

DETROIT PUBLIC SCHOOLS

Office of Inspector General



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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Belinda Raines, Principal, Northwestern High School

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

FROM: Odell Bailey, Deputy Inspector General - Audits

DATE: April 22, 2013

SUBJECT: Northwestern High School – Financial Audit

BACKGROUND

Northwestern High School (Northwestern) offers two career of choice academies. Each academy is directed by a lead teacher to assist in establishing and maintaining high academic standards as students are promoted toward graduation and college matriculation. Northwestern academies offer every student a robust and individualized learning experience to prepare them for college and careers in Science, Technology, Engineering, and Mathematics (STEM) and Business.

For the current school year, Northwestern has an enrollment of 727 students. Ms. Belinda Raines has served as Principal of the school for 4 years and 3 months. Ms. Tracey Spencer has served as the school's bookkeeper for 5 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. Northwestern, 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 \$77,327.55 in its general checking account and paid out \$71,808.56. As of December 31, 2012, the balance in this account was \$6,556.90.

The major sources of funds deposited into the school's account include: fundraising activities, vending commission 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. Northwestern has 13 activity accounts including the general account. The other accounts are: Library Fund, Athletic Administration, JROTC, Boys Basketball, Football Club, Boys Tennis Club, DECA, Senior Class, Dance, Student college tours, National Honor Society, and Student Government.

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 (GSFs).

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 found that the school is not consistently complying with procedures for documenting incoming cash receipts or preparing those receipts for deposit. In total, we identified over \$13,000 in unreceipted cash. Also, two receipts totaling \$500 were collected in December 2011, but not deposited until nearly 90 days after they were collected. This occurred even though the school has weekly scheduled armor car pick-ups. Approximately 10 scheduled pick-ups happened before the funds were eventually deposited in March, 2012. When coupled with the school's failure to document the types of funds on deposit forms, it creates an opportunity for funds to be misappropriated by replacing cash with checks in the appropriate amount. We found no evidence that would support this is actually occurring, but it is enough of a concern to warrant further investigation by the Office of Inspector General's investigative team.

The school did a better job of complying with procedures for disbursements. Of the 12 disbursements tested for several attributes, only 2 exceptions were noted. In November 2011, the school purchased charts and other supplies from Office Depot for staff professional development in the amount of \$105.43. Using school funds to support teacher and staff professional development is prohibited. In addition, the District is under contract with Office Depot and therefore purchases from Office Depot outside of this process are not permitted. A reimbursement to a staff member included sales tax, but the amount was subsequently repaid as required.

The audit also revealed that athletic revenues are comingled with general school funds and one of the two ticket sales reports tested did not agree with the deposit amount. For example, we noted that cash receipts in the amounts of \$470 and \$650 for boy's basketball and the football club were deposited in the schools bank account for the month of July. Funds received from concession sales and fundraisers can be deposited in the school account, but gate receipts are considered District revenue. We found no evidence to support these funds were sent for deposit to the District account as required by procedures. We also found that the school included pre-sales revenue with gate sales on the same sales report, but there was no break out on the form. Instead, just a cash amount and the number of tickets was documented.

Our test work determined that for 1 of the 6 months tested, the general school fund account had a \$7,800 negative balance. Further audit work identified another 4 cases where funds were transferred from one account to another to cover negative balances. In each case, the transfer was made after the months-end. District procedures stipulate that the utmost caution should be taken to ensure that each activity account has a positive balance at month's end.

We also found that the inter-fund transfer forms to address the negative balances were not completed properly. None of the forms reviewed had transfer numbers and each was only signed by the principal as the authorizing sponsor. The School Financial Procedures Manual requires that no funds should be transferred between activity accounts without the principal *and* the applicable activity sponsor's signature.

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 within the agreed upon timeframe, in order to ensure compliance with district policies and procedures.

OBJECTIVE, SCOPE & 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 Northwestern 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 Northwestern 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

Unreceipted Funds Reduce Accountability over Funds

We noted that the school does not consistently document all incoming cash with cash receipts. We identified 12 instances during the audit period where the school did not receipt incoming cash.

Table 1.1: Unreceipted Funds and Amounts

Description	Amount
Wire transfer from Cash Management	\$ 7,690.39
Check 238694 from DPS for vending machine commissions	\$ 2,367.50
Check 238693 from DPS for vending machine commissions	\$ 460.34
Check 678158 amount substituted for 2 checks received from Cash Management	\$ 567.51
Check 678158 amount substituted for 2 checks received from Cash Management	\$ 1,799.99
Check numbers 782847/78248 amounts substituted for this check	\$ 500.00 (2 payments of \$250)

Periodically, the Cash Management department sends funds via wire transfer to the schools as part of their allocation. We have noted that other schools do not always receipt these funds as required. However, the vending machine commissions raise a concern largely due to the principal's survey response which indicated that the school does not receive these commissions. We were not able to confirm the purpose for the substitution of checks for cash related to the last three entries.

The total amount of these unreceipted funds is \$13,385.73. When funds are not receipted and properly documented on the cash receipt ledger, it can cause the school's general ledger to be out of balance with the bank statements. However, a greater concern is that it creates an opportunity for misappropriation of funds by replacing cash with checks of the appropriate amount. Conditions like the two December 2011 receipts totaling \$500 that were not deposited until March 20, 2012 are of concern. The bank notified the school that the deposit bag for December was short by \$500. After researching the matter, the bookkeeper stated that she determined that the cash received for two cash receipts had not been included in the deposit. The cash sheet and deposit summary balanced because she had not completely zeroed out the cash sheet used for the prior month which listed two checks for \$250 each. The bookkeeper subsequently discovered that the funds had been inadvertently put in an envelope and filed in a drawer.

Although the amounts reconciled, the failure to safeguard the funds by placing them in a deposit bag and the delay in making the deposit are violations of procedures and therefore a concern. The SFPM specifically requires that all deposit tickets should reference the receipt numbers included in the deposit. In addition, all cash received should be deposited as soon after collection as possible. Incomplete and or incorrect receipt and deposit records impact deposit verifications intended to identify potential frauds and errors. Furthermore, untimely deposits increase the risk of theft, loss or misappropriation of school funds; as well as the risk that the bank may not accept untimely check deposits (i.e. stale-dated checks).

Cash Receipt Type Not Documented

In addition to the unreceipted funds discussed above, we tested 14 cash receipts for compliance with District procedures. We found that the school followed procedures in the 13 areas tested with the exception of four receipts where the type of fund was not broken out. That is, there was no indication whether the funds were received in coins, cash, check or money order. The total amount of the 4 exceptions was just over \$2,700. In accordance with District procedures, cash receipts are not complete in their entirety unless they include a breakdown of the deposit-including the type of funds remitted, i.e., checks, money orders, and coins. Without this type of detail about the cash receipts on the deposit form, it facilitates the ability to exchange cash for checks without detection as discussed above.

Lack of Receipt Numbers on Deposit Tickets

The audit identified a consistent pattern of the school's failure to document cash receipts properly when testing whether bank deposits are received intact and whether checks are individually listed and receipt numbers are referenced on deposit tickets. For the eight deposits tested, 7 did not have receipt numbers referenced on the deposit ticket. For the remaining deposit for July 2011, no funds were available for deposit so the receipt numbers were not applicable. The SFPM requires that receipt forms be accurately completed to provide an audit trail of all funds received for deposit.

The February 16, 2012 deposit was not intact. Cash was received from the Athletics department with no backup. The receipt book showed \$1,200, but the deposit ticket indicated cash in the amount of \$675 and three checks totaling \$525.00. The three checks totaling \$525.00 had no

backup or support (copy of the check). School financial procedures require that the bookkeeper use the Summary of Cash Deposit Form to assist in counting and verifying funds prepared for deposit. This would address the concern noted during the audit. Incomplete and or incorrect receipt and deposit records impact deposit verifications intended to identify potential frauds and errors.

Most School Disbursements Comply With Procedures

School officials did a better job of complying with district procedures when disbursing funds. Of the 12 disbursements tested for several attributes including proper requisition and approval, supporting documentation and agreement with sub-ledger accounts, only 2 exceptions were noted. However, in November 2011, the school purchased charts and other supplies from Office Depot for staff professional development in the amount of \$105.43. Using school funds for teacher and staff professional development is prohibited. In addition, the District is under contract with Office Depot and therefore purchases from Office Depot or other vendors, outside of this process, are not permitted.

Another disbursement for \$37.10 included sales tax. According to a note from the accounting firm that prepares the financial records for the school, the tax paid by the staff member was initially reimbursed by the school, but later refunded by the staff member. The District is a tax exempt institution; guidelines prohibit reimbursements for sales tax paid on authorized purchases. In the event that sales tax is paid on purchases (or billed to the school), the sales tax amount should not be included in the reimbursement to an employee (or paid to a vendor).

Athletic Revenues Comingled And Ticket Sales Not Calculated Properly

Federal guidelines stipulate that all athletic revenue should be separated from the school's general funds and deposited into an Athletic Revenue fund at the district level. However, it appears the school is comingling athletic revenues with general school funds. For example, we noted that cash receipts in the amounts of \$470 and \$650 for boy's basketball and the football club were deposited in the school's bank account for the month of July. Funds collected from concession sales and fundraisers can be deposited in the school account, but gate receipts are considered District revenue. We found no evidence to support these funds were deposited into a separate account as required by district procedures. The District received an audit finding for the Year Ended 2011 external audit for comingling athletic revenue with school funds.

In addition, the amount of pre-sales and gate sales sold should be documented on two separate ticket sales reports. Our review of two athletic events held at the school—both varsity football games—found only ticket sales reports for the October 2012 game. The amount from the report did not reconcile with the deposit amount.

- *The SFPM requires that the total amount collected (and deposited) for gate receipts should agree with the total number of ticket sales.*

Our review of these records revealed that only a total cash amount and number of tickets sold was documented on the report.

Negative Account Balances and Incomplete Transfer Forms

District procedures set forth in the school financial procedure manual require that the utmost caution be taken every month to prevent any activity account from ending in a deficit. The procedures also require that inter-fund transfers between activity accounts, even though are allowable, have to be properly documented to include date of transaction, transfer numbers, and the approval signatures of both the principal and the applicable activity sponsor. For reimbursable transfers (i.e., transfers that are to be repaid) the form should include a reference to the initial transfer (transfer number required).

Our audit revealed that for 1 of 6 months tested (July 2011), the general fund activity account had a \$7,800 negative balance. Additional audit work found 5 other instances where funds were transferred after the fact to clear up negative activity account balances.

The table below illustrates the inter-fund transfers to address negative balances and the repayment of a loan. It also illustrates problems identified with incomplete transfer forms.

Table 1.2: Inter-Fund Transfers – Negative Balances and Loan Repayment

Month	Transfer Date	Transfer Number	Amount	Account From	Account To	Authorizing Disbursing Sponsor	Authorizing Receiving Sponsor
May-12	6/7/2012	Missing	\$432.99	Senior Fund	JROTC	Belinda J. Raines	Missing
Jun-12	7/6/2012	Missing	\$1,625.57	Athletic Admin	Senior Class	Belinda J. Raines	Missing
Jul-12	9/28/2012	Missing	\$37.01	JROTC	General Fund	Missing	Missing
Oct-12	11/13/2012	Missing	\$450.56	Athletic Admin	Football Club	Belinda J. Raines	Missing
Oct-12	11/13/2012	Missing	\$31.11	Admin. Fund	General Fund	Belinda J. Raines	Missing

Each of the transfers with the exception of the July 2012 transfer was prepared to clear negative balances. In each of these cases, the date of the transfer is after the month end. This indicates that the school is reacting to the condition versus avoiding it as required. District procedures stipulate that the utmost caution should be taken to ensure that each activity account has a positive balance at month's end.

The transfer made in July 2012 was to repay a loan. However, each form including this one did not have a transfer number. For loan repayments, the form also requires that the original transfer number when the loan was made be referenced on this form to assist in verification of the reimbursable transfer.

Another violation of procedures is that only one person; in this case, the principal, is authorizing these inter-fund transfers. The SFPM states that: *“Even though transfers do not involve releasing checks, they are never to be posted without the signatures of the Principal and the respective activity fund sponsors involved in the transactions.”*

The collective adverse effect of these actions is that accountability and transparency over school funds is diminished. The school could benefit from revisiting the procedures for transfers and being more proactive in managing activity accounts to ensure that month-end balances are not in a deficit condition.

Late Bank Deposits

We tested 24 receipts to determine whether they are being deposited timely in accordance with the armor car schedule. For the most part, the school complied in ensuring timely deposits with an average of 4.72 days from receipt to deposit. However, three deposits; two made on November 9th and one on February 16th were late by 13 and 11 days, respectively.

District procedures require that cash receipts be deposited as soon after collection as possible. Cash Management recommends that schools cancel the scheduled pick up, in advance, if for any reason the deposit is not ready. Schools can cancel the service directly if they contact the armor car service 24 hours before a scheduled pick-up. This is important because the District is charged \$75 for each armor car serviced date whether or not a deposit bag is picked up or not.

Additional audit work determined that two cash receipts (782847 and 782848) received in December 2011 totaling \$500 were not deposited until March, 2012, or nearly 90 days after the receipt date. The school is scheduled for weekly armor car pickups and had 3 in December, 4 in January and 3 in February for a total of 10 pickups prior to the funds being discovered for deposit. The accounting firm noted this issue and documented it on the March 2012 bank reconciliation as an adjusting journal entry. Although the monies were eventually accounted for, it raises serious concern about why funds were not deposited for nearly 90 days.

Also, four cash receipts dated July 9, 2012 were not deposited until September 7, 2012; nearly two months after receipt; but armor car service is suspended during summer months and schools are required to contact Cash Management to arrange for pickups for deposits. However, we recognize that some schools may not be familiar with this option, which leaves funds held until armor car service resumed in September. This increases the risk that school funds may get lost or misappropriated when held for long periods of time at the school.

Untimely Bank Reconciliations

We noted that bank reconciliations for 3 out of 6, or 50 percent of the sample tested were not prepared, reviewed, or approved by the principal within 15 days following month-end, as required. Our tests found that July and November 2011 reconciliations were not prepared until February 16, 2012. Additional audit work determined that six months of bank reconciliations from July through December 2011 were not prepared until February 2012. We also determined that the bank reconciliation for August 2012 was prepared 13 days 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 following 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

Some of violations noted in this audit raise concern about school practices related to cash receipts and deposits that diminish accountability and transparency over student funds. The Principal's response to our preliminary audit survey indicated that the school does not receive vending machine revenue. However, the audit determined that this is not the case. More importantly, some of the unreceipted funds were for vending machine commissions received by the school. Although this may have been an oversight, it increases the level of concern about how effectively school funds are being managed. For this and other reasons noted in this audit report, we believe further investigation is warranted.

In terms of disbursements, we found only minor infractions, one related to sales tax that was addressed prior to the audit.

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. The basic purpose for collecting or raising and expending of activity funds must be for the direct benefit of the students or for the general benefit of the school.

RECOMMENDATIONS:

We recommend that the Principal of Northwestern take action to ensure:

- That all incoming funds are receipted, accurately recorded in school ledgers and agreed to deposit records;
- That proper procedures are followed for disbursement of school funds, including exercising due diligence to avoid payments for sales tax,
- That proper procedures are followed for the inter-fund transfer of school funds including obtaining the signature of the receiving or authorizing sponsor,
- That activity accounts are proactively managed to avoid deficit balances at the end of the month,
- That athletic funds are accounted for separately and deposited in the appropriate account.

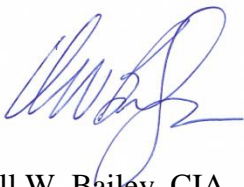
We recommend that the district's Department of Cash Management:

- Ensure procedures are in place to provide accounting services, including preparation of monthly bank reconciliations and deposit of school funds, in a timely manner.

We recommend that the Office of Inspector General – Investigations department:

- Investigate the unreceipted funds, poorly documented cash receipts and late deposits to ensure that all monies are fully accounted for and appropriately documented.

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

Unreceipted Funds Reduce Accountability Over Funds

- Unreceipted Funds and Amounts totaling \$13,385.73
 - We do not concur with this statement and the table presented, for the following reasons:
 - Of the \$13,385.73, \$7,690.39 represented wire transfers from Cash Management. Per page 67-68 on the Financial Accounting Manual wire transfers are to be added as credited adjustments not receipted.
 - Of the \$13,385.73, \$2,367.50 & \$567.51 with \$1,799.99 represented the same receipt #678158 which means the total amount of \$2,367.50 has been listed twice. This amount, \$2,367.50 has been receipted and the support was two checks received from the Department of Athletics in the amount of \$567.51 & \$1,799.99. This amount does not represent vending machine commissions.
 - Of the \$13,385.73, \$500 represented two receipts #784847-784848 which was cash. This amount was receipted 12/16/11.
 - Of the \$13,385.73, \$460.34 was not receipted yet was given to Cash Management for deposit due to cease in Armor Car services for the summer. We have implemented procedures to ensure that all incoming fund to Northwestern are receipted going forward.

Cash Receipt Type Not Documented & Lack of Receipts Numbers on Deposit Tickets

- Corrective actions have been made to implement proper recording of cash type on the deposit slip and to also ensure all receipts number are documented on the deposit ticket.

Disbursements

- After further review of the Financial Manual, funds for staff expenses pertaining to supplies and professional development will only be used from Grants and/or donated funds.
- Procedures have been put in place to produce a more effective review of taxes paid or reimbursed to employees to ensure that DPS policies are being followed.

Athletic Revenues Comingled and Ticket Sales Not Calculated Properly

- We do not concur with the statement the amounts, \$470 and \$650, are athletic revenues and should be deposited with the Athletic Department due to:
 - Receipt #804819 in the amount of \$470 was proceeds from boys' basketball fundraiser.
 - Receipt #804820 in the amount of \$650 was a donation from the Detroit Seminoles Football to Northwestern football team.
- In properly calculating athletic ticket sales, we have reviewed DPS athletic policies to correct this matter moving forward.

Negative Account Balances and Incomplete Transfers Forms

- Cautionary measures have been enforced to discontinue negative activity account balances moving forward.
- To ensure Northwestern is in compliance with the DPS Financial Manual, both sponsors and Principal will complete all necessary information within the transfer form.

Late Bank Deposits

- From July 2011-January 2012, Northwestern's home site was under construction and was operating out of McMichael Middle School. Transitioning from school to school receipt #'s 782847 & 782848 totaling \$500 were inadvertently filed with lunchroom receipts. Strict precautions have been taken to manage better care of receipts when transition during a remodeling or construction period.

For all comments mentioned supporting documentation can and will be provided

**Belinda Raines, Principal
Northwestern HS**