

ACCOUNTABILITY



TRANSPARENCY

Review of Bank Deposit Discrepancies

Clippert Academy

Office of Auditor General
Detroit Public Schools
March 2014

SUMMARY REPORT

Over a 7 month period, Clippert Academy lost \$600 in school funds in two separate cash discrepancies. School officials feel strongly that the bank is at fault and have raised concern about the frequency of discrepancies that are occurring since the District began using this bank for school activity funds. We reviewed the bank statements over a 2 ½ year period and found that 18 cash discrepancies have occurred involving 67 deposit bags. This represents an exception rate of nearly 27 percent. Essentially, 2.7 out of every 10 deposit bags had errors. However, 14 of the 18 errors were reported by the bank as overages. Consequently, while the number of errors are unacceptable it's not clear whether this is an indication of bank or bookkeeping errors.

The school uses an enhanced procedure to help count and verify incoming funds prior to being bagged for deposit. While this added control is intended to provide greater assurance funds are accurately counted, the employee does not sign off or initial that they verified the amount of funds with the bookkeeper. As a result, no evidence of this added control is documented and the effectiveness of the procedure is reduced. This, in part, may be why the school does not consistently count and verify large amounts of incoming funds in the presence and with the concurrence of the remitter as required by District procedures. The person remitting the funds has a vested interest in ensuring that the amount remitted matches the amount receipted.

We also noted other areas of noncompliance related to documenting student payments as part of fundraising activity and documenting and submitting the results of fundraisers to the Department of State and Federal Programs. Specifically, district procedures require that when funds are collected from students by activity sponsors that amounts received be documented. The preferred method is to use the triplicate receipt form. In those cases when this is not feasible, a transmittal list that identifies the amounts received by date and student name should be submitted along with the Summary of Cash Deposit form and collected cash to the bookkeeper. However, this procedure wasn't followed when the two cash discrepancies occurred. Consequently, the documentation to support the amount shown on the bank deposit forms wasn't available. This, in turn, limits the ability to determine responsibility for the cash discrepancies.

To address the audit findings in this report, we believe that the Cash Management Department (CMD) should alert all schools about the importance of capturing the name/signature of the remitter attesting that all funds were jointly counted and verified. At a minimum, this will help to ensure that schools are aware of the importance of this control. Ultimately, fully complying with cash management procedures is the best way for staff to avoid discrepancies. As such, CMD should consider offering scenario-based training related to cash and fundraising receipting requirements, which could prove to minimize the risk associated with deposit discrepancies.

DETAILED REPORT

BACKGROUND

At the request of the Office of Accounting, Division of Finance, we conducted a review of a bank deposit discrepancy involving Clippert Academy (Clippert). The deposit discrepancy occurred in December 2013, in the amount of a \$100 shortage (amount recorded on deposit ticket greater than actual amount received and recorded by Financial Institution). While performing initial preliminary procedures we found Clippert had another deposit shortage in June 2013 in the amount of \$500. As a result we expanded our review to include that deposit as well.

The Cash Management Department (CMD), Office of Accounting, Division of Finance is responsible for monitoring and recording cash activity involving School related funds. The cash balances for school funds are recorded in the District's Agency Fund. At June 30, 2013, Clippert's account balance was \$8,095. The CMD has policies and procedures including internal control procedures for managing cash activity which all schools are required to follow. The policies and procedures are fully outlined and described in the publication titled, *School Financial Procedures Manual, revised August 2013* and are available on CMD's intranet site. School principals are ultimately responsible for ensuring school funds are accounted for properly in accordance with District policies and procedures.

The school bookkeeper/treasurer is responsible for processing cash receipts and disbursements. She attended the District's financial training course sponsored by CMD, but it was over five years ago. The District contracts with a private entity, Haynes, Malifus, and Davis, PLLC (HMD), to prepare monthly bank reconciliations, review the cash activity of each school, and prepare an internal control checklist each month identifying any non compliance with district procedures, which is discussed with the principal and bookkeeper.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of our review were to:

1. Determine the nature and responsibility for the deposit discrepancies; and
2. Assess the extent of compliance with the District's cash receipt, handling and depositing procedures for the deposits that resulted in \$100 and \$500 discrepancies;

The scope was primarily the cash receipts related to the bank deposits that resulted in the discrepancies and the related dates thereof which included the period from June 7, 2013 – December 9, 2013. We also reviewed deposit discrepancies involving Clippert from the period, June 1, 2011 - January 31, 2014.

The audit methodology included: reviewing the District's Cash management policies and procedures; interviewing the principal, bookkeeper and other personnel at Clippert involved in cash management activity; reviewing school cash receipts related to the deposit discrepancies that included; reviewing bank records and monthly financial reporting packages from Clippert

submitted to CMD; and determining compliance with District policies and procedures. We completed our field work in March, 2014.

AUDIT RESULTS

Uncertainties Surround Responsibility for Missing Funds

Our inquiry about the missing funds found uncertainties related to who was ultimately responsible for the cash shortages. Although the principal has the fiduciary responsibility for all school funds, no evidence exists that clearly indicates who was responsible.

We interviewed the principal, bookkeeper and other school officials involved in cash management activities for the school about their knowledge and role in the process. The principal raised concerns about the accuracy and reliability of the counting of deposits by the bank in December 2013 after being notified about the \$100 shortage. She indicated since the present bank became the depository for the District's school funds they have had numerous deposit discrepancies. She further stated principals of other schools have expressed similar concerns about the bank's accuracy in counting deposits during principal meetings. The Principal also expressed displeasure with the bank's customer service and indicated they have not been helpful or eager to assist when they have made inquiries related to deposit discrepancies. The principal also reiterated her confidence in the bookkeeper who has been in this position for 7 years. She said the school always uses two people to count and bag up incoming funds for deposit.

The school has added assurance when verifying funds because another school employee, who serves as a technician for the school, assists the bookkeeper with counting cash, preparing the deposit tickets and bagging cash for deposits. The sealed deposit bags are stored in a safe in the main office and held until picked up by the armor car service. The assistance provided, though not required by District policy, is an enhancement that provides added control over the funds. However, the technician does not sign off so no physical evidence exist that shows he verified the funds from the two deposits in question.

School officials stated that at no time were the funds unattended after they were received by the activity sponsors. Further, there is no dispute that the amount recorded on the deposit tickets of \$1,466 and \$2,826 for bank deposit dates of December 9 and June 13, 2013, respectively agrees with the relevant school receipts and amounts submitted to bookkeeper from event sponsors.

In discussions with Cash Management Division (CMD) and Office of Accounting officials, they indicated the bank conducted its own internal review of the discrepancy related to the December 2013 shortage of \$100. That review included examining surveillance video of two bank employees opening the sealed deposit bag (which had no evidence of being tampered with) and counting of the bag contents and no irregularities were observed. When the deposit discrepancy was noted by the bank, a third bank employee recounted the funds and agreed that the bag only contained \$1,366 and was short \$100 compared to the amount on the deposit ticket of 1,466. The shortage involved 100, \$1 bills.

The bookkeeper agreed with the principal that the cash shortages were due to bank errors. According to the director CMD, they have had no other cash discrepancy complaints about the bank.

To assess the principal's assertion that the bank has made numerous errors in the past, we reviewed bank records for the school since the bank was hired by the District. The period covered 32 months from June 2011 through January 2014. We noted 67 bagged deposits were made by the school for this period. Of the 67 bagged deposits, we determined 18 errors were identified for an error rate of nearly 27 percent. However, only 4 of the corrections were for shortages totaling \$605.61 while the remaining 14 corrections were for overages totaling \$142.89. The amount of errors is high, but most are for overages.

Non-compliance with DPS Procedures Reduces Accountability

The school's non-compliance with the District's cash management procedures reduced the level of accountability over school funds that resulted in two cash discrepancies within a 7 month period at Clippert Elementary. Specifically, school personnel failed to (1) properly receipt cash that was remitted, (2) document student payments that supported the amount cash collected, (3) count, verify and receipt cash when remitted, (4) comply with fundraising documentation requirements. Collectively, these violations of the cash management procedures limited the ability to ensure funds were properly accounted for prior to deposit. Ultimately, school personnel blame the bank where deposits were made for the two cash discrepancies, but the failure to follow procedures limits the ability to support that assertion.

Improper Receipting of Cash Collections

Our review of cash receipts involving two cash discrepancies for \$500 and \$100, respectively noted that school personnel did not follow cash receipt procedures that require the remitter to sign off on the receipt verifying the amount of funds remitted. Both of the cash discrepancies involved a single receipt.

A single school receipt (#129363) made up the deposit amount of \$2,826 from which the \$500 cash shortage discrepancy occurred in June 2013. This receipt did not include the name of the individual that remitted the money; instead it listed the activity; "*Fun Fair Activity*." We were told money from this activity was generated from ticket sales to students that allowed them to participate in a variety of games/rides and the purchase of food items. The activity is part of the school's year-end celebration. The bookkeeper identified the teacher/sponsor that submitted the money and whom she provided the remitter's copy of the receipt. When we spoke to the teacher identified as receiving the receipt she indicated she did not receive the remitter's copy of the receipt from the bookkeeper, but another member of the sponsoring team may have received it.

The school receipts that made up the amount of the deposit of \$1,466 that resulted in the \$100 shortage in December 2013 included seven receipts. Six of the receipts, each for \$11.00, included the name of the remitter, but one did not. The six with names were written to students who purchased book bags. The receipt which did not include the remitter's name listed "Soccer Fundraiser." This receipt was for \$1,400 and related to candy and snack items sold to students/staff. (See Appendix for detail listing of receipts).

The bookkeeper identified the teacher/activity sponsor that submitted the funds. The teacher indicated she did receive a receipt copy for \$1,400, but could not provide it for our review. She did, however, provide a ledger book she maintains of funds submitted and we noted an entry that showed the \$1,400 submitted to the school bookkeeper for the soccer fundraiser.

Cash management procedures require that all monies received by the bookkeeper be properly receipted. To do this, cash receipts are required to include the name of the remitter, and be signed by both the bookkeeper and the remitter for all funds received. Failure to comply with this procedure significantly reduces the level of assurance that the amounts remitted were accurately reflected on the receipt.

Lack of Support for Student Payments

Monies collected from students for the Fun Fair activities which totaled \$2,826, was not supported by a transmittal list as required. District procedures require that a transmittal list be attached to a Summary of Cash Deposit form with collected cash when money is collected from students for such purposes. In lieu of a transmittal list that identifies the student by name and the amount collected, pre-numbered tickets can be used to account for monies collected when the amount is the same. Schools also have an option to use the triplicate receipts, but the Summary of Cash Deposit and the transmittal list may be more practical when a significant number of students are involved.

We inquired about the support for the amount of funds collected and were told that no transmittal list or pre-numbered receipts were used to document the payments by students for the Fun Fair activities. If school personnel would have followed District procedures, the audit team could have determined whether the amount submitted matched the amount receipted. Without this support, there is no way of supporting that \$2,826 was collected versus the \$2,386 the bank verified was in the deposit.

Delays in Receipting Cash

The District's Cash management policy requires that money received be immediately counted and verified in the presence of who submitted the funds. Timely receipting ensures accountability and validation of amount and purpose of funds received. Regarding the \$100 deposit shortage in December 2013, the six receipts written to students appeared to have been counted, verified and prepared timely. However, the receipt written to the Soccer Fundraiser was not issued immediately when funds were given to the bookkeeper. The bookkeeper indicated the teacher submitted the money and she placed it in the safe until she had time to count the money, and prepare the receipt. The bookkeeper indicated when large sums of money are submitted she often uses this approach. Also, based on the sum of money received, \$1,400 from the sponsoring teacher, collected funds are not being submitting to the bookkeeper daily which also is not in accordance with District policy.

Similarly, the receipt written to Fun Fair Activity related to the \$500 deposit shortage was not prepared immediately when the bookkeeper received the funds. Our understanding is that during the day of the activity, a teacher/sponsor submitted to the bookkeeper numerous envelopes of money (amount recorded thereon) throughout the day and they were placed in the school safe.

These funds were not counted and a school receipt prepared until the following day. Although the school maintains that funds are always counted in the presence of another school employee before being bagged for deposit, the procedures require that this process occur in the presence of the remitter who has a vested interest in ensuring that all monies remitted are properly verified.

Non-compliance with Fundraising Procedures Limits Support for Actual Amount Remitted

For both the June and December 2013 cash discrepancies, the school failed to file supporting documentation on the amount collected with the Department of State and Federal Programs as required by cash management procedures. The failure to comply with fundraising procedures limits the ability to support the school's claim of the amounts remitted.

The District encourages school principals to engage in fundraising activity to support school activities that enhance the learning experience. District policies and procedures also require fundraising activity, among other things, comply with criteria such as: 1) completing and signing a Responsibilities of Sponsors of Activity Accounts form; 2) submitting a Request for Approval – Fundraising Activity form, and 3) at the conclusion of the activity, submitting a Fundraising Activity Profit and Loss Statement. Use of these forms and reports ensure event sponsors are aware of the important duties and requirements related to sponsoring events/activities and strengthens accountability and transparency. After the forms are approved by the school principal and assistant superintendent (where applicable), they are to be forwarded to the Department of State and Federal Programs (DSA&FP).

We requested both the Request for Approval and Fundraising Activity Profit and Loss Statement forms for the Soccer and Fun Fair Activity Fundraisers from the DS&FP. We found the Soccer Fundraiser activity submitted the required Request for Approval forms for the current and recently completed school year (2012/2013), but did not submit the required Fundraising Activity Profit and Loss Statement for the 2012/13 school year. The current school year Profit and Loss Statement is not yet due, since this is a yearlong activity. We found the Fun Fair Activity Fundraiser did not submit the Request or Profit and Loss forms to DS&FP.

The teacher that sponsors the Soccer Fundraiser indicated she does prepare and submit a Profit and Loss Statement to the bookkeeper. However, was not attached to the receipt, nor submitted to DS&FP. The principal indicated that a Profit and Loss form was prepared for the Fun Fair Activity but it was lost and could not be provided for our review.

Other Compliance Matter

During our review we discovered Clippert did not comply with another cash receipting and handling policy and procedure of the District. The District policies require schools use separate Armored Car log books for school and lunchroom deposit pick-ups. Clippert uses a single log book to record both school and lunch-room deposit pick-ups.

CONCLUSION

School funds are intended to be used for the sole purpose and benefit of the student body. Although the principal has the ultimate responsibility for ensuring school funds are used appropriately and properly safeguarded, the day to day management of these funds is delegated to the bookkeeper and other school personnel who serve as sponsors for selected activities. The District's CMD publishes detailed procedures for managing cash activity at the schools to assist with the day to day managing of school funds. When these procedures are not consistently followed, it exposes the school to a greater risk of loss due to errors and possible theft.

Although school officials at Clippert are confident that the cash discrepancies that resulted in missing funds totaling \$600 over a 7 month period are due to bank errors, they failed to follow procedures that could have supported their position. However, because they didn't follow the procedures, it is unclear who is actually responsible for the missing funds. What is clear is that there have been a number of deposit discrepancies over the last 2 ½ years, but most of these were overages. In addition, in the case of the December cash shortage, the bank reviewed surveillance tapes and found no evidence that bank employees were responsible for the missing funds. The bank also had a third person verifying the count in December.

Going forward, school personnel responsible for cash management at the school including the principal should receive updated training and make a concerted effort to consistently follow procedures.

Consideration should be given to a possible criminal investigation, but the cost and benefit of such an investigation should be fully weighed. Whether such an investigation occurs or not CMD through its consultant (HMD) should monitor the school's cash activity closely to ensure compliance with district procedures and to avoid any additional cash discrepancies. Similarly, CMD should document any complaints against the bank and review periodically to ensure the level of performance is consistent with DPS requirements.

RECOMMENDATIONS

To minimize and mitigate bank deposit discrepancies in the future we recommend the director of Cash Management Department consider:

1. Issuing an "Email Alert" to all school principals and bookkeepers reinforcing the requirements to include the name of an "individual/person (remitter)" on all school receipts and have the remitter sign the receipt,
2. Offering re-fresher courses to principals and bookkeepers that focuses on scenario-based training related to cash and fundraising receipting activities, and

3. Conducting an analysis of bank deposit discrepancies across all schools to determine whether any systemic discrepancies involving deposits exists.

To strengthen compliance with the District's policies and procedures related to school funds, and specifically those involving receipting, cash handling and fundraising we recommend the Clippert School Principal take action to ensure that:

4. All cash receipts are counted, verified and signed by the remitter at the time of submission,
5. All cash receipts are prepared timely,
6. All cash receipts have the appropriate documentation (i.e., *Summary of Cash Deposit and Transmittal List-Money Collected from Students*) for cash collections from students submitted with funds,
7. Any personnel assisting the school bookkeeper with cash receipting and handling responsibilities sign or initial and date relevant documents evidencing the assistance provided. Also, consider requiring such individuals attend any future training for bookkeepers.
8. All required forms related to fundraising and event sponsors are prepared timely, properly approved, and appropriately filed. The forms include:
 - a. Responsibilities of Sponsors of Activity Accounts
 - b. Request for Approval-Fundraising Activity
 - c. Fundraising Activity Profit and Loss Statement.
9. Separate armored car log books are use for school and lunchroom bagged receipt deposits.
10. All fundraising and activity sponsors maintain their copy of cash receipts received from the bookkeeper such that they can be easily retrieved, and

We further recommend the Clippert principal:

11. Enhance oversight of the bank deposit ticket preparation process by periodically reviewing and verifying that amounts recorded on the ticket are accurate and correct and reflect the actual amount of cash placed in the deposit bags.

MANAGEMENT RESPONSE

No Formal response was received from the Cash Management Department or Office of Superintendent of Academics.

Our review was performed in accordance with U.S. Government Accountability Office, Government Auditing Standards, and Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing, except as it relates to being peer reviewed.

This report is intended solely for management of the District and should not be used for any other purpose. The restriction is not intended to limit distribution of the report which is a matter of public record.

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey, Jr.', is positioned above the printed name.

Odell W. Bailey, Jr.
Auditor General

Appendix

School Receipts by Remitter

\$100 Shortage – December 2013

Applicable School Receipts				Financial Institution Amount Verified Dated 12/9/2013	Shortage or Discrepancy Amount
Receipt #	Date	Name of Remitter	Amount		
585237	11/11/2013	Silvia Gaubaldi	11.00		
585238	11/13/2013	Gabuela Orozco	11.00		
585239	11/14/2013	Frankie Velasquez	11.00		
585240	11/20/2013	Arely Diaz	11.00		
585241	11/22/2013	Anarceli Camacho	11.00		
585242	11/26/2013	Melissa Vasquez	11.00		
585243	11/26/2013	Soccer Fundraiser	1,400.00		
Deposit Ticket Amount, dated 12/9/2013			1,466.00	1,366.00	(100.00)

\$500 Shortage – June 2013

Applicable School Receipts				Financial Institution Amount Verified Dated 6/13/2013	Shortage or Discrepancy Amount
Receipt #	Date	Name of Remitter	Amount		
129363	6/7/2013	Fun Fair Activity	2,826.00		
Deposit Ticket Amount, dated 12/9/2013			2,826.00	2,326.00	(500.00)