



DETROIT PUBLIC SCHOOLS
Office of Inspector General

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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Tia Von Moore-Patton, Principal, Jerry L. White

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

THRU: Wilbert V. Marsh, Inspector General

FROM: Odell Bailey, Deputy Inspector General - Audits

DATE: April 22, 2013

SUBJECT: Jerry L. White Center High School – Financial Audit

BACKGROUND

Jerry L. White Center High School (Jerry White) is a center-based special education school for visually and hearing impaired, moderately cognitively impaired, severely multiply impaired and severely cognitively impaired students aged 14-19. The purpose of the school is to create a continuum of services for students with disabilities to acquire an age-appropriate learning environment, and to provide a full-service program for students who are between the ages of 14-19. For the current school year, Jerry L. White had an enrollment of 200 students; Ms. Tia Von Moore-Patton has served as a principal at the school for 4 years. Ms. Clemmie Wilson is the bookkeeper who has served in that role since August 2010.

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. Jerry L. White, 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 \$30,768.61 in its general checking account and paid out \$29,830.54. As of December 31 2012, the balance in this account was \$ 17,392.49.

The major sources of funds deposited into the school's account include: fundraising activities and community grants. 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.

Jerry L. White has 11 activity accounts including the general school fund account. These are: Fund Day, Camp Fundraiser, Student Activities, Senior Class, Promotion Committee, Commercial foods, Green Across America, UHC Grant, and Goodwill.

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

We identified several disbursements which violated District procedures. These expenditures were for professional development, staff luncheons, membership to a professional organization, 2 small refrigerators and cleaning and maintenance supplies that should have been paid for through the school's discretionary budget. The audit also noted a school practice of reimbursing employees to make some of these and other purchases. Specifically, reimbursements to staff members accounted for 14 of the 31 disbursements tested, representing about 31 percent of the \$12,550 in disbursements tested. District procedures set forth in the School Financial Procedure Manual (SFPM) require that a Check Request Form (or Reimbursement Request Form) should be completed in advance of the expenditure, and authorized in writing by the principal, before the bookkeeper disburses funds. No purchase obligating school funds should be made prior to being approved by the principal. When this does not occur, the principal is denied the opportunity to assess the necessity and reasonableness of the disbursement.

Allowing employees to be reimbursed for small purchases that may not be planned makes practical sense. However, an employee spending up to \$1,400 of their personal monies for supplies and uniforms seems unreasonable. It would appear that this type of purchase was planned and should have been made with a school check directly issued to the vendor.

We also noted that all school fundraisers were held for the entire school year. While this may help the school limit paperwork related to fundraising requirements, it also violates district policy and reduces the level of oversight and accountability envisioned for these activities. For instance, profit and loss statements and reconciliations were not available for review because they had not been prepared. As currently conducted, there is no way to know if all fundraisers are profitable until the school year ends; the funds collected as part of the fundraising activity cannot be reconciled with tickets sold or items sold until the end of the year. Accountability over fundraiser proceeds is further diluted because the school is using fundraiser proceeds to purchase additional fundraiser items. District policy requires that fundraiser proceeds are delivered to the bookkeeper on a daily basis intact. Failure to follow this requirement sets a dangerous precedent that could result in loss of funds due to an error.

Our 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 on a timely basis. The audit revealed that monthly financial reports and bank reconciliations were between 1-6 months late for July through December 2011, and were not always prepared within the proper time frame 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 the Jerry L. White 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 Jerry White 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

School Funds Used for Unallowable Purchases

Our audit identified several unallowable purchases that were made by the school with general school funds. These purchases included:

- \$300 in professional development for staff members,
- \$378 in cleaning supplies and over \$100 in reimbursements for two staff luncheons,
- \$378 for two small refrigerators,
- \$122 for maintenance supplies including extension cords and surge protectors,
- \$80 in membership fees for a statewide professional organization affiliated with the national council of administrators of special education, and
- \$375 for a disc jockey at a school event.

Some of the examples spelled out in the School Financial Procedures Manual (SFPM) that are not to be made with school funds include

- *Basic routine operating expenses, janitorial supplies, or maintenance of school buildings,*
- *Membership dues to a professional organization,*
- *Luncheon or dinner cost or expenses not for the benefit of the student (i.e., staff/teacher appreciation, faculty outings(unless from staff social fund)).*

The school should monitor payments made to individuals throughout the school year. These procedures help ensure the District is in compliance with payroll procedures that require tax and other withholdings for employees and with IRS regulations for paying independent contractors.

In addition, we noticed a practice of reimbursing employees for making school purchases. Specifically, of the 31 disbursements tested for a total amount of \$12,530, we identified that 14 or 45 percent of the 31 disbursements were made as reimbursements to three employees. The reimbursed amounts totaled \$3,883.91 or 31 percent of the total disbursed amount. The reimbursements were for such things as supplies and uniforms, food supplies, refreshments for professional development. The amount of some of these purchases raises concern about the school's practice of allowing and/or directing employees to purchase items that are reimbursed with student's funds. For example, one purchase was for supplies and uniforms totaling \$1,400. From time to time, most schools will have checks written for employee reimbursements. However, they are not routine and typically should not be issued for large amounts.

The SFPM indicates that a Check Request Form (or Reimbursement Request Form) should be completed in advance of the expenditure, and authorized in writing by the principal, before the bookkeeper disburses funds. Checks should be issued only when supported by original vendor invoices or receipts specifying the goods/services purchased, purpose for the expenditure and the amount owed to the vendor. District guidelines also require that the availability of funds be verified before check issuance, and the activity account to be charged should be indicated on the check request form.

Changes Needed to Ensure Fundraiser Compliance

All school fundraisers were held for the entire year. The school conducted three primary fundraisers each year: a senior committee fundraiser, fund day fundraiser for school outings, and a commercial foods fundraiser to purchase food products used for meals that were sold. The concern is that the profit and loss statements and reconciliations were not prepared until year end. This means the funds were not fully accounted for until that time. Additionally, the amount of proceeds from these fundraisers was not determined until year end as well, but the amount determined was recorded as “net proceeds”, as cash from these fundraisers was used to purchase additional fundraiser items. This resulted in the school being out of compliance with procedures.

Staff should be directed to turn in **all proceeds** to the bookkeeper on a **daily** basis. Whenever money changes hands, it must be exchanged for a signed receipt. Collections should be deposited in the bank in a timely manner.

Furthermore, expenditures must be made by check and absolutely no cash payment or refund should be made from fundraiser proceeds. However, this is what occurred in 4 of the 6 fundraisers reviewed. When fundraiser proceeds are used to purchase additional fundraiser items, it reduces accountability over these funds especially where cash is being used for the transaction. When funds are collected for a school activity, they should be kept intact. The school has funds in the applicable activity accounts or the general school fund account to support these activities.

Given the schools desire to have yearlong fundraisers, the school should consider interim actions such as daily submissions and monthly reconciliations to account for all collected monies. If the school implements these or similar procedures and discontinues the practice of using fundraiser proceeds to pay for additional fundraiser items, it should help ensure compliance with fundraiser procedures.

These matters were discussed with school officials who are responsible for these fundraising activities and they stated that they were not fully aware of district procedures for fundraising activities. All persons involved with fundraising activities at the school should seek the necessary cash management training.

Untimely Deposits and Bank Reconciliations

We observed the following internal control deficiencies regarding cash deposit and reconciliation procedures:

- Six bank reconciliations--July 2011 through December 2011--were not prepared until February 13, 2012, which is between 1 to 6 months late.
- April and July 2012 bank reconciliations were also late.

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 succeeding 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

Each Principal is responsible for protecting the interest of their students and upholding the public trust vested in this position. This includes ensuring that school funds intended for the benefit of students are closely monitored and used only for that purpose. To accomplish this, school administrators must adhere to District policies and procedures designed to accomplish this objective. The use of school funds to support activities for teachers, parents and other non students is a direct violation of district procedures. Moreover, the lack of controls over fundraising activities will, in our opinion, ultimately result in losses because the current practice limits accountability for monies from these activities until year-end. This also violates district policy for fundraisers, but more importantly, reduces the level of assurance and control over these funds until the end of the year. We believe interim controls like monthly reconciliations are necessary to offset this condition.

The School Financial Procedures Manual (SFPM) is provided as the primary guidance for all school personnel responsible for checking accounts in the performance of their financial duties. Since the SFPM is in no way exhaustive of all the district's financial policies and procedures, it is also imperative that Principals work closely with the department of Cash Management for guidance related to purchases of goods and services.

Going forward, the Principal should exercise greater oversight to ensure disbursements and fundraising activities are conducted in compliance with district policies and procedures.

RECOMMENDATIONS

We recommend that the Principal of Jerry L. White take action to ensure:

- Cash disbursement are for the direct benefit of students and made in compliance with district procedures,
- Compliance with fundraising requirements for proper documentation and accountability of proceeds and disbursements.

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

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To: Odell Bailey, Deputy Inspector General – Audits
 From: Tia’Von Moore-Patton, Principal- Jerry L. White Center
 Date: April 11, 2013
 Subject: Jerry L. White Center – Financial Audit

I am writing this letter in response to the Audit Findings for Jerry L. White Center. More specifically, I am responding to the “unallowable purchases” indicated on page 5 of your “Audit Report.”

Your Findings	Our Response
\$300 in professional development for staff members	Teacher was reimbursed for food for workshop; however, we were not privy at the beginning of the year that this was not allowable.
\$378 in cleaning supplies, over \$100 in reimbursements for two staff luncheons	Specified cleaning solutions that custodians were utilizing did not rectify issues in carpet and other areas. Due to the nature of our students’ disabilities & health related concerns, our building must always remain clean & safe. Therefore, proper cleaning solutions were purchased. Additionally, our Janitorial Class, which is a part of our students’ prevocational curriculum, needed supplies for teacher instruction. Lastly, regarding the \$100 for staff luncheons, as stated previously, we were not privy at the beginning of the school year that this was not an allowable purchase.
\$378 for two small refrigerators	The refrigerators were \$400.00 each at Office Depot; as our district moves more towards being cost conscious, we found that this was not conducive to saving the district funds. Therefore, we were able to purchase two refrigerators for \$378.00 at Lowes, thus saving the district \$422.00.
\$122 for maintenance supplies including extension cords and surge protectors	We were in the process of developing our computer lab and getting it up and running. We had to purchase cords, which is a restricted item through Office Depot. Additionally, our building experiences power surges and the purchased cords assists in reducing this occurrence.
\$80 in membership fees for a statewide professional organization affiliated with the national council of administrators of special education	We do not have discretionary funds and this membership is required of me as a principal in order that I may attend the conference every year, which is also required of me; I do however, now understand that this is not an allowable purchase.
\$375 for disc jockey at a school event	This purchase was paid for out of the Senior Committee’s Fundraiser Fund, which was for the disc jockey at the senior prom

Additionally, in response to paragraph three, \$1400 for supplies and uniforms, this amount was from our Commercial Foods proceeds and is indicated on their line item. The purchases were for student uniforms and food for classroom instruction. Please keep in mind that there were no food vendors who were willing to accept a P.O. from Detroit Public Schools. Therefore, in order that the educational process of our students not be hindered, the teacher for this class had to consistently purchase food and supplies in order to effectively instruct students. Additionally, in response to the aforementioned paragraph (reimbursing employees), there is no vendor for our Commercial Sewing class. As previously stated, in order that our students' educational process not be hindered, and that effective classroom instruction may take place, supplies for classroom instruction was needed.

I am appreciative of this opportunity to respond to your findings and hope that I have provided clarity. Looking forward to a response from you and will adhere to guidelines and directives from your department.

Humbly Submitted,

Tia'Von Moore-Patton, Principal
Jerry L. White Center

Cc: Clara Flowers, Assistant Superintendent