

DETROIT PUBLIC SCHOOLS

Office of Inspector General



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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Andrea Ford-Ayler, Principal, Westside Academy High School

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: Westside Academy Alternative High School – Financial Audit

BACKGROUND

Westside Academy Alternative Education High School (Westside Academy) is home of the four-day school week and proud recipient of the 2006 Congressional Award for Outstanding Graduation Rate in Alternative Schools. Westside Academy strives for academic excellence and provides our students with opportunities for accelerated learning through online classes with tutorial support through our Test Prep Café. The school's curriculum is based on the Alternative Curriculum Choices for Excellence in Leadership model. The school also offers accelerated credit recovery advantages by offering online classes and extended day opportunities.

For the current school year, West Side Academy has an enrollment of 478 students. Ms. Andrea Ford-Ayler has served as Principal of the school for 10 years. Bookkeeping duties are shared between the two Assistant Principals, Ms. Lenora Crawford and Ms. Kesha Reeves. Ms. Crawford has been the bookkeeper since September 2011, while Ms. Reeves has assisted in that role since September 2012, but neither have prior bookkeeping experience.

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. Westside Academy, 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 \$55,715.28 in its general checking account and paid out \$51,376.52. As of December 31, 2012, the balance in this account was \$8,037.34.

The major sources of funds deposited into the school's account include: fundraising activities, vending commission and monies raised through senior activities. 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. Westside Academy has 2 activity accounts; General account and Senior class account.

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 (GSFs).

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

Overall, Westside Academy did a good job complying with District procedures related to cash receipts, disbursements, general ledger maintenance, timely deposits, fundraisers and athletic events. The number of violations noted was not significant, but we did find a few areas of noncompliance that need to be addressed going forward. Specifically, we identified over \$1,100 in disbursements or about 7.5 percent of the nearly \$15,000 in disbursements tested. Some of the expenditures were for building supplies, paint for maintenance, and pizza for MME teachers and floral arrangements for a hospitalized staff member. The latter two expenditures are allowable if paid out of the school's social fund which is established for this purpose.

We also found that of the \$15,000 in disbursements tested, over \$5,000 in expenditures were made for the school by the same employee. This indicates that the school is not following the check request process, which raises concern that some purchases made by employees may not be authorized before they occur. Going forward, the school should follow the check request process and limit the practice of employee reimbursement to small infrequent purchases.

Other evidence of non compliance was noted with 1 of 4 fundraisers where the profit and loss statement was not submitted within the required timeframe; and discrepancies with unsold athletic tickets that diminished the ability to assure that all funds collected were prepared for deposit. Regarding the athletic tickets, the bookkeeper is responsible for safeguarding unsold tickets. The auditors noted that 27 pre-sales tickets could not be located and 3 tickets related to a basketball games held in December 2012 could not be located. In addition, the ending ticket number which is required to be documented on the Ticket Sales Report was incorrectly documented eliminating the ability to verify and agree the funds collected with the tickets sold. The school needs to do a better job safeguarding tickets and accurately documenting the results of athletic events held at the school.

As with other schools, we found that bank reconciliations were prepared late. For example, each of the bank reconciliations for July 2011 through January 2012 was prepared significantly late and on the same day—March 14, 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). 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.

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 following 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.

OBJECTIVE, SCOPE & 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 Westside Academy'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 Westside Academy 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

Most School Disbursements Comply With Procedures

We tested 64 disbursements for the audit period, and found that the school was compliant in the requisition, approval, and documentation process. All disbursements were supported and agreed to sub-ledger activity accounts and we found no instances where sales tax was paid on school purchases. However, we found that 9 of the 64 disbursements made were not allowable by district procedures. Some of the questionable disbursements included:

- Hardware tools,
- Door locks,
- Signage for a volunteers parade held in August,
- Floral arrangement for a hospitalized staff member,
- Bell Schedule set up,
- Paint for maintenance,
- Pizza for MME teachers, and
- Supplies and equipment for home basketball games.

In total, the amount of unallowable expenditures was just over \$1,130. Hardware tools, building supplies, and signage for volunteers are expenditures that should be paid from the school's budgeted discretionary funds. Food and flowers for teachers and staff are allowable expenses if paid from the school's social fund which is designed for this purpose. School officials should be mindful on how funds are spent because such prohibited purchases, when made, deny the student body of the funds that were intended for their direct benefit.

A subsequent review of disbursements noted that the school has a practice of reimbursing employees for purchases made for the school. Although reimbursements are allowable, they must be authorized and per policy, a check request should be prepared **prior** to the purchase. This allows the principal an opportunity to assess the necessity and reasonableness of the purchase. According to district procedures, failure to have purchases approved prior to making them could result in the reimbursement request being denied. We noted one employee who made 12 of the 64 disbursements tested for a total amount of \$5,154.90 which is one-third of the \$15,000 tested. While the expenditures appeared to have a direct benefit for students in the Robotics program, each of the checks was written to the one individual. Although the principal may have been aware of these purchases prior to them occurring, we question why checks were not written directly to the vendor for these purchases. This would support that the school is following the check request process. Four purchases made by this employee on the same day totaled over \$3,500. This appears excessive and the school should take action to ensure that the check request process is being followed for such purchases.

Fundraiser Documentation Profit and Loss Statement

We tested four fundraisers for approval, documentation and profitability and found that the school followed procedures for the most part. We did, however, find that the profit and loss statement for one of these fundraisers was not submitted within the five-day timeframe to the bookkeeper and principal for review and approval as required by the SFPM:

“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 and forwarded to the principal for review and approval.”

Overall, the school is doing a good job documenting fundraising activity. The school could address the noted non compliance by revisiting the procedures with activity sponsors in the school.

Missing Unsold Pre-Sales Athletic Tickets

Unsold tickets for a December 2012 basketball game did not agree with the ticket sales report, which was also determined to be improperly documented. Specifically, 27 unsold pre-sale tickets could not be found to reconcile with the ticket sales report for the December basketball game. Also, the ticket sales report for this game showed the beginning ticket number and the ending ticket number as the same number. Beginning and ending ticket numbers are required to be documented as a control to ensure that the funds collected agree with the number of tickets sold. When either number is incorrect, it limits the ability to verify that all funds were turned over to the bookkeeper.

The audit also found 3 missing ticket numbers (6305, 6332, and 6336) sold for the December 18th and December 20th basketball games. Tickets should be in the custody of the school bookkeeper who will supply the athletic coordinator with the ticket roll to be sold at the gate prior to a game.

The SFPM requires that the total amount collected (and deposited) for gate receipts should agree with the total number of ticket sales.

Untimely Bank Reconciliations

We tested seven months of bank reconciliations for timely preparation and outstanding deposits, and found that each of the 7 bank reconciliations tested were not prepared timely in accordance with district procedures. Specifically, the test work found that bank reconciliations for July, August, and October 2011 were not prepared until March 14, 2012. Also, the January, April and July 2012 bank reconciliations were also late, but not as significantly as those tested in 2011.

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 following 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.

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.

CONCLUSION

The school is doing a relatively good job of complying with procedures ensuring that cash receipts and disbursements are consistently approved and properly documented. We did note limited non compliance related to fundraisers, prohibited expenditures, and athletic events. For instance, the school should ensure that all school purchases made by employees are pre-approved. This can be achieved by following the check request process for disbursements.

Overall, the concerns with missing athletic tickets are the most substantial issue noted. However, school officials should be mindful about how funds are spent as any prohibited expenditure made reduces the availability of funds for their intended purpose.

School principals are ultimately responsible for the collection, distribution, and accounting for all general school funds. The principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. The School Financial Procedure Manual (SFPM) is provided as a vital tool for all school personnel to refer in performance of their financial responsibilities.

Going forward, the Principal should refer to the SFPM and other written guidance referred to therein to ensure compliance with district policies and procedures. The basic purpose for collecting or raising and expending of activity funds must be for the direct benefit of the students or for the general benefit of the school.

RECOMMENDATIONS:

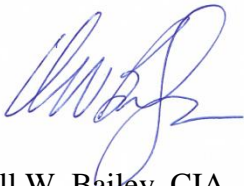
We recommend that the Principal of Westside Academy take action to ensure:

- That proper procedures are followed for disbursement of school funds including the check request process, particularly for large recurring expenses;
- That fundraiser Profit and Loss statements are prepared within the required timeframe, and;
- That Athletic tickets are safeguarded and beginning and ending ticket numbers are properly documented to facilitate reconciliation and accountability.

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 MEMORANDUM



TO: Wilbert V. Marsh, Inspector General, Detroit Public School

FROM: Andrea F. Ayler, Principal, West Side Academy *AFA*

DATE: April 12, 2013

SUBJECT: Response to Internal Audit Findings for WSA

Please be advised this communication is in direct response to the recent **Internal Audit Report** submitted that reviewed West Side Academy's cash receipts and disbursements for the period July 1, 2011 through December 31, 2012. According to the report several internal control deficiencies and noncompliance conditions were identified. Management does concur with most of the findings as mentioned in the report. However, management has found issue with **some** of the findings and respectfully submits supporting evidence to refute the negative findings as follows:

- **Pizza for MME teachers** – We are certain that this was written in error. Pizza was purchased for MME Testers, for the MME testing periods not teachers. A check number, check date, and the amount of this finding would greatly assist with a more thorough investigation of the matter.
- **Floral arrangement for hospitalized staff member** – A check number, check date, and the amount of this finding would greatly assist with a more thorough investigation of this matter.
- **\$5,000.00 in expenditures was paid to the same employee / Check requests should be prepared prior to purchase.** A check number, check date, and the amount of this finding would greatly assist with a more thorough investigation of this matter.
- **27 pre-sales tickets for basketball games** – The 27 tickets have been recovered and are in our custody. The tickets were initially sent to the Athletics department in December 2012, along with a **Verification of Receipt Form that was signed by district officials.** The tickets were returned to our Athletic director, who has since returned them to the administration. These tickets have been verified and locked away with all documentation for that basketball game by the bookkeeper.
- **3 missing ticket numbers (6305, 6332, and 6336) sold for the December 18th and December 20th basketball games** – We have investigated this matter and will ensure that all parties involved in athletic ticket sales from this point forward will follow the procedures and guidelines as outlined in the Cash Management School Financial Procedures Manual.

9 of the 24 disbursement made were not allowable by district procedures

- **Hardware Tools** – per page #10 of the School Financial Procedures Manual “small repairs, moving or maintenance of equipment purchased from school funds” are examples of acceptable expenditures from General school Funds.
- **Door Locks** – per page #10 of the School Financial Procedures Manual “small repairs, moving or maintenance of equipment purchased from school funds” are examples of acceptable expenditures from General school Funds.
- **Signage for a Volunteers Parade held in August** – these signs were created for student athlete volunteers (basketball and cheerleading) to hold in the district sponsored **Opening of Schools Annual Parade**.
- **Floral Arrangements for hospitalized staff member** – reference above
- **Bell Schedule Set- Up** – per page #10 of the School Financial Procedures Manual “small repairs, moving or maintenance of equipment purchased from school funds” are examples of acceptable expenditures from General school Funds.
- **Paint for Maintenance** – per page #10 of the School Financial Procedures Manual “small repairs, moving or maintenance of equipment purchased from school funds” are examples of acceptable expenditures from General school Funds.
- **Pizza for MME Teachers** – referenced above
- **Supplies and Equipment for Home Basketball Games** – A check number, check date, and the amount of this finding would greatly assist with a more thorough investigation of this matter.
- **Profit and Loss Statements not being submitted within five day period** – We will make every effort to complete Profit & Loss Statements within a timely manner.

Management does concur with most of the findings as mentioned in this report, and thoroughly recognizes the associated effect that such findings may have on our school’s overall financial health. As a result, we intend to adhere strictly to the rules and guidelines as stipulated within the District’s Procedural Manual. This administration will also make every effort to ensure that procedures at West Side Academy are in line with, and up to date with District policy and procedures to avoid similar findings in the future.

West Side Academy and its staff take very seriously our commitment to education, and clearly recognize the role that use of school funds and sound financial record keeping play. We will continue to strive to maintain adequate financial records which are in compliance with District Policy.

Respectfully Submitted,

Andrea F. Ayler

Andrea F. Ayler, Principal, West Side Academy