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## AUDIT REPORT

**TO:** William Aldridge, Chief Financial Officer  
Natasha Baker, Chief Innovation Officer  
Felecia Cook, Principal, Osborn Evergreen Academy of Design & Alt Energy

**CC:** Roy S. Roberts, Emergency Manager  
Kevin A. Smith, Chief of Staff, Emergency Manager

**THRU:** Wilbert V. Marsh, Inspector General

**FROM:** Odell Bailey, Deputy Inspector General - Audits

**DATE:** April 22, 2013

**SUBJECT:** Osborn Evergreen Academy of Design & Alternative Energy High School – Financial Audit

### **BACKGROUND**

Osborn Evergreen Academy of Design & Alternative Energy (Osborn Evergreen) is 1 of 9, DPS Self-Governing Schools. Osborn Evergreen infuses academic rigor with a focus on the environment and artistic excellence. Through an interdisciplinary approach, students experience learning theory and practice with real world opportunities for application. The school is managed by the Chief Innovation Officer in partnership with the School's Governing Council. Osborn Evergreen serves 292 students in grades 9 through 12.

Ms. Felecia Cook is the Principal and has served as Principal for 2 ½ years. Ms. Debra Kimbrough is the school's secretary/bookkeeper and she has been in this position for 4 months. As bookkeeper, Ms Kimbrough receives records and deposits cash receipts and writes checks for expenditures. 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. Osborn Evergreen 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 \$10,031.61 in its general checking account and paid out \$3,400.83. As of December 31, 2012, the balance in this account was \$6,577.65.

The major sources of funds deposited into the school's account include: fundraising activities and fees received from students such as senior dues. The funds are generally used to support student activities. Osborn Evergreen currently has a Senior Activity account in addition to the general school funds account.

School personnel are required to ensure accountability, fiscal integrity and proper accounting 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).

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## EXECUTIVE SUMMARY

All funds received for the audit period were fully accounted for and deposited, but not always in a timely manner. We found that bank deposits were not timely for 2 of the 6 deposits reviewed. In addition, two of the deposits for December 2011 and January 2012 were not properly documented. The school used a substitute deposit form, which did not include the receipt number for cash collected and the principal took the deposit to the bank in January 2012. As a result, the deposit was not documented on the armor car log and the timeliness of deposit for receipts collected could not be determined because there were no receipt numbers documented on the deposit form.

We also determined that all bank reconciliations for the School Year 2011-2012 were prepared and reviewed by the principal in July 2012. This was due to the District's inability to get the contract renewed for the third-party firm that prepares the schools' bank reconciliations and financial records. The contract was signed in January 2012 but the firm had to complete bank reconciliations for each school beginning with July 2011. As a result, there was no assurance that the school's transactions were fully accounted for during the entire year.

District procedures allow schools to use separate receipt books for activities such as athletic administration and senior dues. However, only one master receipt book maintained by the bookkeeper should be used to post transactions to the cash receipt ledger. We noted that the school posted two series of receipts in the cash receipt ledger indicating that there are two master receipt books being used or a receipt book for an activity account is being used to post to the cash receipts ledger. Subsequent to the audit fieldwork, the school provided input that they only used a second master receipt book when the first receipt book was completed. As such, the noted activity was not a violation of district procedures. The school was, however, cited by the third-party firm for using duplicate receipts versus triplicate receipts, as required by the Schools Financial Procedure Manual (SFPM).

Finally, we found no evidence that a November 2012 fundraiser was approved by the principal or assistant superintendent as required by the SFPM. Moreover, no profit and loss statement was prepared for the fundraiser.

Overall, the limited transactions and activity that occurred during the audit period for this school reduced the impact of the non compliance identified in the audit. Nevertheless, the school's failure to follow procedures for timely deposits, documenting and posting cash receipts and conducting fundraisers should not be discounted as these violations reduce the level of accountability of public funds intended for the benefit of students.

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## **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 Osborn Evergreen High School's cash receipts and disbursements for the period July 1, 2011 through December 31, 2012.

### **Methodology**

To meet our **objective**, we selected one month per quarter using a 10 percent sample to review 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, Bookkeeper/Treasurer and some activity account sponsors. Furthermore, we reviewed the regulating policy, SFPM, to assess the extent to which Osborn Evergreen is operating in compliance with the school district's financial guidelines and procedures.

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.

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## **AUDIT FINDINGS**

### **Untimely Bank Deposits Not Properly Documented**

We found that bank deposits were not timely in 2 of the 6 receipts reviewed. It took 13 and 11 days, respectively, to have deposited into the school's bank account when it should have taken 3 and 1 day, respectively, had school officials had the deposit prepared for the first available armor car pickup. In addition, two of the deposits for December 2011 and January 2012 were not properly documented as they did not include the required deposit tickets. A review of the January 2012 bank reconciliation documentation identified comments by the third-party firm related to the lack of deposit slips. The note states that the account was closed due to inactivity for the months of November and December 2011. We confirmed that from July 1, 2011 through November 2011, there was no banking activity. A deposit was made on January 12, 2012, by the principal which resulted in the account being re-opened. However, there is no record of this deposit in the armor car log because the school took the deposit directly to the bank. In addition, the school used a substitute deposit form, but did not capture the receipt numbers.

The district prohibits individuals from making deposits directly to the bank. Schools should contact the Cash Management department to schedule armor car service as and when needed.

We also determined that the cash receipts are not being properly documented. In 3 of 4 deposits tested, we found that the receipts did not include the activity account to be credited nor were they copied and included with the deposit form.

### **Untimely Bank Reconciliations**

The audit revealed also that all 12 bank reconciliations for School Year 2011-2012 were prepared and signed in July 2012. Given that the account was closed in November and December 2011 due to inactivity, no bank reconciliation was needed. However, this doesn't explain why the bank reconciliations for January 2012 through June 2012 were not prepared until July 2012. The District's procedures for bank reconciliations require that the third-party firm prepare the monthly records by the 15th of the following month. The District failed to renew the firm's contract until January 2012, which meant that the firm could not begin to complete the reconciliations for all schools until January 2012. The situation for this school, however, was compounded by the failure to follow district procedures for documenting deposits and scheduling armor car service once the firm had their contract renewed.

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.

## **Multiple Receipt Books Used to Post to Ledger**

A review of the school's cash ledger indicates that two sets of receipt books are being used to post to the Cash Receipt Ledger. We noted that two series of receipt numbers were used for senior dues posted to the October 2012 Cash Receipt Ledger. Activity accounts for senior dues should be part of the 6000 account number series, but we found receipts posted to the Cash Receipt Ledger in the 7000 and 4000 series. A chart of accounts was set up for the schools to establish standard series for various types of activities related to senior dues, athletics and general fund. Procedures require that only master receipt numbers be used to post to the cash receipt ledger. When senior activities involve collections, the activity sponsor is to issue cash receipts in the 6000 series for each amount collected. These funds should be submitted to the bookkeeper with the beginning and ending receipt numbers. One master receipt from the bookkeeper totaling the amount received is issued to the activity sponsor and this same master receipt number is used to post to the cash receipts ledger. This process facilitates accountability by making it easier to identify receipts written out of sequence.

In the survey response completed by the principal and bookkeeper prior to the beginning of this audit, the principal stated that the school is using two separate receipt books, but one at a time. A school can use separate receipt books for the various activities in their school; however, they should use only one master receipt book which is used to post to the cash receipts ledger. Subsequent to the audit fieldwork, the school provided input that they were only using one master receipt book at a time. The school appropriately used a second master receipt book when the first book was completely exhausted, which is an acceptable practice.

## **Fundraiser Documentation**

For the one fundraiser reviewed for the audit, we found the activity was not adequately documented. We found no evidence that the fundraiser was approved by the principal or assistant superintendent nor was a profit and loss statement documented.

District fundraiser procedures require that fundraisers be approved in advance by the Principal and Assistant Superintendent. Upon completion of the event, a Profit and Loss Statement should be completed, no more than 5 days after the fundraiser, to account for proceeds (or loss) from the event.

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## **CONCLUSION**

Fully documented cash receipts are required to have effective internal controls over cash. It ensures an accurate accounting of incoming funds not only in amount, but in types of funds collected. It also provides an adequate audit trail in the event a dispute should arise. We believe the school's failure to follow district procedures for documenting cash receipts can be addressed by revisiting the procedures for these activities and scheduling training for the bookkeeper.

The District should be mindful of the potential risk of not having cash transactions reconciled on a monthly basis. For the entire School Year of 2011-2012 no bank reconciliations were prepared until July 2012. If funds were misappropriated, no one would know until such time the reconciliation was completed.

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**RECOMMENDATIONS:**

We recommend that the Principal of Osborn Evergreen should:

- Revisit the District’s procedures for cash receipts with all staff responsible for handling or managing school funds to ensure that all are properly informed of requirements for documenting cash receipts,
- Ensure that all fundraising activity is approved by the principal and assistant superintendent and the results of these activities are documented in accordance with District procedures

We recommend that the director of Cash Management Ensure:

- That the contract for the third-party firm that performs monthly bank reconciliations be renewed timely to ensure schools can comply with district procedures for bank reconciliations.

This audit was performed in accordance with U.S. 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



# Osborn Evergreen Academy

Detroit Public Schools

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Felicia Cook, Principal

To: Wilbert Marsh, Inspector General  
From: Felicia Cook, Principal of Osborn Evergreen Academy  
Date: April 12, 2013  
Re: Concerns Regarding Audit Findings

**I agree** with the findings that Osborn Evergreen Academy has one Master Receipt book, I am currently on my second receipt book. **I disagree that this is a violation.** In an email dated March 15, 2013, Mr. Odell Bailey asked me to explain why there were two sets of number. I explained that my first book contained receipt numbers 786281 – 786300. Once that book was exhausted, I started a second book, receipt numbers 040501 – 040600. I still have a couple of blank receipts left in that book but may need to start another once 040600 are used. Mr. Bailey stated there was no problem starting a second book once one has been exhausted. Also, both of these books are triplicates.

**I disagree** with the auditors finding that she didn't see an approval for a Fundraiser. The Fundraiser approval wasn't included with the original materials given to auditor, however the auditors asked for it and I provided her with a copy of the Request for Approval for Fundraising Activities signed by Ms. Kristina Peart, Senior Sponsor; Mrs. Felicia Cook, Principal and Mr. Jack Elsey, Assistant Superintendent at that time. A copy is attached.

**I disagree** and I am not sure what is being referenced when you mention an Athletic Administration Activity Account. I only have two account lines - the General Fund and Senior Activity Account. I have look over my documents and reconciliations and I have not come across anything referencing an Athletic Administration Account.

Finally, I am taking heed to all findings to take corrective actions and to ensure fiscal responsibility and accountability.

Respectfully,  
Felicia Cook, Principal  
Osborn Evergreen Academy