April 22, 2013

SUBJECT: Detroit School of Arts – Financial Audit

BACKGROUND

Detroit School of Arts (DSA) is a nationally renowned arts and academic high school that offers a strong college preparatory academic and arts curriculum, with pre-professional study in vocal music, instrumental music, music technology, dance, theatre, speech, radio/television production, visual arts and visual communications. The school has received world-wide recognition for its performing arts program; as well as notable awards which include: Newsweek magazine's Top Schools in America (Bronze Medal), The Kennedy Center Alliance for Arts Education Creative Ticket National School of Distinction, Skillman Good Schools, and Grammy Signature awards.

For the current school year, DSA has an enrollment of 609 students. Ms. Felix Ahna-Brown has served as Acting Principal of the school since July 2012. (Ms. Rita Davis was principal during the period July 2011 through June 2012). Ms. Rose Gant has served as the school's bookkeeper since August 2011. 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. DSA, 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 \$227,074.74 in its general checking account and paid out \$238,272.81. As of December 31, 2012, the balance in this account was \$21,582.90.

The major sources of funds deposited into the school's account include: fundraising activities, community donations, and monies raised through student 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. DSA has 20 activity accounts including the general account. Some of the other accounts are: Band/Orchestra, Dance Club, Music/Theatre, Male Ensemble, Ladies Vocal, Robotics, Reading, and Senior Class; among others.

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.

EXECUTIVE SUMMARY

District procedures require school principals to establish controls over cash to assure that school monies are properly accounted for, and that the school is operating in compliance with the District's financial policies and procedures. It is essential that the principal maintains adequate internal controls; to assure students, parents and all concerned taxpayers that school funds are handled properly and are used for the direct benefit of students only. Results of a preliminary survey taken prior to audit fieldwork revealed that the Principal has not received any training on the proper management of school funds. This poses an increased risk that funds could be misused or even misappropriated. We strongly recommend that training be obtained; which will help improve the basic oversight needed to effectively manage school funds.

Our audit revealed some areas of non-compliance related to cash receipts. For instance, supporting documentation, subsidiary receipts, and transmittal lists were not always maintained to support amounts remitted and receipted. We also noted instances where receipt forms were not properly completed to document the type of funds and the activity account to credit; nor were unused receipt forms properly voided. Furthermore, we found instances where receipt records were modified from amounts originally recorded; but we were unable to verify the correct receipt amounts. We also noted that deposit tickets did not individually list, by check number/money order number, all checks and/or money orders included in the deposit. In general, these deficiencies revealed a lack of control over cash processes, and limited the assurance that receipt, ledger and deposit records were maintained accurately and complete.

We also identified lack of controls in the inter-fund transfer process, intended to document agreement and consent of transfer of funds between activity accounts within the school. We determined that the principal did not obtain the sponsors' documented approval for funds to be moved from one student activity account to another. District procedures require that funds be used to benefit the students that contributed to its accumulation and that documented approval of the activity sponsors should be obtained when necessary to move funds so that they will be expended to benefit additional students or the student body as a whole.

Additionally, we found controls lacking over fundraising activities. Proper procedures were not always followed regarding obtaining fundraiser items and making payments for such items. We determined that in some instances, related costs were paid in cash, and deducted from proceeds; which resulted in receipts being recorded as net proceeds.

The audit also determined the need for the Cash Management department to take a proactive role in ensuring that accounting services are in place to perform monthly bank reconciliations and preparation of other required financial reports within the proper timeframe, in order to ensure 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 DSA'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 DSA 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

Inadequate Cash Receipt and Deposit Processing

We tested the receipt process and bank deposits for the audit period, and noted the following:

- Supporting documentation, subsidiary receipts, and transmittal lists were not always maintained to support amounts remitted and receipted. For instance, we noted three separate receipts for prom ticket sales which indicated that separate individuals were involved in the sales and revenue collection. However, we did not find any evidence that a Ticket Sales Report was prepared, to reconcile the tickets sold; nor were the stubs for the pre-numbered tickets retained to support the ticket sales receipts;
- The activity account name was not always documented on the receipt forms;
- Forty unused blank receipt forms were skipped in sequence, but not properly voided;
- We also noted two instances where the amounts on the cash receipts were modified; in one case, the receipt was originally recorded for \$1,224, but the copies were modified to \$1,124 (a decrease of \$100). Similarly, on yet another receipt, the original receipt amount appeared to be \$5,295 but the copy was modified to \$4,295 (a decrease of \$1,000). We were unable to verify the amount recorded in school files.
- We also identified instances where the checks included in deposits were not individually listed on the deposit ticket, by check number. Failure to provide this information impairs audit trails, and increases the risk that recording errors will not be detected.

The SFPM requires that receipt forms be accurately completed to provide control over all funds received for deposit. Funds should be recorded on pre-numbered triplicate receipt forms, or Form AC-1 (Report of Cash Deposit). Procedures require that if it becomes 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 copy) along with both the yellow and pink copies should be maintained intact in the receipt book. A properly completed Ticket Sales Report provides assurance that the amount(s) deposited agrees to ticket sales and collections. Accuracy is very important to ensure that funds deposited agree to receipt, ledger and deposit records.

At conclusion of the fieldwork, these issues were partly discussed with school officials who acknowledged the need for accurate completion and posting of cash receipts, as well as the benefit of proper record maintenance.

Improper Inter-fund Transfer Processes

We found areas of noncompliance related to the inter-fund transfer process. For example, forms used to document transfer of funds between activity accounts were not properly completed. Specifically, even though the principal approved the transfer of funds between activity accounts, the documented transfer forms lacked the following required information:

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

The Schools Financial Procedures Manual (SFPM) states:

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

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

Noncompliance with Fundraiser Policy

We noted certain areas of noncompliance related to fundraising activities. For example, Profit and Loss Statements were not always completed within the proper timeframe (i.e. 5 days upon completion of fundraiser event). In some cases, we were unable to trace documented fundraiser costs and supporting invoices to school financial records, which implies that such costs were paid in cash, instead of school check, as required. We identified instances where invoices were paid in cash and deducted from proceeds; which resulted in receipts being recorded as net proceeds. Failure to ensure compliance with fundraiser procedures prevents the Principal from monitoring the existence and profitability of activities conducted by groups in the school; furthermore, there is no assurance that the sponsor accounted for all money raised and that proceeds were actually used as intended.

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.

Fundraising guidelines also require that all cost transactions be made by school check; in compliance with cash management's policies and procedures related to cash disbursements.

Untimely Bank Reconciliations

We noted that bank reconciliations for 4 out of 6 months sampled (or 67%) were not prepared, reviewed, or approved by the principal within 15 days following month-end, as required. For example, reconciliations for the months of July and December 2011 and March 2012 were not completed more than 30 days after month end. Additionally, June 2012 reconciliation was not completed until August 2012. 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 the responsibility of the Division of Finance (Cash Management department). However, the annual contract for FY2012 School Accounting Services was not executed until January 2012, and was not renewed for FY2013 until mid-September 2012; yet the firm was required to prepare reconciliations for each fiscal year beginning with the month of July.

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 subsequent month. In order for schools to comply with this procedural control, 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.

CONCLUSION

School principals are ultimately responsible for the collection, distribution, and accounting for all general school funds. The principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. The basic purpose for collecting or raising and expending of activity funds must be for the direct benefit of the students or for the general benefit of the school. The School Financial Procedures Manual (SFPM) is provided as a vital tool for all school personnel to refer in performance of their financial responsibilities.

We determined that the principal had not sought or received the appropriate training on the proper management of general school funds (GSF); nor was she aware of the SFPM. The principal's lack of training and knowledge of policy and procedures, as the person assigned fiduciary responsibility for managing student funds, poses a significant risk to the school and the District that funds intended for the use of student activities may be misused or misappropriated. Going forward, the Principal should seek training and refer to the SFPM and other written guidance referred to therein to ensure compliance with district policies and procedures.

RECOMMENDATIONS:

We recommend that the Principal and bookkeeper of DSA seek training through the Cash Management department and obtain and review a copy of the School Financial Procedures Manual and the Schools Administrative Financial Management.

We further recommend that the Principal of DSA take action to ensure:

- That all incoming funds are properly receipted, accurately recorded in school ledgers and agreed to deposit records;
- That proper procedures are followed to implement inter-fund transfer of school funds.
- That proper procedures are followed regarding fundraiser activities, as well as reporting and documenting fundraiser proceeds and disbursement transactions.

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

- Ensure procedures are in place to provide accounting services, including preparation of monthly bank reconciliations, in a timely manner;
- Provide school officials with training on the management of general 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 SCHOOL OF ARTS (DSA)

Ahna Felix-Brown, Principal

123 Selden
Detroit, MI 48201
(313)494-6000

To: Wilbert Marsh, Inspector General
From: Ahna Felix-Brown, Principal
Date: April 16, 2013
Subject: Detroit School of Arts- Financial Audit Response to Findings

I am in receipt of the findings of the financial audit conducted by the Office of the Inspector General. Let me first start by saying, Detroit School of Arts will work to make all of the necessary changes brought to light by the audit. These include but are not limited to discussing with the teachers the proper policies and procedures they should follow when conducting fundraisers for the various activities at the school. The report also states that Ms. Gant and I should undergo training. Ms. Gant and I would like to know who we should contact to receive the necessary training you mention in the audit. If possible, we would like to complete that training before the end of the 2012-2013 school year, and we will work on voiding receipts properly each time.

I would also like to bring up some issues that I believe to be out of the control of the hands of DSA employees. It was stated in the report that some of the reconciliations were not turned in in a timely fashion. For one of those incidents, DSA did not have a bookkeeper. Ms. Gant was not hired until August of 2011. Please also note that bookkeepers are 10 month employees. Reconciliations for the summer months will be late because the bookkeepers are on vacation. When she came in she had to "catch up" from where the other bookkeeper left off. The previous bookkeeper left in June. Also the accounting firm that the district contracted in January of 2012 did not start servicing our building until October 2012. Again, please be assured that the changes that can be made will be made. I will anticipate a better outcome to the next audit now that I am aware of your findings. Thank you.