

# 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](mailto:wilbert.marsh@detroitk12.org)

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

File number: 2013-FA-0012

### AUDIT REPORT

**TO:** William Aldridge, Chief Financial Officer  
Karen Ridgeway, Superintendent of Academics  
Patricia Murray, Principal, East English Village Preparatory Academy

**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:** East English Village Preparatory Academy – Financial Audit

### **BACKGROUND**

East English Village Preparatory Academy (East English), which opened in the fall of 2012, serves slightly more than 1,100 students in grades 9 through 12. Its career pathways focus on: Career and Technical Education, College Preparation and Fine and Performing Arts curriculum. Ms. Patricia Murray has served as Principal of the school since its inception in October 2012. Assistant Principal, Mr. Kenneth Taylor, and Ms. Vania Moore, school secretary, assist with the bookkeeping responsibilities. Mr. Taylor receives records and deposits cash receipts and writes checks for expenditures. 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. East English, 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 October 1, 2012 and December 31, 2012, the school deposited \$51,843.77 in its general checking account and paid out \$8,727.69. As of December 31, 2012, the balance in this account was \$43,116.08.

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. East English has 5 activity accounts including the general account. The other accounts are: Athletic Administration, Football club, Boys Basketball, 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 policies and procedures 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 responsibilities in cash processes as early as possible, and at all points along the accountability chain. The ultimate responsibility for all financial activities at the school level rests with the school principal. That is why it is essential that the principal personally undertakes the responsibility for reviewing and authorizing all disbursements by the school. However, in our review of school records, we noted that requisitions were not consistently approved by the principal, and were informed that she had delegated this responsibility to an Assistant Principal. It is essential that cash records for authorization of expenditures be maintained in accordance with established cash management guidelines.

Additionally, our review of athletics revenue and ticket management procedures revealed inadequate controls regarding custody of game tickets, as well as accountability of ticket sales. Ticket sales reports that were prepared to document pre-game and/or gate ticket sales did not indicate the beginning and ending numbers of tickets sold for athletics events. We also noted that unsold tickets were not secured and in the custody of the school treasurer/bookkeeper, as required by the Athletics policy. Due to the deficiencies noted above, there is an increased risk of errors or inaccuracies in accountability of ticket sales, as well as loss or theft of tickets which results in loss of revenue attributable to ticket sales.

Other concerns include a failure to follow cash receipt procedures to ensure that receipts were always prepared for funds deposited in the school account. Resultantly, a deposit of \$4,926 was not recorded in the school ledgers. Also, receipt forms were not completed in their entirety to indicate the activity account being credited, as well as the type of funds received for deposit (i.e. cash, check, money order, wire transfer). We also noted that checks were not copied prior to being deposited. At a minimum, this deficiency presents a risk of not having the required payer information in the event that collection procedures become necessary as result of deposit of a “non-sufficient funds” check.

---

## **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 East English school's cash receipts and disbursements for the period October 10, 2012<sup>1</sup> through December 31, 2012. (See Scope limitation in footnote.)

### **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 East English 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.

---

<sup>1</sup> The audit was performed as part of the July 1, 2011 through December 31, 2012 audit plan for the high schools. Since East English Village Prep Academy was opened in October 2012, we had only 3 months of activity to review.

---

## **AUDIT FINDINGS**

### **Improper Controls over Disbursements**

From our review, we determined that 16 out of 17 or 94% of the check disbursements made for the month of November, were reviewed and approved by the Assistant Principal on behalf of the principal, and in the principal's name. We note that this is a violation of separation of duties, and specifically, a deviation from the policy requirement that the principal should approve all check requests for the school. The Assistant Principal explained that the Principal authorized him to sign in her name on check requests "as a time saver to speed up the check disbursement process". Additionally, we noted one check that was made payable to the Assistant Principal was also exclusively approved by the Assistant Principal. We did, however, verify from a review of supporting documentation that it was a legitimate reimbursement expenditure item.

The SFPM indicates, "The ultimate responsibility for all financial activities is vested in the school principal" However, "The requestor of the check should not be the same person authorizing the expenditure. No one person should use sole authority to authorize checks to be issued to him/her". Specifically, it is the fiduciary responsibility of the principal to ensure that General School Funds are used for the benefit of the students, and that all funds are accurately accounted for. Delegating to another individual the responsibility of authorizing school expenditures is not conducive to assuring oversight and accountability for the school's finances; especially since the principal is ultimately the one held liable for any fiscal mismanagement. Although we found no evidence to demonstrate that any funds were misappropriated, this practice, if allowed to continue, may create opportunities for fraud to occur.

### **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). Furthermore, if any checks deposited are returned due to "insufficient funds", the school should follow district procedures in place, which are necessary to recoup the monetary loss.

During our review, we noted certain deficiencies regarding cash receipts. For example;

Funds totaling \$4,926 were deposited into the school account without any record of receipt. We noted that these funds represented a wire transfer from the finance office that was made to the school in December 2012. Even though these funds did not originate from the school prior to deposit, the school officials were aware, or should have been aware of this deposit, which led to the under-reporting of available funds per the school's books, as of December 31, 2012.

Furthermore, we noted instances where the cash receipts were not completed in their entirety, or maintained with adequate supporting documentation; for example, 2 out of 4, representing a 50% exception rate was revealed from sampled receipt forms found to be missing key information such as the activity account being credited, and the type of funds (i.e. cash, check, money order, wire transfer) obtained. Also, all receipt forms in our sample 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. 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. This procedure ensures the necessary payer-identification information is available to pursue collection in the event that checks are returned due to insufficient funds on the payer’s account.

We also found that the school did not follow procedures to recoup the funds lost resulting from deposit of a “bad” check. This deposit represented a \$250 senior dues payment, made by personal check in November 2012, which was subsequently returned by the bank due to insufficient funds on the payer’s account. In addition, the bank assessed the school an \$8 service charge which was debited against the school account. Notwithstanding that currently no district policy exists that prohibits schools from acceptance of personal checks from students/parents as an acceptable form of payment, best business practices require that schools consider implementing control procedures to address this type of situations; which ultimately can result in a loss of funds by the school due to returned checks and bank charges for insufficient funds.

### **Poor Accountability of Athletic Ticket Sales**

We observed a lack of controls regarding athletic tickets, which reduced the level of accountability over ticket sales. For instance, when tickets were sold for athletic events, no record was maintained to document the start and ending ticket numbers for tickets sold. Additionally, we found a roll of unsold pre-numbered athletic tickets that were left unsecured in the mailroom. The use of pre-numbered tickets for admission to athletic events, when properly managed, assures that entrants to events paid the admission fee and that all admission charges are accounted for and appropriately deposited in the designated bank account.

The SFPM indicates,

“A Report of Ticket Sales must be used to record sales of tickets for athletic events. The tickets should be in the custody of the school treasurer/bookkeeper, who will supply the athletic coordinator with the ticket roll(s) to be sold at the gate prior to a game. Pre-sales made from the school’s bookstore (or other venue) should be accounted for separately from gate sales. ... Also, for both pre-sales and gate sales, the beginning ticket number and last number of the tickets sold should be documented on the sales report. The remaining (unsold) tickets should be returned for custody with the school treasurer/bookkeeper. Upon completion of a game, the school treasurer/bookkeeper or responsible school official should ensure that game receipts from pre-game and gate sales are counted, verified and immediately bagged for deposit into the district’s athletics revenue depository account. The total amount of funds collected (and deposited) should agree with the number of ticket sales reported on the ticket sales report(s).”

It also appears that the school maintained only one armored car log book that was used to record scheduled deposit pick-ups for both general school funds and district revenue funds. The SFPM requires that athletics revenue deposits be logged in a separate armored car log book, designated for such revenue deposits. The separation of deposit log books is essential to providing adequate accountability and an audit trail for cash deposits.

---

## **CONCLUSION**

Each Principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. Although the principal chose to delegate certain cash management responsibilities to the assistant principal, she cannot delegate the responsibility for ensuring school funds are fully accounted for and properly safeguarded.

The School Financial Procedure Manual (SFPM) is 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 expenditures are properly approved and made in compliance with district policies and procedures. It is also necessary that the school adopts an efficient system of internal controls to provide accountability over general school funds, as well as district revenue funds, such as athletics revenue. We believe that increased oversight will help ensure all funds are properly accounted for and spent for the purposes for which they were intended.

---

**RECOMMENDATIONS:**

We recommend that the Principal of East English Village Academy:

- Ensure expenditures from the account are properly approved, as required by district policies and procedures.
- Ensure that receipts are prepared and documented for all funds received. Also, procedures should be taken to recoup funds lost due to NSF checks.
- Ensure copies of checks received for deposit are maintained in the school records.
- Ensure accountability by fully documenting ticket sales and receipts for athletics events. Also, controls should be implemented to ensure the unsold game tickets are safeguarded.

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

---

### EAST ENGLISH VILLAGE PREPARATORY ACADEMY Corrective Action for Financial Audit

#### Improper Controls over Disbursements

In accordance with cash management guidelines, we have implemented proper controls over disbursements as it pertains to completely filling out check requisitions, securing check requester signature and principal approval for all financial activities.

#### Poor Cash Receipt Practices

Funds totaling \$4926.00 was a wire transfer from the district. According to the Detroit Public Schools Financial Procedures Manual (SFPM), Pgs. 67 & 68, wire transfers should be recognized and added as a credit adjustment to the ledger, which we did. We are following, as outlined in the (SFPM) the proper cash receipt practices by using a triplicate receipt book for all monies received.

#### Athletic Ticket Revenue and management procedures

Please review and advise of the East English Village Preparatory Academy (EEVPA) Athletic ticket sale practices and procedures. This information was not requested or discussed with me by auditors during the audit exit interview. EEVPA follows the procedures outlined by Detroit Public Schools Athletic policy and keeps accurate record of our sales. Had it been requested, we would have made available our athletic ticket sales information for the auditors review.

Patricia Murray, Principal  
East English Village