

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
Karen Ridgeway, Superintendent of Academics
Berry Greer, Douglas Academy for Young Men

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Rebeca Luna, Assistant Superintendent
Delores A. 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: Douglass Academy– Financial Audit

BACKGROUND

Frederick Douglass Academy for Young Men (Douglass Academy) is an all-male school for grades 6-12 that offers a wide range of academic and athletic activities for students, including robotics, chess, foreign language classes, basketball, football, swimming and much more. The school has met Annual Yearly Progress goals for two of the last three years. Students are required to wear uniforms. The school offers the students college prep, band/music, foreign language, after-school tutoring, accelerated reading and math, science club, chess, JROTC, national honor society and national junior honor society. It has a debate team, drama club, media club, book club, and student government. Douglass Academy is a football Champion, and has a basketball, baseball, track & field, and swimming program. The school also has a mentorship and community service program.

For this current school year, Douglass Academy has an enrollment of 206 students. Mr. Berry Greer has served as Principal of the school since August 2012. Ms. Jacquelyn Wilcoxson has served as the school's bookkeeper since August 2012 as well. 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.

Douglass Academy, 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 \$47,832.14 in its general checking account and paid out \$50,217.58. As of December 31, 2012, the balance in this account was \$ 8,592.19.

The major sources of funds deposited into the school's account include: fundraising activities, community grants and monies raised through senior activities. These funds are referred to as General School Funds, and are considered held in trust for the students' benefit, and generally used to support and offset the expenses for extracurricular and co-curricular student activities. Douglass Academy has 7 activity accounts including the general account. The other accounts are: Staff Social Fund, JROTC, Athletic Administration, Junior Class, Senior Class and Young Men of Color.

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

Overall, the school is doing a good job of complying with district procedures related to cash receipts and disbursements. We noted only two disbursements that are not allowable in accordance with district procedures. Specifically, the school spent \$200 for food on a professional development event for 40 staff members and paid a non-district employee to provide security services at a Homecoming event.

We also found that the school failed to provide the necessary information for one deposit that did not individually list out checks and money orders as required. Similarly, we found that a sales report for a December 2012 basketball game did not list the beginning and ending ticket numbers on the report. This information is needed to reconcile the amount of cash collected with the number of tickets sold. If the latter is not provided, there is no way of verifying whether all the proceeds are being submitted. The principal and bookkeeper should consider obtaining the required cash management financial training, which covers these and many other issues, to ensure compliance with procedures.

The most significant finding from this audit was that the documentation for athletic events held in 2011, the year before the new administration was in place, was not available. Current school officials could not say with any certainty what happened to these school records, but they clearly are not at fault. District procedures explicitly prohibit the removal of district records from a school.

We believe by attending a refresher financial training, the principal and bookkeeper will be better equipped to address any non compliance issues identified in this audit.

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 Douglass'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 Douglass 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

Clarification of Procedures Should Help Ensure Compliance for Disbursements

Of the 39 cash disbursements reviewed for the audit period, only 2 were not allowable in accordance with district procedures. We found that the school authorized \$200 to pay for food for 40 staff members who attended professional development and paid a non DPS employee to provide security at the school's Homecoming event in October 2012. The School Financial Procedures Manual explicitly prohibits food purchases for staff members. Although payment for security services is an acceptable practice, the district recommends that such services, especially when provided at the school location, be requested from the DPS Police department, who will provide the school security personnel through the community use process.

Nearly all of the disbursements in our audit sample were properly requisitioned, approved and documented. However, we did find that two disbursements were not properly requisitioned prior to payment.

Overall, based on our test work, the school appears to be in compliance with district procedures related to disbursements. In this regard, revisiting the procedures for disbursements should help the school address its non compliance areas.

Deposit Tickets Lacked Detail

The SFPM specifically requires that the deposit tickets include critical information about the receipts included in the deposit. This information includes documenting the amount of funds in coins and cash, as well as listing every check and money order individually on a line under the checks header of the deposit ticket. We tested 6 deposits and found that 1 deposit did not list each check or money order individually nor did it reflect whether any coins or cash were part of the deposit. The amount of the deposit was \$1,200, which most likely represented multiple checks/money orders as well as cash and perhaps some coins. When school officials fail to provide the required level of detail as prescribed in the procedures, at a minimum, it limits the ability to trace payee information in the event that a check included in the deposit is returned for insufficient funds. This, in turn, limits the ability to confirm individual transactions. Going forward, the school should be mindful about the importance of providing the required detail for deposit tickets.

Missing Documentation and Lack of Detail for Athletic Events

Our test of the level of compliance for athletic events held at Douglass was impaired due to the lack of documentation for athletic events that occurred in 2011. We were informed that the documentation was not available and officials were unable to produce it because it was not on site. The school's current administration began in August, 2012. As a result, the missing documentation was not due to their error. However, without the information, we could not determine the extent of non compliance that may have occurred at Douglass during the preceding year. Under no circumstance should documentation related to school fund activities be removed from school premises.

Concerning the four 2012 athletic events that we tested, we found that the school complied with district procedures with the exception of documenting the beginning and ending ticket numbers for the December 18, 2012 basketball game. Documenting the beginning and ending ticket numbers on sales reports is important because it allows the amount of cash collected to be reconciled with the number of tickets sold. In fact, this is one of the most important controls necessary to verify that all funds are accurately and completely accounted for; based on the number of tickets sold.

Untimely Bank Reconciliations

We noted that bank reconciliations for 5 out of 6 months sampled (83%) 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, October of 2011 and January 2012 were not completed until March 2012. Additionally, the bank reconciliation for April, 2012 was not prepared timely and the July, 2012 reconciliation was not completed until mid-September 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

The audit of Douglass school funds found that the school is doing a good job of meeting district procedures with a few exceptions. Most of the disbursements were made in accordance with district procedures and those that were not were limited in number. Moreover, the lack of detail on deposit tickets and sales reports of athletic events appeared to be isolated to one deposit and athletic event. Ironically, both the principal and the bookkeeper responded in a survey that preceded the audit that they had not received financial training provided by the Cash Management department. However, records obtained from this department confirmed that both attended this training in 2011. Going forward, school officials may consider obtaining a refresher financial training to become knowledgeable in fiscal operations in order to ensure compliance with district policy and procedures.

RECOMMENDATIONS:

We recommend that the Principal of Douglass Academy:

- Request refresher financial training from the District's Cash Management department with a focus on unallowable disbursements and required documentation for deposit tickets and athletic sales reports.

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.

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



Frederick Douglass Academy for Young Men

2001 W. Warren
Detroit, Michigan 48208
(313) 596-3555
(313) 596-3552 – Fax
Berry Greer, Principal

April 12, 2013

Re: Douglass Academy – Financial Audit

Frederick Douglass Academy has reviewed the audit report for the period July 2011 – December 2012 and has implemented corrective action to prevent errors going forward.

Berry Greer
Principal