



DETROIT PUBLIC SCHOOLS

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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Natasha Baker, Chief Innovation Officer
Tanya Bowman, Principal, Osborn MST High School

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 Academy of Mathematics, Science & Technology High School – Financial Audit

BACKGROUND

Osborn Academy of Mathematics, Science and Technology (Osborn MST) is 1 of 9 DPS self-governing schools. Osborn MST provides an advanced scholastic, college preparatory program in mathematics, science and technology. The small academy setting identifies college-bound leaders who are encouraged to think independently, embrace diversity, and utilize technology. The school is managed by the Chief Innovation Officer in partnership with the School's Governing Council.

Osborn MST serves 330 students in grades 9 through 12. Ms. Tanya Bowman is the Principal and has served as Principal for 3 ½ years. Ms. Stephanie Dillard is the school's bookkeeper and she has been in this position for 3 years. As bookkeeper, Ms Dillard 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 MST 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 \$20,707.86 in its general checking account and paid out \$12,186.58. As of December 2012, the balance in this account was \$8,524.32.

Funds collected at the school level 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. The major sources of funds deposited into the school include fundraising activities and fees received from students such as senior dues. Osborn MST currently has 2 activity accounts in addition to the general school funds account; Athletic Administration and Senior Dues.

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).

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

All funds received for the audit period were fully accounted for and deposited, but not always in a timely manner. The audit found that the school is not consistently following procedures for cash receipts, which limits the accountability over funds. Specifically, our testing revealed that the cash receipts lacked information on the type of funds being remitted (i.e., cash, check or money order) and in almost every cash receipt reviewed failed to include the type of account (e.g., general, senior dues, athletics) where the funds should be credited. The school is also using three sets of receipt books with varying number sequencing to post to the General Ledger. Not only does this violate District policy, but it makes it more difficult to monitor receipt transactions and trace them back to the original source activity. We also noted the use of transmittal sheets to document homecoming receipts from students in the amount of \$256. Documenting cash receipts on a transmittal sheet for student events is permissible if the amounts collected are consistent and no more than \$5.00 per ticket.

In addition to the noncompliance documenting cash receipts, we found that school bank deposits are not always timely. In testing the timeliness of deposits for 26 individual receipts, the audit revealed that 7 of the 26 receipts totaling \$800 were not deposited in a timely manner based on the scheduled armor car pick up for the school. For example, it took between 21 to 26 days after the receipts were received to get them deposited. Given that the school has a bi-weekly pick up schedule for armor car service, the receipts should have been deposited within 7-12 days after being received.

Essentially, it took between 2 to 3 times longer than it should have to get the funds deposited. The School Financial Procedure Manual requires that all monies collected for school activities must be deposited by the school bookkeeper as soon after collection as possible. In each of the 7 cases noted, a scheduled pick-up was missed. The District pays \$75 each time the armor car service comes to the school, whether a bag is ready or not. School administrators are instructed to cancel services at least 24 hours prior to scheduled pick up to avoid this cost.

Our test of school disbursements found one disbursement where sales tax on a \$95 food purchase for students was paid and one prohibited expense from the general fund account for a staff appreciation luncheon that occurred in November 2012 for \$300. The District is exempted from paying sales tax; and district policy explicitly prohibits using school funds for staff appreciation events.

We believe that the violations found at Osborn MST were limited and can be addressed by revisiting the District's procedures for documenting cash receipts and unallowable expenditures.

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

SCOPE LIMITATION

The scope of this audit was limited to July 2012 – December 2012 because prior period source documents were not made available. The methodology for each audit involved selecting one month per quarter resulting in 6 months activity to audit using a sample approach. Even though 6 months of activity was reviewed just as with all schools, the 6 months did not cover the entire audit period. As such, the scope was limited to the most recent 6 months of the audit period. This has no adverse impact on the validity of audit findings.

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 MST 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

Incomplete Cash Receipts

Cash receipts prepared by the school's bookkeeper did not consistently document the types of funds being received (i.e., cash, check or money order) or the activity account for which they should be credited. Both are two common problems that are singled out in the School Financial Procedures Manual. When cash receipts are not properly completed, it limits the level of assurance they provide about incoming funds. We found that in 10 of the 23 cash receipts reviewed, the type of funds was not identified. Detailing the type of funds received on the cash receipts serves two purposes. First, it forces the bookkeeper to breakdown the incoming funds, which, in turn serves as a secondary count of funds received. Second, it provides an undisputed audit trail and is one of the required procedures for handling cash; accounting for funds as received.

In addition to not documenting the type of funds received, we noted that the school consistently failed to document the activity account on the cash receipts. In 22 of 23 cash receipts reviewed, we found that the activity account was not indicated. All incoming funds will impact either the General account or an activity account to be credited. When this information is not documented, it can lead to an error in crediting an account. This is important because activity accounts are established for a specific purpose or activity for which funds are often raised through donations and fundraisers.

Multiple Receipt Books Used to Post to Ledger

The issue of incomplete cash receipts is compounded by the school's use of three separate receipt books used to post to the General Ledger. Although separate receipt books are allowed and even recommended for activity accounts that have a high volume of transactions, District procedures require that the activity account sponsor issue receipts to remitters and provide the bookkeeper with the sequence of beginning to ending receipt numbers along with the total amount of cash collected. The bookkeeper should issue one receipt from the master receipt book that covers the entire amount submitted with the knowledge that the receipt covers a series of receipts from the activity account receipt book. This way, only one series of receipts is posted to the General Ledger, which facilitates more effective oversight.

At the same time, the audit revealed that when the activity sponsor ran out of receipts for the homecoming dance, they elected to document the remaining ticket sales on a transmittal sheet. This resulted in \$1,375 being collected and documented as unreceipted cash. The use of transmittal sheets is allowable if the amount being collected is consistent and no greater than \$5.00 per student.

Notwithstanding these conditions, it appears that the school made a reasonable effort to document incoming cash. The concern is that they failed to follow procedures which would have provided a greater level of assurance over incoming receipts and served to address any disputes that may arise. Going forward, the school should revisit the requirements for cash receipts and ensure that they are fully documenting cash activity in accordance with District procedures.

Untimely Bank Deposits

The audit identified that bank deposits are not consistently being made in a timely manner. The timeliness of bank deposits is dependent on the armor car schedule for the school. Osborn MST has a scheduled bi-weekly pick-up by the armor car service. We took the date of cash receipts issued and compared that to the date of the deposit tickets. This illustrates the date the receipt was deposited into the bank. We found that in 26 cases reviewed, 7 or 27 percent of the receipts were not deposited in a timely manner when considering the scheduled pick-up dates. The overall number of days it took these 7 receipts to be deposited was between 21-26 days. Most of the receipts, with the exception of one, were for \$100. Had the receipts been deposited at the earliest possible date as required by procedures, the range of days would have been 7-12 days. Essentially, the actual number of days it took to deposit these receipts was double to triple the number of days it should have taken.

Deposits are typically delayed when the school has not prepared the deposit bag and deposit log prior to the time the armor car driver arrives. In fact, District procedures strongly encourage school administrators to make sure the deposits are prepared the night before a scheduled pickup. This is important because the District pays \$75 per service; whether or not a deposit is picked up or not. In addition, experience has shown that when funds remain on site the risk of loss due to theft increases. Even though schools have vaults and safes where funds are kept to ensure they are properly safeguarded, best practices for cash procedures requires that funds be deposited intact as early as possible.

Untimely Bank Reconciliations

We found that 2 of the 6 months of bank reconciliations were not prepared timely in accordance with district procedures. The months of July and August 2011, were not prepared until October 9, 2011. As a result, the July bank reconciliation was 2 months late and the August reconciliation was a month late. Delays in preparing bank reconciliations diminish the school's ability to verify that all funds collected have been deposited, verified and fully accounted for. We recognize that this is beyond the principal's control. The District did not renew the contract for the third-party firm that prepares the bank reconciliations in a timely manner for School Year 2011-2012. Going forward, Cash Management should employ alternate approaches for ensuring school transactions are accurate and complete.

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.

Most Disbursements Comply with Procedures

We tested 22 cash disbursements and found nearly all complied with District procedures. Only 1 of the 22 expenditures included sales tax, which is prohibited; as the District is exempt from sales taxes. However, we noted one expenditure for \$300 for a staff appreciation dinner at a local Detroit restaurant. The purchase was made from General School funds and is a prohibited expenditure as school funds cannot be used for staff purposes nor should they be used to purchase food. Even though the expenditure was approved by the principal, using public funds intended for the direct benefit of students has always been clearly prohibited. We found no other questionable expenditures, but the scope of this audit was limited to a six month period from July to December 2012 and the disbursements testing were limited to November and December.

CONCLUSION

Fully documented cash receipts are key to 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. The limited dollars available to schools is often augmented by donations and fundraisers for specific accounts. Recognizing this, the District's Cash Management office has established a series of available accounts for each school by the type of activity. When cash receipts are collected, it is also important that the type of account to be credited is documented on the cash receipt form. Ultimately, these safeguards provide for a system of controls over cash that limits the opportunity for errors and theft. However, once funds are collected, it is imperative that they be deposited as soon after collection as possible. This is also one of the district's cash control procedures.

School administrators should be mindful about how school funds are spent with the overarching factor being that it has a direct benefit for the students. Although the school staff work diligently in the best interests of their student body and the desire to reward them for doing so may be genuine, school funds cannot be used for this purpose. Revisiting district procedures with those responsible for school funds should help to address the noted violations of procedures.

RECOMMENDATIONS:

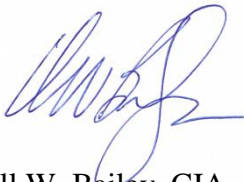
We recommend that the Principal of Osborn MST should:

- 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 cash disbursements do not include sales tax; if these taxes are paid by staff members, they should not be reimbursed,
- Ensure that only master receipts are used to post to the General Ledger and follow procedures for issuing receipts for activity accounts, including the use of transmittal sheets for collections for student events that are consistent and no more than \$5,
- Ensure that deposit bags and documentation are prepared the night before a scheduled pickup and that such bags are available for pickup.

We recommend that the director of Cash Management work with the CFO to ensure:

- The contract for the third party firm which prepares financial records for the schools is renewed in a timely manner to ensure compliance with district procedures.

This audit was performed in accordance with U.S. Government Accountability Office (formerly 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

COLLEGIATE ACADEMY OF MATHEMATICS, SCIENCE & TECHNOLOGY

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 Tanya F. Bowman, Ed.S., Principal

AUDIT FINDINGS	DISPOSITION	Statement of Agreement with Corrective Action Taken	TIME-FRAME	Statement of Disagreement with Explanations
Incomplete Cash Receipts	AGREE	The following recommendations have already been implemented: 1. Documenting the type of funds being received 2. Documenting the activity account on the cash receipts.	Already in progress	
Multiple Receipt Books Used to Post to Ledger	AGREE	The following recommendations have already been implemented: 1. Use of one Master Receipt Book to post to ledger 2. Follow procedures which would provide greater level of assurance over incoming receipts.	Already in progress	
Untimely Bank Deposits	AGREE WITH EXPLANATION	The following recommendations are in the process of being implemented: 1. After last Armor Car pickup for the month, DO NOT collect any funds until the beginning of the next month in order for receipts to reflect the current month.	Implementing	Delay in deposits are due to: 1. Bi-weekly Armor car pickups which get offset if one of the other schools in the building is not prepared for their pickup. 2. Collection of funds received after last Armor Car pick-up for the month, BUT PRIOR to the next scheduled pick-up.

Untimely Bank Reconciliations	DISAGREE			<p>1. Months in question, July and August 2011; the school DID NOT maintain an active bank account</p> <p>2. Bank account did not become active until September 2012</p>
Most Disbursements Comply with Procedures	AGREE Sales Tax	<p>The following recommendation is in place:</p> <p>1. Adhere to the District's status of exemption from sales taxes</p>	Already in progress	<p>1. Use of general school funds was due to a deposit required to hold a location for a school event.</p> <p>2. Funds were collected from staff and re-deposited in the school general fund account.</p>
	AGREE WITH EXPLANATION Use of General School Funds			
<i>Additional Comments from School:</i>	<p>This is our first school account and some procedures were not clearly explained. As we move through this process, we are learning the specifics that should have been outlined in detail at the start of school.</p>			