

DETROIT PUBLIC SCHOOLS

Office of Inspector General



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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Betty Edwards, Director, Golightly Career and Technical Center

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

THRU: Wilbert V. Marsh, Inspector General

FROM: Odell Bailey, Deputy Inspector General - Audits

DATE: April 22, 2013

SUBJECT: Golightly Career and Technical Center – Financial Audit

BACKGROUND

Golightly Career and Technical Center (Golightly CTC) offers students two years of technical training for the 10th and 11th grade levels. Sixteen program offerings provide career planning and training for jobs that match their interests and abilities. Second-year students participate in a five-week entrepreneurial class, which explores various aspects of Business Management. Practicum, internships, scholarships and cooperative education experiences are available. Preparation and financial aid assistance are provided for entrance into higher education/college. Students who complete the program receive a certificate for completion.

The Golightly CTC has an enrollment of 512 students and serves high school students from Detroit Public Schools (DPS), as well as students from charter schools and surrounding districts. Ms. Betty Edwards has been the Director of the Center since July 2009. The bookkeeper is Ms. Cynthia Cooper, who has been with Golightly for 3 years. 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.

The center's financial transactions are processed through First Independence Bank; the district's authorized banking institution. Golightly CTC, like other schools, maintains a general checking account to manage money that is collected from and/or raised by the students and school organizations. Golightly CTC has established separate activity accounts (sub ledger accounts) that are designed to account for funds for a specific student activity. These accounts include: That Special Place, Hospitality & Foods, Automotive Services, Agriculture Services, Computec, Academy of Finance, Technology AOIT, and the Academy of Travel Tourism.

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. School and bank records indicate that, between July 1, 2011 and December 31, 2012, the center deposited \$110,065.86 in its general checking account and paid out \$108,874.33. As of December 31, 2012, the balance in this account was \$54,500.22.

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 center's Director for review and comment. The Director'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

Each school that manages student funds is required to comply with district procedures designed to ensure accountability over these funds. The importance of doing so is magnified in those schools like Golightly Career Technical Center that have a significant amount of cash transactions each month. Although all monies appeared to be accounted for, our audit of the cash management system at Golightly CTC found a pattern of non compliant practices that may be attributable to lack of attention to and/or focus on compliance. This was evident in our findings regarding negative account balances, incomplete documentation of cash receipts to support incoming cash, failure to receipt funds in sub ledger activity accounts prior to remitting monies to the bookkeeper for deposit, disbursements in 7 consecutive months that included sales tax, reimbursements to employees for purchasing school items and an unauthorized expenditure of school funds.

If not corrected, these conditions could create an environment of abuse that could ultimately lead to loss of funds due to theft or misappropriation. We recognize the challenges of managing the daily activities that occur at any high school. However, the Cash Management department, which has oversight responsibilities for school funds has taken a number of steps to assist schools in these duties and to ensure that school officials are well versed in cash management procedures. Specifically, financial training is offered for school officials with cash management duties, the District's bank has instituted positive pay to limit fraudulent checks, the school financial procedures manual has been revised twice in the last year to include further clarification and assistance for school officials and cash management staff are available for counsel as needed. Even with these improvements, it is ultimately the responsibility of school principals to ensure that they and their assigned staff are committed to complying with district procedures.

We also noted untimely bank deposits at the school, but the delay in having bank reconciliations prepared and deposits made is generally beyond the control of the principal. 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 succeeding month. We noted that the contract for the third-party firm that the District hires annually to perform this duty was not renewed until January 2012 for the 2011-2012 School Year and in September 2012 for the 2012-2013 School Year, which begins in July.

Given the financial challenges that the District will continue to face in the near future, we believe the cash management department should consider an alternate approach of getting bank reconciliations and financial records completed in the event the contract for the third-party firm is not renewed in a timely manner. This is particularly important for those high schools with significant cash activity.

**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 Golightly Center'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 Director 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 Golightly center 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

Cash Receipts Not Properly Supported

Our audit found that Golightly CTC does not consistently document support for incoming cash transactions. In our test of 16 cash receipts, we found that 2 receipts were not dated, another receipt was not signed by the cash remitter and 2 did not have the receiver's signature; while 10 of 16 receipts had no supporting documentation and 11 of 16 receipts reviewed were not recorded in a separate (activity booklet) receipt book.

When cash receipts are not dated, the timeliness of bank deposits cannot be determined and it reduces the ability to trace the receipt back to a particular date in the event the receipt was for a check that is returned for insufficient funds. Similarly, when the remitter or receiver does not sign the receipt, it limits control and accountability in the event of a dispute. We noted both conditions that impacted 3 of the 16 receipts reviewed.

Ten receipts were not supported by ticket numbers, receipts or any supporting documentation. When this occurs, there is no way of knowing whether or not the full amount collected is being reported and deposited. Furthermore, the SFPM requires that receipt forms be accurately completed to provide an audit trail of all funds received for deposit.

Eleven of 16, or nearly 69 percent of the receipts were not recorded in a sub ledger receipt book. Specifically, funds collected for various student activities at the school were not documented with a receipt or transmittal letter for that activity. This implies that the activity sponsor submitted funds to the bookkeeper with no back up or supporting documentation to identify who provided the funds or the amount that was paid. District procedures require that when activity account sponsors collect funds from students, triplicate receipt forms be prepared. The original (white) receipt is issued to the student/parent, and the yellow copies of receipts that agree to the individual student payments should be provided to the bookkeeper, who will in turn, verify the cash receipts and issue one (master) receipt for the total cash amount submitted by the activity account sponsor. If amounts collected are consistent and \$5 or less, the sponsor can use a transmittal letter that captures this information versus writing out numerous receipts.

Negative Account Balances

We reviewed the General Ledger (GL) activity for one month in each quarter of the audit scope. Our test work determined that for the months of December 2011 and February 2012, we found the activity accounts for That Special Place and Technology AOIT had negative balances. Further review of this issue found that the General School Funds account also began February 2012 with a \$658.85 negative balance. In each case for the months in question, the school's checking account had nearly \$50,000. Consequently, the funds were available but failure to monitor the availability of funds at the activity level resulted in negative balances. The School Financial Procedures Manual recommends that sponsors maintain reconciliations of their accounts. This report may be periodically requested from the bookkeeper in order to verify cash

balances in one's respective activity account. This assures that the sponsor keeps abreast of their activity/club account transactions and avoids overspending. Each sponsor is responsible for any funds receipted (collected) and/or disbursed to them on behalf of the activity account. This is important because they could be held responsible for reimbursing the activity account for any funds lost due to negligence, theft or the lack of accountability.

Sales Tax Paid On Disbursements

For the 18 months reviewed as part of the audit, we discovered 9 occasions that occurred in 8 different months where sales taxes were paid on school purchases. The total amount for 8 of the 9 purchases was \$980.67, which resulted in approximately \$51 in sales taxes paid. The amount associated with the November 12, 2012 disbursement could not be determined based on the information provided. The third-party firm that prepares the financial records for the school noted the violation, but did not identify the check number. As a tax-exempt entity, the Detroit Public Schools are not required to pay sales tax on district purchases. In 6 of the 9 cases, sales taxes were paid on reimbursements to employees. Three of the reimbursements were to the same employee. Had school officials followed district procedures, this would have been avoided. The School Financial Procedures Manual requires employees to complete a reimbursement check request form prior to making any purchase. This assures that the principal has had the opportunity to assess the necessity and reasonableness of the proposed purchase. Under these procedures, when employees make purchases on behalf of the school without being authorized to do so, their reimbursement request may be denied.

Each month, the third-party firm prepares the school's bank reconciliation and financial records. The process includes a control checklist where the firm identifies any violations. We verified that this occurred in 8 of the 18 months reviewed. In fact, for 7 consecutive months from October 2011 through April 2012, the school had disbursements that included sales taxes. The principal and bookkeeper sign off each month attesting that they have been made aware of these violations identified by the third-party firm. As part of this process, the principal is supposed to comment on corrective actions to assure the violation does not continue going forward. However, we found no evidence that any corrective action was taken for any of the nine disbursements. This raises some concern about the school's commitment to addressing noncompliance with procedures.

Disbursements Not In Compliance With District Procedures

We tested 19 disbursements for compliance with district procedures and determined that in 5 of the 19 cases, the requisition or AC-4 (check request) was not properly approved; another 4 disbursements did not indicate the purpose for the expenditure and for 5 disbursements, the requisition date was not timely or the date was not within the 30 day period after the vendor invoice was received. One disbursement was made while the activity account did not have adequate funds, which resulted in a negative balance for that account as discussed above. We also found 11 disbursements where the amount paid did not agree with what was recorded on the sub ledger (activity account).

We also noted that one disbursement for \$88.00 was paid for meal reimbursement when the District funded the travel to a professional seminar in Grand Rapids, Michigan. Another disbursement was made for \$150 to paint the Director's office. Reimbursement for meals expenses and the cost repairs to the principal's office are not allowable expenses. The school receives an annual discretionary budget to cover such expenses.

Deposits Not Made Timely

Our audit of 21 cash receipts found that 2 were not deposited in a timely manner as stipulated by District procedures. It took 187 days to have one receipt deposited—from September 15, 2011 to March 20, 2012. The other receipt that was collected in December 2011 was deposited after 96 days had elapsed. When we inquired about this, the Director stated that the December 2011 deposit had been misplaced and was not found until March 2012. However, we noted that all bank reconciliations prepared for July through December 2011, were prepared the same day in March 2012. This could explain why the Director was not aware of the undeposited funds until the school records were reconciled. However, keeping cash on hand for such a long period of time increases the risk of loss due to theft.

Going forward, the Department of Cash Management which has oversight responsibility for the school accounts should have an alternate procedure in the event the contract for the third-party firm that prepares financial records for the schools is not renewed on a timely basis.

CONCLUSION

The amount of transactions that occur at a career technical center can be extensive resulting in large amounts of incoming and outgoing cash. As such, the importance of complying with the District's cash management procedures is magnified. Strict adherence to these procedures helps to ensure that all student funds are fully accounted for and documented in accordance with school financial management procedures. The violations of procedures that were identified in this audit, in our opinion, represent a general lack of attention and commitment to comply with district procedures. Although we did not identify any misappropriation, the lack of regard for compliance can create an environment of abuse that exposes the school and the District to greater risk of loss due to theft and misappropriation. Past investigations of school fund violations at the school, under a former administration, identified fraud and misappropriation. With this in mind, we encourage school officials to be more attentive to ensuring that they are compliant with procedures. When the third-party firm identifies violations, we would expect that the principal and bookkeeper implement corrective actions to address these violations. To the extent this occurs, it will go a long way in addressing certain non compliant practices identified through this audit.

RECOMMENDATIONS:

We recommend that the Director of Golightly:

- Revisit the cash receipts section of the SFPM with the bookkeeper and activity sponsors to ensure they are informed about requirements for receipting and documenting cash transactions,
- Monitor activity and general school fund accounts on a regular basis and particularly before approving check requests to ensure funds are available and to prevent negative cash balances in these accounts at month end,
- Ensure that anyone purchasing items on behalf of the school has the tax exempt certificate to ensure sales taxes are not paid on school purchases,
- Follow District procedures for preparing and approving check requests prior to **any** purchase being made by employees who intend to seek reimbursement,
- Revisit District procedures for cash disbursements, with a particular focus on prohibited expenditures.

We recommend to the director of Cash Management to:

- Establish alternate procedures for preparing school bank reconciliations and financial records in the event the renewal of the third-party firm's contract is expected to be delayed for any length of time.

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



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“Achieving Excellence Together: School, Family and Community”

April 19, 2013

After careful review of the Audit Findings, School Financial Procedures Manual and dialogue with Ms. Cooper, the bookkeeper, the following procedures have been put into place to make corrections and adhere to the guidelines for handling of General School Funds:

1. I will periodically verify the bookkeeper’s report. All account balances will be reviewed to determine whether they have negative balances before checks are written.
2. Sub ledgers will be created for daily use. All supporting documents for cash receipts will be accurately accounted for in the sub ledger activity accounts prior to submitting to the bookkeeper for deposit. All cash receipts will be dated and deposited in a timely manner.
3. Ms. Cooper, the bookkeeper and staff submitting cash receipts to her will sign receipts upon remittance. All cash receipts will be dated and deposited in a timely manner. Ms. Cooper will continue to use a triplicate receipt book and distribute receipts appropriately.
4. The Michigan Sales Tax and Use Exemption form will be provided to staff prior to any purchases being made on behalf of the school.
5. All disbursements will be made in compliance with district procedures.

I will further adopt the recommendations outlined in Audit Report.

Sincerely,



Betty L. Edwards, Director