

DETROIT PUBLIC SCHOOLS

Office of Inspector General



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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Cynthia Hough, Director, Randolph Career & Technical Center

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: Randolph Career Technical Center – Financial Audit

BACKGROUND

The mission of the A. Phillip Randolph Career and Technical Center (Randolph CTC) is to enhance student achievement by engaging construction trades and business students in industry standard training. Upon completing the fully academic integrated curriculum, students are prepared to confidently and effectively compete in a global market while adding viability to the community. The center is named after Mr. Asa Phillip Randolph, a powerful leader and a tireless fighter for increased ethnic diversity in the labor movement.

The center provides a curriculum that enables students to gain skills which lead to practical experiences, summer internships co-op work experiences, and apprenticeship opportunities which assist in self employment or advanced learning. For the current school year, Randolph CTC has an enrollment of 155 students. Ms. Cynthia Hough has served as the school's Director for 3 years. Ms. Doretha Beardee was the bookkeeper between August and October 2012. The current bookkeeper, Ms. Betty Blakey, previously worked at Randolph until July 2012, and later returned to the school in March 2013.

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. Randolph CTC, 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 \$43,497.23 in its general checking account and paid out \$40,914.70. As of December 31 2012, the balance in this account was \$9,510.44.

The major sources of funds deposited into the school's account include: fundraising activities and community grants. 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.

Randolph CTC has 8 activity accounts including the general school fund account. These are: National Honor Society, Randolph House, Skills USA, Adult Construction Trades, Electrical Fund, Unique Boutique, and Business Education.

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

School funds were used to purchase several items that violated district policy and procedures. These items included \$120 in auto service charges for the school van, painting supplies that included two \$25 gift cards, over \$700 for supplies for open house, and \$121 for table cloths and refreshments for a parent teacher conference. We also found small amounts paid for keys for custodians and bottle and cooler pick up fees. Given that Randolph is a trade school and purchases many items that would not be purchased by a regular high school, there were a number of disbursements for trade related activities that we did not question. Notwithstanding this, we still question 12 of the 57 disbursements tested for the audit period.

We also noted several disbursements where the Director was the payee. District procedures for school funds prohibit someone from authorizing checks where they are the payee. We could not verify that this occurred, but the frequency of which checks are made payable to the director raises concern about this practice. The District Cash Management department has provided guidelines for employee reimbursements that require a check approval process whereby, the purchaser of items is required to obtain approval from the principal/director for any purchase before it is made. If this were occurring, there would not be a frequent need for the Director to be the payee. Although we found no evidence that any funds were misappropriated, we think it is a dangerous practice to allow any employee to purchase items without the pre-approval of the school's Director or following the check approval process to ensure that the check is issued to a vendor. Regarding the Director, we noted one case where she spent over \$700 for supplies for open house. The school should consider being more descriptive in documenting the purpose of disbursements. It is difficult to assess the validity of such disbursements without greater detail. Explanations given on several disbursements indicated supplies; with little by way of description.

In addition to the questionable disbursements, we found that the school is not consistently approving fundraisers, and 3 of the 4 fundraisers reviewed did not appear to be for the direct benefit of students. One of the fundraisers was to raise awareness about breast cancer, but the other two were for the social committee that funds activities for staff members. The lack of approval documentation indicates that the latter two fundraisers were unauthorized. In fact, we question this as they were one-day events that may have not been approved by the Director or Assistant Director. Another fundraiser practice that violates district procedures was the use of proceeds from a fundraiser to purchase fundraiser items. This was most notable with the Breast Cancer Awareness fundraiser as only the receipts were documented without any support of how the t-shirts used to generate the funds were paid for.

We also determined that bank reconciliations for Randolph CTC, like most other high schools, were not prepared timely. The months of July and September, 2011 were not approved until November 20 2011. The delay was due to no fault of the school, but rather due to the District's inability to renew the contract for the accounting firm in a timely manner. Going forward, the District, through its Cash Management department, should employ alternative ways to provide assurance that school funds are being fully and accurately accounted for in the event that the contract is not renewed on a timely basis.

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 Randolph CTC 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 Randolph CTC 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

School Funds Used for Unallowable Purchases

We found that Randolph CTC disbursed funds for items that were not allowable. Specifically, 12 of the 57 disbursements tested for the audit period, were in violation of district policy and procedures. These disbursements included:

- \$130.29 for auto service on a school van,
- \$266.97 for painting supplies, which included 2 \$25 gift cards,
- \$151.03 for gift certificates, test and weed killer,
- \$710.16 for miscellaneous supplies for open house,
- \$120.95 for table cloths and refreshments for parent teacher conference,
- Keys for the custodians, and
- Bottle and cooler pick up.

Overall, we questioned 12 disbursements totaling \$1,669.57 of the \$14,588 disbursed in our sample, which represents about 11 percent of the activity. As a trade school, Randolph procures many items related to the trades that you would not typically have in a regular high school. However, we question some expenditures that either do not appear to be for the direct benefit of students, or are in violation of district procedures. For example, the \$266.97 for painting supplies may be an allowable disbursement if these were supplies that the students needed in the course of their study. However, the inclusion of the two \$25 gift cards is not allowable; as purchase of gift cards is prohibited.

Paying for mechanical service for a school van is an expenditure that should be made with budgetary discretionary funds. Similarly, keys for custodians and bottle and cooler pickup charges are not items that directly benefit the student. Furthermore, the costs incurred for open house and parent teacher conference are in violation of district procedures.

The school has a practice of reimbursing employees for purchases made; some were in violation of district procedures. Although employee reimbursement is an acceptable practice that is a convenience for the school, these situations should be infrequent and approved for small amounts. Moreover, we noted that disbursement checks were issued to the Director for 10 of the 57 disbursements. The total amount of these disbursements was \$1,669 for the period in question. District procedures prohibit someone from approving a check for which they are the payee. We were unable to verify if this was the case at Randolph CTC, but we question why any employee would request several reimbursement checks when the district has a check process for vendors.

The SFPM indicates that a Check Request Form (or Reimbursement Request Form) should be completed in advance of the expenditure, and authorized in writing by the principal, before the bookkeeper disburses funds. Checks should be issued only when supported by original vendor invoices or receipts specifying the goods/services purchased, purpose for the expenditure and the amount owed to the vendor. District guidelines also require that the availability of funds be verified before check issuance, and the activity account to be charged should be indicated on the check request form. Failure to follow these procedures could result in the reimbursement being denied.

Fundraiser Activity Not in Compliance

We found that fundraising activity at Randolph is not consistently approved by the Director and/or Assistant Superintendent. For 2 of the 4 fundraisers tested, we found no evidence of approval by these two school leaders. Unauthorized fundraisers are in violation of district policy and pose a challenge for accountability. The School Financial Procedure Manual (SFPM) states: “*no fundraising activity should take place without prior written approval of the Principal and Assistant Superintendent*”. Without proper authorization for a fundraiser, there is no assurance that proceeds are being reported and the timeframes and cost have been evaluated by the person who is ultimately responsible for school funds; the Principal. For the two fundraisers that were not approved, we also question whether they were actually events that benefited the students. Both were for the social committee which is established for the purpose of funding social activities for the staff. The SFPM also states that fundraising activities should be held for the benefit of the school or a particular group of students within the school.

The audit also found that the proceeds for the Breast Cancer Awareness fundraiser were reported as the net proceeds, and there was no evidence supporting how the t-shirts used for the fundraiser were paid for. This implies that fundraiser costs were paid in cash from the monies collected, which violates district procedures.

Untimely Deposits and Bank Reconciliations

We observed the following internal control deficiencies regarding cash deposit and reconciliation procedures:

- Six bank reconciliations--July 2011 through December 2011--were not prepared until February 13, 2012, which is between 1 to 6 months late.
- April and July 2012 bank reconciliations were also completed 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 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.

CONCLUSION

Each Principal is responsible for protecting the interest of their students and upholding the public trust vested in this position. This includes ensuring that school funds intended for the benefit of students are closely monitored and used only for the intended purpose. To accomplish this, school administrators must adhere to District policies and procedures designed to accomplish this objective. The use of school funds to support activities for teachers, parents and other non students is a direct violation of district procedures. We also believe the school should use the check request process as required which will reduce the frequency of making employee reimbursements. When checks are written to employees including the Director, for reimbursements purchases that have a generic description like supplies, it raises some concern. We recommend that checks be written to vendors or businesses for specific items.

School officials should be more diligent getting fundraiser activities approved and documenting the amount of gross proceeds collected. The School Financial Procedures Manual (SFPM) is provided as the primary guidance for all school personnel responsible for checking accounts in the performance of their financial duties. Since the SFPM is in no way exhaustive of all the district's financial policies and procedures, it is also imperative that Principals work closely with the department of Cash Management for guidance related to purchases of goods and services.

Going forward, the Principal should exercise greater oversight to ensure disbursements and fundraising activities are conducted in compliance with district policies and procedures.

RECOMMENDATIONS

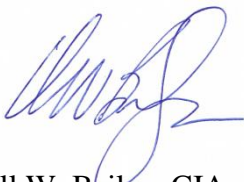
We recommend that the Director of Randolph CTC take action to ensure:

- Cash disbursements are made for the direct benefit of students only, and in compliance with district procedures,
- Compliance with fundraising requirements for allowable activities, proper approval, and management of proceeds in compliance with district procedures.

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, in a timely manner.

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



DETROIT PUBLIC SCHOOLS

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To: Ms. Karen Ridgeway, Superintendent of Academics
Ms. Shirley Mobley Woods, Chief of Staff to the Superintendent of Academics
Ms. Delores A. Brown, Deputy CFO and Chief Accounting Officer
Ms. Rebeca Luna, Assistant Superintendent

From: Ms. Cynthia Hough, Director

Date: April 11, 2013

Re: Financial Audit- Randolph Career and Technical Center

In review of the Financial Audit I would like to clarify with explanation the disbursements in alleged violation of the district's policies and procedures.

- \$130.29 for auto service on a school van

The school van is used infrequently but when used offers transportation for supplies we must pickup for the school. It also is used to transport construction supplies to Lansing and Grand Rapids for student SkillsUSA competitions. (Masonry, Plumbing, and HVAC supplies etc.) The van was in need of a tune up and oil change. It was serviced at the gas station on the corner of 6 mile and Hubbell. I am not aware of a process for servicing the school van nor getting gas for it. A receipt was submitted for service. A school check paid for the service.

- \$266.97 for painting supplies, which included 2 \$25.00 gift cards

Our curriculum includes a Painting and Decorating class. The students practice painting, drywall, and creating stained glass. To enhance the curriculum and continue with hands on experiences the instructor asked if there were painting projects students could do in the building. We decided they could paint the 4 student lavatories. I purchased the paint and submitted a receipt for the items. All 4 lavatories were painted. I purchased 2 gift cards for a student contest in which students were asked to submit names for our "new" room- The Pullman Porter Station.

- \$151.03 for gift certificates, test and weed killer

Architect Kenneth Crutcher volunteered to draw the architectural plans for the "Randolph House". We could never have paid for his services and I purchased 3 restaurant gift certificates for him and his family. On the same AC4 I purchased 1 large spray bottle of weedkiller because weeds grow in the cracks around the entrance and sides of the school and it is very unsightly. This must be done regularly. The groundskeepers do not take care of this area. I also purchase spring flowers to place in the 6 cement pots in front of the building. The students assist with this and enjoy the process. This is all done to make the building and grounds attractive. There is no reference to a test on the AC4.

- \$710.16 for miscellaneous supplies for open house

The construction trades students renovated a classroom which was no longer in use. The "Pullman Porter Station" is used as a multi- purpose room because we have no auditorium or lunchroom. After the construction of the room was completed I purchased items for the room to make it attractive; artwork, glassware, items to make wallhangings, a plaque for the room dedication, frames for pictures of students who worked in the room etc.) I also purchased for the commons area large planters, coasters and rollers for the planters, and the plants themselves. All receipts were turned in and items purchased identified.

- \$120.95 for tablecloths and refreshments for parent teacher conferences

I purchase multiple table cloths for events for the school which include Parent Teacher Conferences, Advisory Board Meetings, and any other events we have. We cannot purchase tablecloths on Peoplesoft. I also purchase refreshments (juice, water, pastries) for meetings and other events. I was not aware the purchase of these items is a violation of the district's policies and procedures. Receipts are turned in for purchased items.

- Keys for Custodians

4 keys were made for the Engineer to the counseling suites. (\$18.00) The receipt was turned in. I did not know this purchase was a violation of the district's policies and procedures.

- Bottle and Cooler pickup

Randolph had the services of Absopure for years. The services were being paid for out of the General Fund. I established a water fund because we could not support this. Staff was asked to donate \$5.00 to keep the monthly service. The money collected from staff was not enough to sustain the service and I had the water cooler and empty bottles picked up. There was a charge for this. (\$7.00) We do not have a lunchroom so many times students would get water because our fountains were often broken. The fountains were replaced this school year.

Fundraisers

The audit referenced 4 Fundraisers

- A. Breast Cancer Awareness – Through cupcake and staff T-shirt sales we donated money to Karmanos Breast Cancer Center. A former staff member made cupcakes and produced receipts for baking items. Staff donated money for t-shirts and part of that money was added to the Breast Cancer donation. Some Profit and Loss procedures were not explained and written correctly. Director has noted the correct procedure and will adhere to the procedure in the future.

- B. Pizza Sales

The Social Committee hosted 2 pizza sales. We do not have food or water to sell or distribute and our students come to school hungry. In an effort to keep them from leaving the bus and escaping to the corner gas station we had hope this would eliminate these actions. The money raised would act as a revolving account to purchase continuous pizza and juice. This activity was stopped because of the Social Committee connection.

- C. Haunted House

The Social Committee hosted a Haunted House on site. The Construction Trades and Interior Furnishing students built the set and prop designs along with costumes. Lights, a fog machine, candy, goody bags, and decorations were purchased. The money raised was to be used to purchase items for "students of the month". The Profit Loss Statement indicates a negative balance.

In lieu of the Audit Report, I am aware that specific procedures needed to be corrected. I no longer act as signer of checks which are written to me. When I request a check, I do not approve them. This is still a learning process for me but will comply with the district's policies and procedures. When we (the school) are in need of specific items, I generally will purchase what I can with my money and seek reimbursement. Many times I purchase without requesting the money in return. I am proud of Randolph and what we have become. We are not a fundraising source and items are not purchased randomly and without thought. I am trying to keep the "machine" running and purchases are made with that effort. Thank you for the consideration.

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