



DETROIT PUBLIC SCHOOLS

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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Anita Williams, Principal, Renaissance High School

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Rebeca Luna, Assistant Superintendent

THRU: Wilbert V. Marsh, Inspector General

FROM: Odell Bailey, Deputy Inspector General - Audits

DATE: April 22, 2013

SUBJECT: Renaissance High School – Financial Audit

BACKGROUND

Renaissance High School (Renaissance) is one of Detroit's premier high schools, serving slightly more than 1,100 students in grades 9 through 12. Ms. Anita Williams has served as Principal of the school since August 2011. Ms. Patricia Pitts, Clerical Level III, has served as bookkeeper/treasurer (bookkeeper) for the school since September 2010. Ms. Pitts 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. Renaissance, 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 \$471,177.06 in its general checking account and paid out \$432,454.68. As of December 31 2012, the balance in this account was \$ 90,162.31.

Renaissance also has two additional accounts that were established prior to the current school administration; a savings account at Charter One Bank and a Money Market Fund with Charles Schwab. The Principal has contacted Cash Management to initiate closure of these accounts.

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. Renaissance has 8 activity accounts including the general account. These accounts are: Athletic Administration, JROTC, Dance Workshop, Volleyball, General, Interscholastic and Guidance and Counseling.

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 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

The financial records prepared by the bookkeeper substantiate that all amounts submitted were recorded on pre-numbered duplicate receipt forms and all disbursements were made by school check, based on supporting documentation and formal approval by the Principal. However, we noted the following areas of non-compliance related to cash receipts and disbursements: questionable or prohibited expenditures totaling over \$11,700, third party funds held in the school account, incomplete documentation related to fundraising activities, absence of check copies and supporting documentation for amounts received, and school checks written and deposited into the bank to implement transfer of funds between activity accounts.

Included in the \$11,700 of questionable or prohibited expenditures were purchases of general school and office supplies totaling \$2,989. The purchases of goods and services; such as copy services, parking validation stickers, and lights for the spring concert are items that should be purchased with budgeted funds and in accordance with the policies and procedures established by the Department of Procurement and Logistics. We also noted expenditures over \$1,300 for athletic expenses that should have been submitted to the Office of Athletics. Most of the expenses were for referees, uniforms, and materials for soccer and golf. The school subsequently provided information that the Office of Athletics directed them to pay the officials, and that the school would be reimbursed. Additionally, we noted over \$100 of reimbursement for mileage to and from athletic events. District policy governing school bank accounts explicitly prohibits gas mileage reimbursements.

Another group of expenditures that violates District policy is the school practice of entering into contractual agreements with individuals who provide professional services including dance workshops, video and disc jockey services for school events. Although the expenditures were allowable, the risk of entering into contracts that are not approved by the District's Procurement and Logistic department poses a liability risk to the District. Although none of the contractual agreements reviewed exceeded the competitive bid threshold, there is no assurance that the school received the best price for these services.

Furthermore, some of the contracts were for District employees who provided security services for school events. The issue is that District employees should be paid through the normal payroll process and not by school check. However, if the employee is under contract with the District, such as Securitas officers, then the school should use the Community Use process and the school will write the check to DPS and the employee will receive pay for the appropriate amount of hours worked. If the person is an independent contractor, the school has to be sure to notify the Accounting department of the amount paid within the year, so a IRS Form 1099 may be issued to ensure compliance with IRS requirements.

We also noted that the school account balance included funds related to the Phoenix Parent Organization and Phoenix Parent Booster Club. The SFPM specifically prohibits the deposit and expenditure of third party group funds through the school checking accounts. After reviewing the draft report, school officials closed these accounts. We also found a lack of compliance with fundraiser procedures. Specifically, fundraiser approval and profit and loss documentation was not available for most (i.e., 34 of 39 items tested) of the fundraising activity transactions recorded in the financial records. These documents are important to assure the Principal is aware of all fundraising activities held for the benefit of students and has adequate information to assess the profitability of fundraising activities.

Additionally, checks received and deposited into the account were not copied and maintained in the school files. This practice ensures information is available to pursue collection of checks returned due to insufficient funds. Lastly, the bookkeeper wrote school checks to transfers funds between activity accounts within the school. This practice incorrectly inflates the amount recorded on the cash receipts ledger.

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 Renaissance High 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, Bookkeeper/Treasurer and some activity account sponsors. Furthermore, we reviewed the regulating policy, SFPM, to assess the extent to which Renaissance 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

Questionable Expenditures

For the audit period July 1, 2011 through December 31, 2012, questionable expenditures totaling over \$11,700 were made from the Renaissance checking account. The School Financial Procedures Manual (SFPM) indicates, "General School Funds are monies collected and held on deposit in the school checking or savings account to be used for the direct benefit of students only. The school Principal acts as trustee for these school funds collected on behalf of the students." Expenditures that are prohibited by District policy reduce the schools ability to provide the required supplementary goods and services for students.

Of this amount, the school reimbursed \$2,307 to employees and made payments to vendors for office and school expenses, starting at the beginning of the school year. These purchases included parking validation stickers, copy services, business cards, padlocks and duplication of keys. The Principal stated that she approved the expenditures because they were for the direct benefit of students. However, these goods and services should have been obtained with budgeted funds in accordance with the policies and procedures issued by the Office of Procurement and Logistics.

Athletic expenditures totaling over \$1,850 were also made from the account. The payments were athletic-related fees including payments to officials for soccer and volleyball events. The Principal indicated it was her understanding that expenditures related to "club" sports were not covered by the Office of Athletics. However, the SFPM indicates, "All payments should be processed at the district level only, and should comply with the rates determined by the Office of Athletics, and/or specified in the DPS Athletic Manual." When athletic expenses are inappropriately paid at the school level, it reduces available funding for allowable student activities, it can also result in payments for activities that are not permissible. For example, we noted two disbursements were made for gas mileage expenses and clothing for athletic administrators; both expenditures are prohibited by policy. School officials subsequently provided documentation to support that they were directed by the Athletics Administrator to make these payments, for which the school was reimbursed. However, the action of making athletic service payments at the local school level violates District policy and should be avoided going forward.

Payments totaling \$2,750 were also made to individuals performing services related to contractual agreements. Although these expenditures were allowable to be paid with school funds, the school failed to follow proper procedures. Included in this amount were payments to disc jockeys, photographers and choreographers. The school did not contact the Office of Procurement and Logistics for guidance related to these contracts; nor did they submit AC-4 forms that document whether the services were performed by District or non-District personnel. Non-district personnel have to complete an IRS form W9 and the school must report to Accounts Payable Department the total amount paid to this individual to determine whether a form 1099 is needed for reporting purposes for independent contractors paid in excess of \$600.

Additionally, \$1,400 of this amount was for payments to Detroit Public Schools Police Officers, who provided security services during the prom and other off site events. Individual contracts were entered into between the school and these employees. Again, the payments may be allowable but the proper community use process was not followed to secure these services. The Principal stated

that she was unaware of the need to inform central office of payments to officers. Schools are prohibited from entering into contracts because they are not legal entities. Therefore, if contracts are required, then guidance should be sought from the Procurement and Logistics Department.

In general, the procedure is to request service through the District's Community Use Program for security at a onsite school event. The program has a process to capture the number of hours worked and employees will be compensated through the District's payroll office. Schools should not issue checks or make cash payments to any individual, in order to bypass payroll policies or IRS regulations.

The school also spent \$4,750 for an employee conference and food purchases for various activities including staff appreciation and professional development. Expenses related to travel for an employee conference should have been processed through PeopleSoft and paid for with budgeted funds. Staff appreciation and food for staff events are prohibited. The Principal indicated she was unaware that staff appreciation was a prohibited expense. The SFPM lists "Staff appreciation activities (unless staff collections are made into a staff social fund)" among "Examples of expenditures that are NOT to be made from General School Funds." Schools that have taken up collections from staff or have a staff social fund that does not rely on general school funds are acceptable ways to fund such activities.

Prohibited Third Party Activity Accounts

During our review, we noted activity accounts on the school ledger for the "Phoenix Parent Organization" and "Phoenix Athletic Booster Club." In addition, receipts and expenditures were processed through the school account for these external organizations. Maintaining third party funds in the school checking account implies an agreement between the school and third party organization that does not exist. We noted that several of the expenses related to staff appreciation and food were funded through this activity account for this third party organization. The Principal indicated these accounts existed before she became Principal and she was unaware they were prohibited. The SFPM indicates, "Funds for all outside activities (third-party sources) should not be collected in the school (for example: monies for student trips organized by external/non-district personnel or, sale of items belonging to outside groups/organizations). No consent or approval should be given by the principal or any school official for such money to be collected in the school during regular school hours or accepted for deposit into the school account." After reviewing the draft report, school officials provided support showing that the accounts had been closed in response to this audit finding.

Missing Fundraiser Documentation

During our review of expenditures and receipts, we noted items purchased and proceeds deposited related to fundraising activities. However, 90 percent, or 35 of 39 financial transactions tested related to fundraising activity could not be traced to a Profit and Loss Statement. Furthermore, the Profit and Loss Statements that were maintained did not accurately reflect the expenditures related to the fundraiser. Specifically, the profit amounts documented on the forms were incorrect. Additionally, 10 percent or 4 of 39 fundraiser activities tested could not be traced to a Fundraiser

Approval Form. The absence of fundraiser approval and profit and loss statements prevents the Principal from monitoring the existence and profitability of activities conducted by groups on the school. The Principal indicated; although she is aware of all the fundraising activities conducted in the school, she was unaware that appropriate documentation was not maintained for the activities.

The SFPM indicates:

1. No fundraising activity should take place without **prior** written approval of the Principal (and Assistant Superintendent). A completed and approved “**Request for Approval for Fundraising Activity**” form should be maintained in school files for audit purposes.
2. Within ten (10) days after the completion of the fundraising activity, the “Profit and Loss Statement” signed by the principal should be forwarded to the Department of State and Federal Programs. Any fundraising sponsor/school not submitting the form will be held in violation of this policy and subject to disciplinary action.

Incomplete Documentation Related to Cash Receipts

During our review of cash receipts, we noted that:

- Supporting documentation was not maintained for amounts collected, and
- Checks received were not copied prior to being deposited into the checking account.

Although our review disclosed that all amounts deposited into the account were documented on receipt forms, supporting documentation (e.g., lists of students submitting funds, documentation of items sold, etc.) was not maintained. The absence of supporting documentation prevents the assurance that all funds that should be received were received. The Principal indicated she was not aware of the requirement to maintain supporting documentation for amounts received. The SFPM states,

“If other school personnel (e.g., teachers, counselors, athletic directors) are collecting funds they should use a separate receipt book to document all cash received. An original receipt should be issued to the student/parent and the yellow copies of receipts are to be submitted together with the funds to the bookkeeper. The bookkeeper should verify the cash receipts and issue one receipt for the total cash amount submitted by the remitter. The receipt issued by the bookkeeper is the document used for posting to the Cash Receipts Ledger.”

We also noted that copies of checks received were not maintained in the school files. The absence of copies of checks received, prior to deposit, may prevent the school from having information necessary to contact the remitter in the event that a check is returned for insufficient funds. The Principal indicated she was not aware of the requirement that the bookkeeper should copy the checks before depositing them into the account. The SFPM requires the bookkeeper to “...write the number of items to be deposited (checks and money orders) in the dedicated box on the front of the deposit ticket. This tracks the number of checks and money orders for deposit. Copies of all checks included in the deposit should be attached to the receipt form.”

Transfers between Activity Accounts Not Properly Documented

We noted four (4) instances of transfers between activity accounts that were processed with school checks. The checks were written to the school and deposited into the school's checking account. The practice of issuing then depositing school checks into the same school account distorts the amount of funds received. The Principal indicated that although she was aware of the transfer procedure and had used it for other transactions during the period, she was not aware that issuing checks to transfer funds from one activity fund to another within the same bank account is not a recommended practice. The SFPM indicates, "The Principal may consult with teacher-sponsors or appropriate department heads in implementing a transfer of surplus money from one ledger account to another so that it will be expended to benefit additional students or the student body as a whole." Additionally, further guidance was provided in the SFPM, which states, "It is not necessary to write a check to transfer funds from one activity account to another within the same school's bank account. However, any transfer of funds must be documented by a "Transfer Request Form" and approved by the principal".

CONCLUSION

Schools are authorized to maintain checking and savings accounts to manage general school funds consisting of the activity accounts in the school that have been funded through various student activities and donations to the school. These funds are only to be spent for the educational benefit of students. With dwindling resources for school activities, many high schools are placing greater reliance on fundraisers and donations. As such, the amount of funds in school banking accounts may require to be supplemented through fundraisers and other student activities.

Each Principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. The SFPM is provided as a vital tool for all school personnel to refer in performance of their financial responsibilities. Since the SFPM is in no way exhaustive of all the district's financial policies and procedures, it is also imperative that Principals contact the offices of Cash Management and Procurement and Logistics for guidance related to purchases of goods and services. Going forward, the Principal should refer to the SFPM and other written guidance referred to therein to ensure purchases are made in compliance with district policies and procedures.

We discussed the draft report with the Principal and bookkeeper, who were both receptive to the audit findings, and were able to provide some additional support on certain questionable expenditures; which resulted in changes being made before the final report was released. The principal also expressed a desire to receive financial training from the Cash Management department.

RECOMMENDATIONS:

We recommend that the Principal of Renaissance High School take action to:

- Ensure expenditures from the account are in compliance with district policies and procedures including Emergency Financial Manager Orders.
- Issue checks to the “Phoenix Parent Organization” and “Phoenix Parent Booster Club” to close out the external organizations’ activities on deposit in the school account.
- Ensure Fundraiser Approval and Profit and Loss Statements are properly completed and submitted for all fundraising activities sponsored for the school.
- Ensure cash receipts are properly supported with receipt forms or other documentation evidencing amounts collected.
- Ensure copies of checks received are maintained in the school records.
- Ensure each transfer between activity accounts is documented on “Activity Account Transfer Request Form” in accordance with district policy.
- Request training from Cash Management on the SFPM policy and procedures.

Our review was performed in accordance with U.S. General Accounting Office (formerly the General Accounting Office) Government Auditing Standards and Standards of the Institute of Internal Auditors. This report is intended solely for management and should not be used for any other purpose. This restriction is not intended to limit the distribution of the report which is a matter of public record.



Odell W. Bailey, CIA
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AUDITEE COMMENTS



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"A School for the Mind, A Mind for the Future"

Questionable Expenditures - Renaissance High School

1. All expenditures from the account were justified and directly impacted students at Renaissance High School. For example:
 - > Emergency copying services were purchased as a result of the breakdown of all high volume copies at the opening of school.
 - > Emergency Armor Car pick" up's were scheduled to remove large amount of monies from the building before leaving for holiday vacation. Moving forward, procedures have been put in place to ensure compliance with district policies.
 - > Athletic expenditures totaling over \$3,500.00 were paid by the school yet were reimbursed by the DP's Athletics Department. We have implemented procedures in accordance to DP's Financial Manual and understand all district and non-district athletic events and expenses are to be handled by the DPS Athletic Department.
 - > We do not concur with the statement made regarding individuals performing services related to contractual agreements for amounts totaling \$2,750.00, due to; DPS Financial Manual page 102 - Operational Questions, certain type of contracts are exempt from bidding requirements, such as contracts for professional services.
 - > Corrective actions have been made to implement proper payment processes for DPS Police Officers when providing services at Prom or any other off site events. Moving forward, Community Use will be used for DPS Police payments.
 - > Of the \$4,750.00 for staff expenses \$2,080.23 was monies that were donated for staff that covered the majority of this cost. These funds were placed into the General Funds to cover professional staff expenses. However moving forward, we will create a separate staff account for staff donations.

2. Prohibited Third Party Accounts

Third Party Activity accounts did exist on Renaissance General Ledger. Actions were taken to close out Parent Athletic Booster Club, July 2012 and Phoenix Parent Organization February, 2013. These prohibited accounts no longer exist and understanding the Financial Manual has ensured that accounts of this type will not be a part of Renaissance General Ledger.

3. Missing Fundraiser Documentation

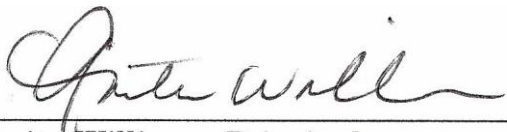
After detail discussion during our Audit Exit Interview, the Renaissance staff has implemented procedures to ensure timely submission and properly completed fundraising documentation.

4. Incomplete Documentation Related to Cash Receipts

Supporting documentation related to cash receipts will be better maintained moving forward in accordance to the Financial Manual. Club sponsors will be required to submit receipts to bookkeeper for monies collected from students. This will ensure that we have proper documentation as evidence of the amounts collected. Moving forward copies of checks and money orders will be made before depositing as noted in the Financial Manual.

5. Transfers between Activity Accounts Not Properly Documented

Moving forward, transfer forms are currently being used each time monies are moved from one activity account to another in accordance with the DPS Policies.



Anita Williams. Principal