



# DETROIT PUBLIC SCHOOLS

## Office of Inspector General

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### AUDIT REPORT

**TO:** William Aldridge, Chief Financial Officer  
Karen Ridgeway, Superintendent of Academics  
Gary Taylor, Principal, Turning Point Academy

**CC:** Roy S. Roberts, Emergency Manager  
Kevin A. Smith, Chief of Staff, Emergency Manager  
Delores A. Brown, Deputy CFO and Chief Accounting Officer  
Clara Flowers, Assistant Superintendent  
Lawanda Taylor, Director, Cash Management department

**THRU:** Wilbert V. Marsh, Inspector General  
Odell Bailey, Deputy Inspector General - Audits

**FROM:** Bernadette Kakooza, CIA

**DATE:** April 22, 2013

**SUBJECT:** Turning Point Academy – Financial Audit

#### **BACKGROUND**

Turning Point Academy (Turning Point) is a day treatment program for severely emotionally impaired students in grades K-12 in the Wayne County eastern region area. This special education school focuses on shaping student behaviors to facilitate their return to neighborhood schools. For the current school year, Turning Point had an enrollment of 98 students; which mainly represented students that have recently been discharged from inpatient psychiatric hospital settings and identified as emotionally impaired by their school; or students that have been receiving services in a self-contained setting in their local school, and have been unsuccessful.

Mr. Gary Taylor has served as Principal of the school since August 2010. Ms. Carmen Jones-Malone has served as the school's bookkeeper since August 2011. A third-party firm contracted through the Division of Finance - Cash Management department (Office of Accounting), prepares the monthly financial reports and bank reconciliations. Turning Point, 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 \$3,558.34 in its general checking account and paid out \$3,766.39. As of December 31 2012, the balance in this account was \$509.12.

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. Turning Point has 4 activity accounts including the school fund account. These are: Behavior Modification grant, Positive Behavior and Fundraiser activity accounts.

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.

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## **EXECUTIVE SUMMARY**

The financial records prepared by school officials 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: we observed that the school maintained more than one “master” receipt book concurrently; and funds totaling \$349, recorded in one of the receipt books, were not traced to bank deposit. The principal explained that some of the funds that are “unaccounted for” were used to make cash refunds to staff members for school purchases. Furthermore, regarding the deposits that were made, we noted incomplete deposit records including; deposit tickets were not dated, check number not indicated on deposit tickets, copies of checks received for deposit were not maintained, and receipt number not referenced on deposit tickets.

Internal controls over cash disbursements and recordkeeping practices were generally inadequate, evidencing a poor control environment established by school officials. In many cases, check request forms were not used, verification of available funds to support disbursements were not performed, and supporting documentation was not retained.

Furthermore, controls over fundraising activities need improvement. Due to missing receipts and/or invoices, we were unable to determine (1) the proceeds, (2) whether all fundraiser transactions were recorded, and (3) whether activities were profitable. As a result, we cannot be certain how much money students actually raised during our audit period, nor whether the funds were deposited and used as intended.

Our 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 on a timely basis. The audit revealed that monthly financial reports were not always prepared within the proper time frame to ensure compliance with district policies and procedures.

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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 Turning Point 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 Turning Point 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.

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## AUDIT FINDINGS

### **Lack of Compliance with Procedures Results in Inability to Account for Funds**

The principal's failure to follow the department of Cash Management's cash receipt procedures created the opportunity for funds to not be deposited, and are unaccounted for. District cash receipt procedures clearly state:

*All manually prepared receipts will be recorded on pre-numbered triplicate receipt books. The pre-numbered receipts should be used in sequential order to ensure internal controls over all cash receipt transactions. All cash received should be deposited intact and in a timely manner. (Do not cash checks with the funds received. Do not use cash collected to make change. Do not use cash received for payments). All deposit tickets should reference the receipt numbers included in the deposit. In addition, all checks and/or money orders included in the deposit should be listed individually on the deposit ticket (by check or money order number and amount).*

We identified funds totaling \$349 (all in cash) that could not be traced to a bank deposit. We noted that between the months of April 2012 through October 2012, the school maintained 2 "master" receipt books, concurrently. Receipt series 117401 through 117406 were recorded in the cash receipts ledger during this period and were deposited. However, receipt series 434526 through 434539, which totaled \$349, were used in a separate master receipt book during the same period, but were not recorded in the cash receipts ledger, or traced to deposit. In explaining the funds that are unaccounted for, the principal provided documentation that indicated that \$20 of this amount was used to make a cash refund due to a field trip cancellation, while \$80 was used to reimburse a staff member for purchases related to a senior ceremony. No explanation or documentation was provided to account for the remaining undeposited receipts totaling \$249.

Furthermore, regarding the deposits made, we noted incomplete deposit records including; deposit tickets that were not dated, check numbers not indicated on deposit tickets, copies of checks received for deposit were not maintained, and receipt numbers not referenced on deposit tickets.

The Principal has the ultimate responsibility to ensure that all school funds are receipted, recorded in the cash receipts ledger and timely deposited. Schools are prohibited from using more than one master receipt book at a time. This practice restricts the control over cash receipts. All checks received for deposit should be copied prior to deposit and copies of checks together with other relevant supporting documentation should be maintained with cash receipt and deposit records in school files. Additionally, no cash is to be advanced from cash on hand. District guidelines indicate that all necessary refunds or reimbursements should be made by school check, which is to be approved by the principal.

## **Untimely Deposits and Bank Reconciliations**

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

- Three (3) instances; July and December 2011 and January 2012, where the monthly bank reconciliations were not completed, or reviewed, within 15 days after month end.
- One (1) instance; for which a check deposit of \$400 received in September 2012, was not picked up for deposit by armor car service until November 2012.

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 15<sup>th</sup> 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.

Untimely deposits also increase the risk of theft and delays the availability of funds received. We were informed by school officials that deposits were affected during the months of September and October 2012 due to late arrival of the armor car service during after school hours. Turning Point is on a monthly pick-up schedule, and the district is charged for the service; whether or not a pick-up is made. However, we do realize that the contract for this service requires that pick-up service is scheduled between the hours of 9.00am and 3.00pm; which implies that service was not performed in compliance with the contract.

## **Inadequate Cash Disbursements Procedures**

In our review of cash disbursements, we noted that the school did not always follow Cash Management's procedures related to cash disbursement processing. We identified the following areas of non-compliance:

- Check request form not completed and/or approved by principal (75% exception)
- Requisition documentation not filed in appropriate month files (50% exception)
- Check disbursements were not made in a timely manner (75% exception)
- Verification of funds availability done before check issuance (75% exception)
- Purpose of expenditure was stated on check request form (75% exception)
- Check requisition was supported with relevant documentation (50% exception)

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.

The fact that the principal and bookkeeper did not perform these key duties to the extent evidenced above is indicative of a weak internal control environment within the school. Without the basic oversight procedures performed, the risk that general school funds may be misused or misappropriated is significantly increased.

### **Fundraiser Activity Deficiencies**

During our review of fundraiser documentation, we identified some deficiencies related to these activities. For example, the Profit and Loss Statements that were maintained did not accurately reflect the transactions related to the fundraiser. In some instances, receipts or invoices supporting fundraiser activities were not available; therefore, we were unable to trace proceeds and disbursements to school financial records. As a result, there is no assurance that all proceeds from fundraisers were actually used as intended. Furthermore, the absence of fundraiser documentation and accuracy in completion of profit and loss statements prevents the Principal from monitoring the existence and profitability of activities conducted by groups in the school.

The SFPM states:

1. Staff should be directed to turn in **all proceeds** to the bookkeeper on a daily basis. Whenever money changes hands, it must be exchanged for a signed receipt. Collections should be deposited in the bank in a timely manner.
2. The fundraiser sponsor is responsible for completion of a “**Profit and Loss Statement**” not more than **five (5) days** after the fundraiser has ended. A completed copy of this statement should be submitted to the bookkeeper/school treasurer and forwarded to the principal for review and approval. Copies of all invoices, receipts, etc. must be attached to the form.

We also noted one instance whereby proceeds from a Little Caesar’s fundraiser activity were used as cash reimbursement to a staff member for purchase of event items. The SFPM further states; “Fundraiser expenditures must be made by check from the responsible activity account and must be supported by receipts, invoices or other appropriate documents. Absolutely no cash payments, or refunds in cash, should be made from fundraiser proceeds.”

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## **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 that purpose. To accomplish this, school administrators must adhere to District policies and procedures designed to accomplish this objective. 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 receipt procedures, purchases, disbursements and fundraising activities are conducted in compliance with these district policies and procedures.



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## RECOMMENDATIONS

We recommend that the Principal of Turning Point Academy:

- Ensure that receipts for cash and checks received are prepared and documented in accordance with guidelines. Also, all incoming funds should be timely deposited in the bank.
- Ensure cash disbursement procedures are adequately followed and that expenditures from the account are in compliance with district policies and procedures.
- Ensure compliance with fundraising requirements for proper documentation and accountability of proceeds and disbursements.

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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### Response to Audit Recommendations

Tuesday, April 9, 2013

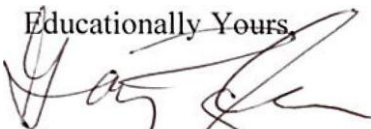
It is in this administrator's interest to uphold the statutes of policy, procedure, and protocol as it relates to the duties I have taken an oath to protect and perform. Based on findings revealed in the audit, I digress to dispute any of its content. Prior to the findings, corrective measures implemented were inclusive of ensuring:

- \* The discontinuance of two receipt books and that all receipts are recorded in a pre-numbered triplicate receipt book
- \* The discontinuance of cash disbursements
- \* That cash deposits are made in a timely manner
- \* That check request forms are completed prior to any reimbursement
- \* That fundraising proceeds are carefully monitored and submitted as protocol

As a change agent, it is my intent to focus on maximizing my latent dexterities as well as those of my staff. Effective immediately, we will request and amplify our participation in training specific to school finance procedures. I purport that fiscal integrity is an integral component of enhancing corporate growth. My goal is to properly account for all monetary transactions without incident. Specific to my goal is my objective which entails immediately indentifying and executing internal control deficiencies.

I wish to dispel the notion that the environment is at risk for misappropriation and misuse of funds, as I have eradicated and rectified the predominant factors indicative of a weak internal control as documented in the audit findings. Moving forward, proactive strategies to eliminate any and all deficiencies is top priority for this administrative team. I have the utmost confidence that the future financial stability of this organization is safe and that all transactions will comply with the School Financial Procedures Manual (SFPM).

I encourage questions, comments, or concerns regarding this matter. If the desire should arise please feel free to contact me at [Gary.Taylor@detroitk12.org](mailto:Gary.Taylor@detroitk12.org) or (313) 736-1000.

Educationally Yours,  
  
Gary Taylor, Principal