

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

File number: 2013-FA-0015

AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Dr. Deborah Jenkins, Principal, Martin Luther King High School

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: King High School – Financial Audit

BACKGROUND

Martin Luther King Senior High School (King) is a state of the art facility emphasizing a Science, Technology, Engineering and Mathematics (STEM) Curriculum. It is a comprehensive high school which offers three examination programs within the school- Mathematics, Science and Technology (MSAT) and a Center for International Studies and Commerce, (CISC) and a College Preparatory Liberal Arts (CPLA) program. King is also the first high school designed and certified as a green high school.

The school has a world-class marching band that performed at the 2008 and 2012 Olympics. The principal, Dr. Deborah Jenkins has served as Principal of the school for three years, but previously served as a principal at two other DPS high schools. Ms. Shirley Archibald has served as bookkeeper for the school since April 2009. Ms. Archibald receives, records and deposits cash receipts and writes checks for expenditures. Each month, a 3rd party firm contracted through the Division of Finance - Cash Management, prepares the monthly financial reports and bank reconciliations. King High School 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 790,586.47 in its general checking account and paid out \$805,156.08. As of December 31, 2012, the balance in this account was \$105,281.49.

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.

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

Although all monies, based on the sample tested for the period of our review, were fully accounted for, we identified certain fundraiser practices that we believe limit the accountability over school funds; and expenditures for certain sport activities that should be paid by the District Office of Athletics. For example, for a fundraiser held in February, 2012 for the choir, the profit and loss statement showed total proceeds of \$4,031 and no expenses, but the sum of receipts supported that \$4,967 was collected and receipted. This would indicate that proceeds were used to pay for fundraiser materials. District policy requires that no cash payments or refunds in cash should be made from fundraiser proceeds.

The school has a practice of reimbursing employees for purchases for which no evidence exist to indicate the purchases were pre-approved by the principal as required by District policy. Of the 66 cash disbursements reviewed, we found that 30 were to individuals, most of whom were employees. Fifteen or one half of these disbursements to individuals were to one person. In some cases the amounts were significant. For example; we noted that this person was reimbursed for two purchases on the same day totaling \$2,882. Although the expenditures were allowable, the purchases should have been pre-approved by the principal using a check request. This would have permitted the principal to assess the necessity and reasonableness of the purchases. When employees are allowed to purchase items without having them pre-approved, it denies the principal who has the fiduciary responsibility for the funds to decide whether or not it is a reasonable and necessary item. It also poses the risk that the account could be overdrawn in some circumstances.

We also noted payments to referees and ticket takers that were paid from the School's checking account. Apparently, there was some confusion about non-revenue generating sports referred to as club sports. The school was under the impression that they were responsible for any cost incurred for club sports. However, all expenses related to athletic events at the school with the exception of those directly sponsored by the Michigan High School Athletic Association (MHSAA) should be paid by the Office of Athletics.

In addition, the audit found for the period in question, bank reconciliations for the months of July 2011, December 2011 the reconciliations were not completed timely. Bank reconciliations along with the other records completed by the third-party accounting firm provide a level of assurance that all transactions are being properly recorded and accounted for and that they agree with activities documented by the bank. However, we noted that the District did not renew the contract of the third-party firm until January 2012. The delay in renewing the contract resulted in the late bank reconciliations for this and other schools. The District should implement an alternate strategy to ensure reconciliations are prepared timely.

We found three checks; two written in February 2012 and one in June 2012, totaling \$660 that had not been cashed in over 6 months. District policy requires that checks outstanding for 6 months should be cancelled and credited back to the account. Our tests revealed five untimely bank deposits. In 3 of the 5 cases, the amount of time was 21 days after the scheduled armor car pickup, which occur bi-weekly. Not only should funds be deposited as soon after collection as possible, but the District pays \$75 for each trip the armor car service makes to a school; whether a deposit bag is picked up or not.

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 King'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 King 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

Tighter Control over Fundraisers Needed to Improve Accountability

For the audit period July 1, 2011 through December 31, 2012, King High School had eight documented fundraisers; 6 of which were properly approved by the principal and Assistant Superintendent. However, we found check disbursements to the band director for such things as music supplies and for reimbursement for a fundraiser that we could not tie to a documented fundraiser. Our review of the documentation revealed that some fundraisers are not adequately documented. Furthermore, some of the cash activities related to the band fundraisers are not always properly supported. For example, a school concert Jamboree fundraiser held in December 2012, where students paid a fee to attend, but no transmittal letter listing the students who had paid and no pre-numbered tickets were used to account for the amount of funds collected. This coupled with a lack of supporting documentation for profit and loss statements significantly reduces accountability over funds.

We also noted that for a choir fundraiser held in February 2012, the profit and loss statement showed total proceeds of \$4,031 and no expenses; but the sum of receipts supported that \$4,967 was collected and receipted. This would indicate that proceeds were used to pay for fundraiser materials. District policy requires that no cash payments or refunds in cash be made from fundraiser proceeds.

Other fundraising irregularities included conducting fundraising activities outside of the approved period; failure to use school checks for fundraising materials; failure to deposit fundraising proceeds in a timely manner; and a failure to have fundraising activities approved by the principal in one of the 8 fundraisers reviewed.

Given the volume of fundraising activities and the amount of funds that can be generated, the importance of having fundraising activities approved and proceeds deposited in a timely manner is critical. The lack of profit and loss documentation not only denies the principal and sponsors of an opportunity to assess the profitability of fundraising activities, but it also limits accountability over any remaining inventory from the fundraiser which is to be documented and accounted for on the profit and loss statement.

Several Cash Disbursements For Employee Reimbursements

Of the 66 cash disbursements tested totaling \$52,066, representing 6 months of activity throughout the audit period (i.e., one month per quarter), we found that 30 of these disbursements totaling \$10,620 were to individuals; most of whom were employees. Fifteen of these reimbursements were to the same individual and appear to be for an activity that has its own account with ample funds available. This raises the concern that purchases are being made by school staff with personal funds without evidence of the principal's pre-approval. The procedures specifically state that "Authorization must be granted before a purchase is made for reimbursement".

In those cases where ample funds for a given activity are available, procedures require that the sponsor or designated staff member complete a check request form to the applicable activity account. This allows the principal to review the request for necessity and reasonableness. One such purchase was for passports most likely for band members to travel to London, England to perform at the Olympics. Although the purchase was allowable as an incentive for band members, the appropriate procedure would have been to request a check from the band activity account versus paying for the passports with personal funds and seeking reimbursement. The reimbursement action, though commendable, violates procedures and should be avoided unless absolutely necessary.

Activity sponsors and others seeking reimbursements for purchases made should be aware that employee reimbursements may be declined for purchases made without authorization.

Athletic Expenses for "Club Sports" Paid by School

We noted several school expenditures for athletic activity that included payments to referees, ticket takers and game monitors. In each case, the activities were "Club sports" or non-revenue generating sports like track and soccer. Revenue related to athletic services is to be deposited into a separate account where funds are ultimately sent back to the District's athletic department. Any expenditure related to this revenue should be paid by the District's athletic department. Most of the athletic personnel expenditure found at the school level is for individuals who assist with game management like referees and others who collect fees for admissions. In some cases, these are school employees while others include parent volunteers or people from the community. Those providing such services are eligible for a small payment. However, under no circumstance should these volunteers (district or non-district employees) be paid out of the school's checking account.

District procedures require that all persons providing services for athletic events (DPS and Non-DPS staff) should complete the district "Receipt for Payment for Athletic Game Service" or Form AC-24. The form captures key information that dictates how the person should be paid. This is important because it helps the District comply with IRS regulations. Specifically, if an employee is to be paid for services rendered at an athletic event, that payment should come through the payroll office and be computed with the employee's regular pay. On the other hand, if the volunteer is not a district employee, they have to complete a W9 and the District's Athletic Office will work with the Accounts Payable Division to process a 1099 for that employee, if the annual amount totals \$600.

The principal was under the impression that the school was responsible for expenditures for club sports, and therefore, they failed to comply with District procedures for paying volunteers for their services at club sport events.

In addition to the risk of violating IRS policy, the practice reduces local school funds for the purpose for which they were intended.

Late Bank Reconciliations

The District contracts with a third-party firm to prepare monthly financial records including bank reconciliations for the school. The contract requires that bank reconciliations be prepared by the 15th of the subsequent month.

Our audit found that for the period in question, bank reconciliations for the months of July 2011 and December 2011 were not completed timely. The July bank reconciliation was not completed until January 27, 2012, or 5 months later; while the December reconciliation was not completed until March 23, 2012 or two months late. Although the February 2012 bank reconciliation was recorded as being late, it was prepared in the appropriate month and allowed for a monthly review of activities.

Bank reconciliations along with the other procedures completed by the third-party firm provide a level of assurance that all transactions are being properly recorded and accounted for and that they agree with activities documented by the bank. More importantly, if an irregularity or missing funds is identified, it is critical that this occurs in a timely manner to correct the irregularity or to facilitate an investigation into missing funds.

The actual delay in completing the July and to a lesser extent the December reconciliation was not the fault of the school or the third-party firm. In a memorandum dated January 9, 2012 from the District's Finance Department, it states that the District retained the services of this third-party firm to complete school bank reconciliations and they would begin with the month of July 2011. In this regard, we believe the District should be more proactive in its efforts to timely renew this contract given the risk of going several months without having this service.

Outstanding Checks Not Adjusted Timely

The School Financial Procedures Manual requires that checks that have not cleared the bank within 6 months should be written back into the general ledger as a credit adjustment to the charged activity account. We found three checks that were not cleared within this timeframe.

Table 1.1: Outstanding Checks

Check No.	Check Date	Amount	Cleared As Of	No. of months outstanding
1879	2/15/2012	\$275	9/12/2012	7 months
1904	2/29/2012	\$55	9/12/2012	6.5 months
2172	6/16/2012	\$330	12/6/2012	6.5 months

When school-issued checks are not cashed in a timely manner (i.e., within 6 months) the bank can refuse to cash the check. Until the check is cashed, the checking account from which the check is written will be unbalanced. The online banking feature available at all high schools is designed for school officials to monitor such things as outstanding checks. Each of these stale-dated checks should be voided and written back into the general ledger as a credit adjustment to the charged activity account.

Bank Deposit Timeliness

We identified 5 incidents of untimely deposits out of a sample of 47 deposits representing 6 months of activity (one quarter per month) for the audit period. Three of the 5 deposits were 21 days after the scheduled armor car pickup. The remaining two were deposited 3 and 4 days, respectively after the scheduled pickup. Although funds are secured in a locked safe, experience has shown that the longer funds remain onsite, the greater the risk they could be stolen.

In addition, the District pays \$75 for each scheduled armor car service per school; whether or not a deposit is picked up. The SFPM which covers cash management systems for schools requires that deposit bags are prepared the night before a scheduled pickup. If for any reason it is determined that a deposit bag will not be ready for pick up, the school bookkeeper is to notify the armor car service at least 24 hours to avoid the expense. The procedures also require that the principal ensure that staff members are available to facilitate the pickup of funds by the armor car service.

CONCLUSION

School checking accounts were established as a means for school officials to carry out and pay for activities designed for the interest and benefits of the students. Fundraisers are a key source of funding for most schools, particularly those that have high performing programs like King's Band Program. Given the success and notoriety of this program, many businesses and members of the community are supportive and demonstrate that support through financial donations. As such, the amount of funds that are generated can be significant. With this in mind, school officials must be mindful to adhere to established procedures that ensure that activities that generated these funds are properly approved and documented. This includes the purchase of supplies for school activities and items for fundraisers. Allowing even trusted employees to purchase items to be reimbursed without having such purchases pre-approved reduces the assurance that all purchases are necessary and reasonable.

Moreover, each high school has both revenue generating and non revenue generating sports. All revenue generated from ticket sales is to be remitted to the Office of Athletics. Similarly, all expenditures are to be paid by the Office of Athletics or the District's payroll office. However, we noted that the school paid referees and ticket takers for certain non-revenue generating sport activities. School officials were under the impression that they were responsible since these sport activities do not generate revenue. This is not the case. Any game official or participant for any sport activity should be paid through the central administration. Each school has an athletic director who should be familiar with the required procedures for payments to game officials.

The cause of the late bank reconciliations was the District's failure to renew the contract of the third-party firm that prepares the reconciliations. However, most high schools, including this one, have bookkeepers who have been trained on preparing bank reconciliations and the District has a Cash Management office that is responsible for providing oversight for these funds. If the District could not renew the contract in a timely manner, other strategies including having the bookkeepers prepare the bank reconciliations with assistance from Cash Management should have been employed. The failure to do this resulted in bank reconciliations not being prepared for months, which limits the assurance that all cash activities are being accounted for and deposited.

Going forward, the Principal, the bookkeeper and activity sponsors should refer to the SFPM to ensure fundraising activities comply, fees for athletic services and reimbursements to employees are properly handled and outstanding checks are monitored and addressed in accordance with these procedures.

To facilitate schools in complying with timely bank reconciliations, the District's Cash Management office should employ alternate strategies when third-party services are not readily available.

RECOMMENDATIONS:

We recommend that the Principal of King HS ensure:

- That all fundraising activity is properly approved and fully documented in accordance with district procedures,
- That proceeds from fundraising activities are kept intact and not used to reimburse for fundraising materials or supplies,
- That all athletic expenditures are forwarded to the Office of Athletics to be paid and fees to referees and ticket takers for services rendered are processed in accordance with district procedures,
- That outstanding checks exceeding 6 months are cancelled and credited back to the remitting account, and
- That deposit bags are prepared the night before a scheduled pickup to ensure that deposits are made timely and to limit the District's expense for armor car service.

We recommend that the director of Cash Management:

- Coordinate with the CFO to ensure that the contract for the 3rd party firm that prepares financial records for the schools is renewed timely to ensure schools can comply with procedures.

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

Martin Luther King, Jr. Senior High School
3200 E. Lafayette
Detroit Mi 48207

April 12, 2013

Mr. Wilbert Marsh

Thank you for your assistance and please find below the Martin Luther King, Jr. Senior High School Audit Report Response.

1. Recommendation Responses:

- a. Ensure that all fundraising activity is properly approved and fully documented in accordance with district—**We agree** and will follow district policy.
- b. Ensure proceeds from fundraising activity are kept intact and not used to reimburse for fundraising materials or supplies—**We agree** and will follow district policy; however, clarity is requested. Please explain how to reimburse the sponsoring fundraisers who purchase the items to support the fundraiser.
- c. Ensure that all athletic expenditures are forwarded to the Office of Athletics to be paid and fees to referees and ticket takers for services rendered are processed in accordance with district procedures—**We agree and will follow district policy.** MLK High School was a State of Michigan selected venue for non-league games and was directed by the DPS Office of Athletics to pay the aforementioned. Please ensure that the Director of Athletics is following the policy. For clarity, will the checks for the officials be pre-processed or will someone from Central Office be on location to process the checks on the evening of the event?
- d. Ensure that outstanding checks exceeding 6 months are cancelled and credited back to the remitting account—**We agree and will follow the process at this point moving forward.**
- e. Ensure that deposit bags are prepared the night before a scheduled pickup to ensure that deposits are made timely and to limit the District's expenses for armored car service. **We agree**, but the late pick up should not be charged to King HS. The armor car never showed. We alerted the DPS Cash Management office and the responsible parties. We have emails as supporting documentation.

Submitted: Deborah Jenkins, Principal