

DETROIT PUBLIC SCHOOLS
Office of Inspector General



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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Natasha Baker, Chief Innovation Officer
Michelle Parker, Principal, Medicine & Community Health Academy at Cody

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Delores A. Brown, Deputy CFO and Chief Accounting Officer
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: Medicine & Community Health Academy at Cody – Financial Audit

BACKGROUND

Medicine & Community Health Academy at Cody (Cody MCH) is part of the Detroit Rising self-governing Network of schools within the Detroit Public Schools district. Cody MCH is a small high school that exposes its students to career information in the medical field and allows them to earn college credits while attending high school. The school has an enrollment of approximately 450 students in grades 9 through 12; who undertake college prep courses, foreign language classes, job shadowing, CPR training; among other offerings. Ms. Michelle Parker has served as Principal of the school for 2 years. The school bookkeeper is Ms. Marietta Vasilije. 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. Cody MCH, 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 \$27,141.93 in its general checking account and paid out \$10,450.65. As of December 31, 2012, the balance in this account was \$18,321.25.

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. Cody MCH has 5 activity accounts including the general account. The other accounts are: Athletics Administration, Senior Dues, Senior Activities and Social Committee.

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 procedures require school principals to 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 cash management responsibilities throughout the process, which is designed to ensure accountability over student funds. The ultimate responsibility for all financial activities at the school level rests with the school principal. It is essential that the principal designates other responsible individuals at the school, to assist as check signers, as well as undertake other financial responsibilities. However, in our review of school and bank records, we noted a need to address the designation of authorized account signers for the school, who in our opinion should be employees at the school.

Other concerns included the failure to follow cash receipt procedures to ensure that receipt forms were properly completed. We identified receipt forms that were missing pertinent information such as the activity account. Also, remitters of funds were not always provided copies of the receipt form. Furthermore, receipt forms were not adequately supported with documentation including copies of checks sent for deposit. At a minimum, this deficiency presents a risk of not having the required payer information available in the event that collection procedures become necessary as result of deposit of a “non-sufficient funds” check.

We also determined that the school did not always comply with fundraising guidelines related to staff remitting fundraiser proceeds on a regular basis, and ensuring that fundraiser items are purchased with school checks. We find that it is not only necessary, but helpful, for the principal to maintain strong internal control over fundraising activities in order to evaluate the success of a particular fundraiser event and the ability of the sponsor to account for money raised.

The 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 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 Cody MCH 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 Cody MCH 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.

AUDIT FINDINGS

Improper Selection of Authorized Signers on School Account

Cody MCH has 3 authorized signers on the school account; namely, Principal Parker, the bookkeeper Marietta Vasilije and Mary Kovari, who is principal for Detroit Institute of Technology College Prep at Cody. With respect to the latter individual, although this does not necessarily constitute a policy violation, we find that the selection of an individual that is not an employee of Cody MCH, but principal for a different school, reduces the level of assurance this procedure was designed to provide. At a minimum, when any individual authorizes disbursements at a school, he or she assumes the responsibility and liability for these expenditures. The SFPM indicates that; “Before (you) affix your signature on a check, the authorized signor is responsible for reviewing the disbursement package to verify that: (1) the purchase was pre-approved on a properly completed check request form, (2) that the expenditure is valid (proper supporting documentation, sufficient funds are available to cover the disbursement, and that it is charged to the correct activity account); and (3) that it is a proper use of general school funds”. Since Kovari is not an employee at Cody MCH, it is questionable whether she would be in the best position to determine whether a disbursement meets all elements defined above; and most importantly, that the specific expenditure is in the best interests of Cody MCH.

The SFPM also requires each school to have “a minimum of two and maximum of four check signers” The principal should consider designating another individual, who is employed at Cody MCH, for this responsibility.

Untimely Bank Reconciliations

We noted that bank reconciliations for 4 out of 6 months sampled (or 67%) were not prepared, as well as reviewed and approved by the principal within 15 days following month-end, as required. 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 a responsibility of the Division of Finance (Cash Management department). However, the annual contract for FY2012 School Accounting Services was not signed off until January 2012, and was not renewed for FY2013 until mid September 2012, but the third-party 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 require further investigation, 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.

Inadequate Procedures Regarding Cash Receipt Processing

We noted certain deficiencies regarding the processing of cash receipts. For example, receipt forms were not completed in their entirety to indicate the activity account name or number being credited. Also, the original (white) copy of the receipt form was not always distributed to the remitter of funds. Additionally, we also noted that receipt forms 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. "Funds should be recorded on pre-numbered triplicate receipt forms, or Form AC-1 (Report of Cash Deposit). The activity fund sponsor or remitter of the funds should get the original (white) copy of the receipt, and the yellow copy is to be maintained in the monthly receipts binder with the support documentation. The pink copy is to remain intact in the receipt book. In addition to the total amount, the receipt form should include the fund/activity account and purpose for which the funds were collected." 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. Besides providing an audit trail, this procedure ensures the necessary payer-identifying information is available to pursue collection in the event that checks are returned due to insufficient funds on the payer's account.

Lack of Accountability for Fundraiser Activities

In our review of fundraiser documentation, we noted that the school initiated 2 fundraiser activities during the month of October 2012; namely, a bake sale and a school gear & apparel sale. Both activities were authorized by the principal, and according to the "Approval for Fundraiser forms" that were completed, the anticipated ending date for the activities is June 2013. We recognize that the principal indicated in her response to the preliminary survey prior to audit fieldwork, that proceeds were submitted on a daily basis. However, we were unable to trace any deposits made, so far, related to these activities; as there was no record in the Cash receipts ledger; neither did we find any record of check disbursements related to the fundraisers in question. Without any evidence of receipt or disbursement transactions, it appears that fundraiser proceeds are not being deposited appropriately, as required. Additionally, it is likely that proceeds are being diverted towards purchase of additional fundraiser items, in cash, versus following the procedures for requesting a school check.

Cash management guidelines related to fundraisers provides that: "Some school fundraisers may extend over a long period of time (e.g., a week-long book fair). Nevertheless, the sponsor is still required to deposit any collections (proceeds) to the bookkeeper on a daily basis. In this case, the sponsor should keep an on-going record of deposits made as the fundraising event progresses. Once the fundraiser is completed, a Profit/Loss Statement will be submitted to the bookkeeper (and principal) that should be reconciled to the record of all deposits that were made with the bookkeeper during the duration of the fundraiser event." Sponsors are strictly prohibited from keeping general school funds for long periods on hand; which increases the risk of misappropriation or theft. Furthermore, fundraiser sponsors are required to make purchases for fundraiser items through the requisition of a school check.

CONCLUSION

School principals are ultimately responsible for the collection, distribution, and accounting for all general school funds. The principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. The School Financial Procedure Manual (SFPM) is provided as 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 compliance with district policies and procedures. It is also necessary that school personnel, such as activity account sponsors, that are involved in financial responsibilities be reminded of their responsibility for maintaining proper records and accountability of funds collected from the student body.

RECOMMENDATIONS:

We recommend that the Principal of Cody MCH ensure that:

- Appropriate individuals are designated as authorized signers on the school account,
- All incoming funds are receipted, and that supporting documentation of receipts including copies of checks received for deposit, are maintained in the school records, and
- Fundraiser proceeds are timely deposited in accordance with district procedures ; and also, that school checks are requisitioned to purchase fundraiser items.

We recommend that the District's Department of Cash Management ensure that:

- 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. 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

DETROIT PUBLIC SCHOOLS

**Medicine & Community Health at Cody
18445 Cathedral
Detroit, MI 48228
(313) 866-9200
Michelle Parker, Principal**

April 12, 2013

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3011 W. Grand Blvd.
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RE: Medicine & Community Health Academy at Cody-Response to Financial Audit

Audit Findings

Improper Selection of Authorized Signers on School Account:

I agree. As per the Accounting manual, we are required to have a minimum of two and a maximum of four authorized signers. We currently have three authorized signers, the Principal, the Bookkeeper and one additional signer in case one of the authorized signers is unavailable. At the time of our account setup, on Tuesday, August 21, 2012 at the Principals' Symposium, First Independence Bank requested that each school have more than two authorized signers for the Bank Account. During that time the only authorized signer available in addition to me, was Clerical Marietta Vasilije (who had already been assigned to MCH at Cody). At that time, MCH official staff was not finalized, therefore it was suggested that Mary Kovari Principal of Detroit Institute of Technology at Cody (Principal who serves on the same Cody Complex) be the other authorized signer. As she is also abreast of District requirements as a Principal and located within the same building, Ms. Kovari was the best option at the time.

Corrective Action:

Mary Kovari will be removed as an Authorized Signer for Medicine & Community Health Academy and replaced by a member of the MCH staff.

Untimely Bank Reconciliations:

I agree, however this is the responsibility of Cash Management and recommend monthly bank reconciliations are conducted in a timely manner.

Inadequate Procedures regarding Cash Receipt Processing:

I agree. Medicine & Community Health Academy will implement procedures that are in compliance with the DPS SFPM. All receipts will indicate required information, including: account fund numbers. In addition, we did have copies of the checks on file However; they were not attached to the deposit form. We have since implemented the following proper procedures: Copy the check that is to be deposited and attach to the Deposit Summary Slip.

Lack of Accountability for Fundraiser Activities

I agree that additional measures should be taken to ensure accountability for fundraising activities. Please note that the fundraisers were properly approved in October 2012 for Senior fundraising which included bake sales and apparel sales. The activity began in November 2012. Cash collections related to the Senior fundraising can be evidenced by written receipts and checks were issued for cash disbursements.

Corrective Action:

Going forward, all procedures pertaining to the DPS School Financial Procedures Manual will be implemented fully to ensure compliance with Detroit Public Schools.

Sincerely,

Michelle Parker, Principal