

DETROIT PUBLIC SCHOOLS



Odell W. Bailey
Auditor General

AUDIT REPORT

To: William Aldridge, Chief Financial and Administrative Officer
Karen Ridgeway, Superintendent of Academics
Shirley Mobley-Woods, Assistant Superintendent and Chief of Staff, Academics
Ed Tomlin, Deputy Executive Director, Elementary and Middle School Athletics (K-8 Sports Program)

From: Odell W. Bailey, Auditor General

Date: June 9, 2014

CC: Jack Martin, Emergency Manager
Delores Brown, Deputy CFO/CAO
Wanda Taylor, Director, Cash Management Department
Alvin L. Ward, Executive Director, Athletic Programs
Maria L. Adams-Lawton, Executive Director, Health Kidz, Inc.

Subject: Review of Controls over Gate and Program Receipts for K-8 Sports Program

BACKGROUND

This audit was requested by the Chief Financial and Administrative Officer. The Elementary and Middle School Athletic Program (K-8 Sports or Program) was created in response to the District's Strategic Initiative Plan. The Program began in the fall for the 2013-14 School Year. The Program offers students in Kindergarten through 8th grade an opportunity to play organized sports including

flag-football, tackle football, soccer, co-ed basketball, boys' and girls' basketball, golf, track, and baseball. Each sport is offered at different times during the school year. The program is designed to provide (1) instruction on the fundamentals of the sport, (2) proper technique(s), (3) skill development, (4) character building, and (5) to enhance the learning and education experience of DPS students. The program is an enrichment activity that generally operates after school and on weekends.

The district entered into a Memorandum of Understanding (MOU) with Healthy Kidz R Us Athletic League, Inc. (HK) on December 5, 2013, with an effective date of October 1, 2013 to develop and administer an athletic program for District students in grades kindergarten through 8th grade. At the on-set of the program, the District entered into a MOU with another entity, the Horatio Williams Foundation, to assist in the development and administration of the program. The plan was to have each entity be responsible for certain sports. The relationship with HWF was discontinued in late 2013, and HK assumed responsibilities for all the sports offered through the program at that time. Subsequently, The District entered into MOUs with other service providers to administer certain spring sports. To manage the day-to-day activities of the program and monitor the implementation of the MOU, the District appointed a program director in November 2013. The program is administered under the Office of Academics and the director reports to the Assistant Superintendent/Chief of Staff for Academics.

Some of the primary duties assigned to HK in administering the program include:

- a. Recruiting or employing all coaches and program volunteers.
- b. Conducting tryouts, registrations, drafts, and other team formations.
- c. Collecting registration fees, if any, and depositing such fees into an account approved by DPS. (DPS shall have the right to audit the records relating to the collection and use of such fees.)
- d. Collecting any agreed upon gate fees and depositing such fees into an account approved by DPS. (DPS shall have the right to audit the records relating to the collection and use of such fees.)
- e. Providing and paying all scorekeepers, coaches, referees and officials for all games at agreed upon rates.

Comprehensive data regarding program participation such as the name of participating schools, and number of students by type of sport was not readily available or complete for inclusion in this report. The program director and HK indicated they were working to compile such data and advised it would be available and distributed to district officials at a later date. The table below represents a summary of program participation data that was provided during our review by HK.

Summary Participation Data
K-8 Sports Program

Type of Sport*	# of Participating Schools*	# of Students Participating*
Soccer; K – 2 nd Grade	1	16
Flag Football; K – 2 nd Grade	1	10
Tackle Football; 6 th – 8 th Grade	5	89
Basketball; 3 th – 4 th Grade	17	211
Basketball-Coed; 5 th – 6 th Grade	7	74
Basketball; 7 th – 8 th Grade	17	183
Total		583

*Information provided from HK, and has not been subject to audit or independent verification

OBJECTIVE SCOPE & METHODOLOGY

The primary objective of the review was to assess the adequacy of the internal controls over cash and specifically gate receipts. A secondary objective was to provide recommendations to strengthen the program's internal controls over its operations.

The scope of the review included all gate receipts collected by HK, with a focus on receipts collected during weeks 1 – 5 for the 5th – 8th grade Basketball program which includes 5th-6th grade coed basketball and 7th - 8th grade basketball. According to program documents, 257 students participated in the 5th-8th grade basketball programs. We performed detail testing of gate receipts collected for games played on February 1, 2014 and February 8, 2014. Other limited testing was performed on gate receipts collected for games played February 15 – March 1, 2014.

The methodology employed included, but was not limited to: examining the MOU between the district and HK, examining the district's policies and procedures related to gate receipts for athletic events, an internet search and review of relevant documents on best practices for gate receipts at athletic events, interviews with HK and program officials to obtain an understanding of program operations, observations of gate receipt activity, and review and analysis of certain reports, and listings of gate receipts and participation data provided by HK. We completed our field work for this audit on June 9, 2014.

EXECUTIVE SUMMARY

The District established a sports enrichment program to offer students in Kindergarten through the 8th grade an opportunity to participate in sports activities. The program went from conception to production within a few months relying heavily on service providers who were already working with some District schools in this capacity. Getting the program up and running in such a short timeframe was a major achievement for the District and allowed it to deliver on a promise to offer more sports options for K-8 students for the fall. At the same time, moving so quickly into implementation limited the District's ability to ensure that providers were knowledgeable about District policies and procedures governing the collection of gate and concession receipts.

After the first school year of operations, our audit identified several matters that should be addressed related to the collection of gate and concession receipts and the deposit and safekeeping of those receipts in a DPS-authorized account. Although we found controls over cash collections of game receipts provide reasonable assurance over these funds, we noted that the funds generated from gate receipts are maintained in the service provider's bank account without a full accounting of program receipts and related disbursements. The District currently has no access to the account and is not authorized to inquire about the status of the account. As a result, if the account was closed tomorrow the District would have no recourse and faces the risk that the monies could be misappropriated without any violation of the law. We believe this is an avoidable risk and one that should be addressed.

Furthermore, the level of monitoring over the bank and cash activities may not be sufficient to detect any irregularities in a timely manner. We found no formalized policies and procedures specific to the K-8 program that governs how program funds should be monitored including the submission and review of bank reconciliations. These policies and procedures should be developed to ensure full accountability over cash collections. Doing so will also help provide greater accountability for the program and more consistency in the practices we observed at various games.

The District could possibly realize more revenue from games and concession sales for the K-8 program if it established controls to ensure all student participants paid the registration fee and that concession sales are captured by the program. Some students did not pay to participate and concession sales are being captured by the high schools where games are played and by the service provider for games held at middle schools. Requiring all students to pay is both an equity and financial issue. We found no evidence that 32 students paid to participate in the 7th and 8th grade basketball program. This was confirmed by the Executive Director of the service provider. Had these students paid it would have generated an additional \$320.

Finally, gate entrance fees are accounted for by the day which includes multiple games. Moving to a process where individual games are accounted for separately would provide greater accountability over sports activity. To do so, however, would require a greater level of administration and therefore higher costs. The Program Director and District management officials should consider whether the benefit of such an action outweighs the added cost of operation.

AUDIT REPORT FINDINGS

Finding (1)

Gate receipts and other Program fees are being deposited in a bank account in the name of the service provider and district officials have no excess to the bank account.

Criteria

Section 4.3 of the Memorandum of Understanding (MOU) between the District and Healthy Kidz R Us Athletic League, Inc. and other program service providers requires gate and other program receipts be deposited in a bank account approved by the District.

Condition

The District has not provided information or input to the service provider regarding an approved bank account for the program's financial activity. According to schedules and reports provided by the service provider, \$26,010 in gate, registration fees and concession sales was collected by HK on behalf of the program for the period in question. Of that amount \$17,182 was gate receipts. HK did not open a bank account designated exclusively for program receipts until January 13, 2014, some 90 days or more after it began operations and began collecting program receipts. Receipts prior to that date were deposited into HK's general bank account. The bank account opened by HK for program receipts was not approved by DPS' Cash Management Department or Office of Accounting, as required in the MOU. Also, no district program or cash management employee receives copies of the bank statements and related reconciliations. Further, no protocol exists to ensure cash balances of the program are captured and recorded in the district's financial books and records.

Effect

Having program funds in a bank account in the name of HK and not the district exposes the district to an avoidable risk. It significantly increases the risk that program funds could be withdrawn without the knowledge of the District. If this were to occur, no crime would have been committed as the District currently has no ownership rights over the account.

Recommendation(s)

1. The Program Director working with Cash Management Office should establish a bank account in the name of DPS where all program receipts collected should be deposited. The account should include the K-8 service provider(s) as authorized signatories to the account.
2. The Program Director should work with the Office of Cash Management and Accounting to ensure that funds in the K-8 Bank Account are captured in the district's financial books and records by fiscal year-end.

Risk: **High**

Finding: (2)

Gate receipts are generally being collected and accounted for in accordance with DPS policies, though procedures and processes could be strengthened.

Criteria

Section 2 of the MOU between the District and HK among other things requires HK to collect gate receipts in accordance with DPS policy. District policy in this area can be located in the District's School Financial Procedures Manual, revised August 2012, and a separate policy titled Revenue and Payments Related to Athletic Events at Schools, issued by the Office of Accounting, dated April 2011.

Condition

We reviewed the District's policies and procedures related to the collection and accounting for athletic gate receipts and compared them to practices we observed from attending selected games. We focused only on those key cash collection procedures that are relevant to the program. We observed the gate receipt activity at 6 locations for the 5th – 8th grade basketball league games played during the period February 1 through 8, 2014. The table below captures the results of our observations.

**OAG Observations of 5th – 8th Grade Basketball Games
Cash Collection and Related Procedures
K-8 Sports Program**

Description of District Cash Collection Procedures	Always	Not Always
Numbered Tickets used	✓	
Separate Ticket Seller and Cash Receiver		✓
Use of lock box for gate receipts	✓	
Use of Athletic Ticket Sales Report	✓	
Proper Gate Fee Charged		✓
Timely Reconciliation of tickets sold to cash receipts		✓
Timely Deposit of Gate Receipts	✓	
Payment made from gate receipts	✓	

Generally, we found procedures and processes in place to collect and account for gate receipts to be reasonable, which were strengthened during the course of our review. At the start of the program the District provided little guidance to HK regarding procedures and processes to use for gate receipt collections and accountability. When the program director was appointed, some guidance was provided, specifically the requirement to use the Athletic Ticket Sales Report and related

reconciliation of tickets sold to cash receipts. We were told these forms were not used for basketball games for the 3rd – 4th grade league though gate receipts were collected.

Other matters that came to our attention as a result of observations of gate collections and related procedures/processes include the following:

- Separate ticket seller and taker were not in place during the time of our visit to 2 site locations, Mackenzie and M. L. King.
- The MOU identifies separate ticket prices for adults and children, though the age range of children is not defined and it was not defined at the site locations observed.
- The proper gate fee for adults was not charged at one location. Adults were charged \$2 and not the required \$3 for a portion of the day.
- Our review of the daily reconciliations of tickets sold to cash receipts found minor discrepancies in amounts ranging from \$.50 - \$2.00 for the entire day.
- The basketball games occurred on Saturday, and the average number of days lapsed from date of gate receipts to date of deposit in bank was 2 business days. The range was 1 to 4 business days.
- A counterfeit bill detection marker was not used.
- Payments to game officials and staff were paid directly from gate receipts for the 3rd -4th grade basketball league games. The practice was discontinued when a program director was appointed and advised HK to cease the practice.
- HK and other staff were not always wearing badges or distinctive clothing that identified them as game staff.
- The ticket seller and taker did not always appear to be adults (Fisher Upper).

Effect

Failure to adhere to district policies and best practices related to collection of gate receipts violates the MOU and could result in gate receipts not being properly accounted for and a potential loss due to theft or error.

Recommendation

3. The program director should work with all K-8 Program service providers to ensure they are knowledgeable of District policies and procedures that govern the collection and safekeeping of all game and cash receipts. The program director should also determine whether additional procedures are needed to address matters specific to the K-8 sports program.

Risk: **Medium**

Finding: (3)

Registration fees not consistently collected from all participants

Criteria

The Memorandum of Understanding between HK and the District, section 2.2 and 2.3, and Exhibit A, allow for the charge/collection of registration fees, in the amount of \$10, per child, per sport with a maximum of \$30 per family, and \$25 and \$75 for tackle football, respectively.

Condition

Based on reports and statements from HK officials, not all students participating in the K-8 athletic program paid the required registration fee. Generally, it was the school's responsibility to collect and remit the fee directly to HK. For example, in the 7th - 8th grade basketball league, 170 student participant names are listed, but 32 or 18 percent of these participants did not pay the registration fee.

Based on student participation numbers from the service provider, we estimate the registration fees collected for all sports played under the K-8 Program should be \$7,165, but HK reported \$4,335 was collected, which is a difference of \$2,830. The table below summarizes the number of student participants and registration fees collected. The Program director acknowledged that not all program participants paid the required fee, and that the schools where these students attended have been invoiced for the amount due.

**Registration Fees Collected By HK
K-8 Sports Program through February 2014**

Type of Sport	Student Participants	Registration Fee	Total
Tackle Football	89	\$25	\$2,225
Soccer, Flag-Football, , Basketball (3 rd - 4 th and 5 th - 8 th)	494	\$10	\$4,940
Total OAG Estimate of Possible Registration Fees Based on # of Student Participants			\$7,165
Total Registration Fees Collected (per HK)			\$4,335
Difference			\$2,830

Effect

Not collecting registration fees from each student participant decreases the amount the funds available to operate the program resulting in a greater need for financial support from the General

Fund to sustain the program. It also creates an equity concern, when some students pay the fee and others do not.

Recommendation

4. Program officials should establish appropriate procedures and processes to ensure each student participating in the sports program pay the required registration fee amount as described in the MOU. Registration fee collections should be reconciled with listed participants by school and sport and the reconciliation should be reviewed for compliance by the Program Director.

Risk: **Medium**

Finding: (4)

Concession sales at games sponsored by the Program should be fully accounted for.

Criteria

The MOU between the District and HK, section 4.6, authorizes HK to “provide concessions at games, the proceeds of which will be collected in accordance with DPS policies and applied to expenses of the program.”

Condition

During our observation of gate receipt activity for the 5th – 8th Grade Basketball League, we noted concession sales occurring at each site except Cass High School (HS). The sites observed included, Fisher Upper, ML King HS, Cass HS, Renaissance HS, Cody HS, and Mackenzie. Concession sales observed appeared be fairly robust. We noted hot dogs, candy, snacks and beverages were offered for sale. Reports provided by HK indicated concession sales through week 5 of the league to be \$1,235. See the table below:

**Reported Concession Sales
5th - 8th Grade Basketball League
Weeks 1 – 5**

Location	Wk 1	Wk 2	Wk 3	Wk 4	Wk 5	Total
Fisher Upper	-	-	-	-	-	-
ML King	\$53	-	-	-	-	\$53
Cass	-	-	-	-	-	-
Renaissance	-	-	-	-	-	-
Cody	-	-	-	-	-	-
Mackenzie	\$95	\$290	\$302	\$262	\$234	\$1,183
Total						\$1,235

An HK official indicated they were instructed by the program director not to provide concessions at ML King, Cass, Renaissance, and Cody because the Principal/Athletic Director of those schools

would be responsible for concessions at these sites. Through the conclusion of our field work no concession sales reporting had been received from these locations.

Moreover, a full accounting of concession activity has not been provided from either HK or school athletic directors. This would include a summary of inventory or items purchased for sale and related sales for each location. Also, the \$1,235 in sales reported by HK was not deposited in either of the bank accounts owned and controlled by Healthy Kidz. Additionally, HK was the sole concession operator for the 3th – 4th Grade Basketball League. For that period they reported concession sales of \$3,258. A full accounting of those concessions has also not been provided to program officials.

Effect

The lack of a full accounting of concession sales activity increases the risk that concession proceeds or some portion thereof may not be used to off-set program expenses as intended in the MOU. Also, allowing principals/athletic directors from the high schools to operate and retain concession proceeds for games that occur in their schools violates the MOU.

Recommendation(s)

5. The Program Director should request a full accounting of concession activity from HK and principals/athletic directors and ensure any net proceeds are properly deposited in the bank account designated for program receipts.
6. The Program Director should take the necessary actions to ensure all future net proceeds from concession sales are deposited in the DPS-authorized account and used to off-set program expenses as directed in the MOU.

Risk: **High**

Finding (5)

Monitoring and oversight of Program operations and activity should be formalized

Criteria

Best Practices require that programs establish operating and performance metrics with appropriate monitoring and oversight procedures that are formalized and communicated to all program participants and responsible parties.

Condition

At the start of our review program officials had not established reporting timeframes for HK to provide reports on gate and registration fees collected. Additionally, no reporting protocol was established for student participation to ensure the required parental consent forms were on file. HK

officials informed us that not all students participating in the program had a signed parental consent form on file.

Also, no formal reconciliation or monitoring procedures exist related to the use of program receipts (gate and registration fees) collected by the service provider. The MOU authorizes the service provider to collect receipts and to hire and pay game personnel, such as, game officials, staff, and coaches. Based on discussions with the service provider and program director, the service provider paid some personnel from program receipts, and their own funds, but also billed the district for these same types of expenses. This poses a risk that program expenses that have already been paid could be billed to the District. Our analysis of the bank account used by the service provider, HK, for program financial activity for the period January through May 2014 indicates program receipts of \$32,657 were deposited and \$29,909 in disbursements were processed through the account. At the same time, we verified that the District's payments to HK related to the program as of June 5, 2014 were \$23,577. However, a complete reconciliation of the deposited program receipts and the related disbursements from the bank account has not been done to date.

Further, no formal reporting process exists requiring the program director to submit financial and operational reports to District Leadership. Receipt of reports that convey meaningful and useful information on the program's operations and performance would allow leadership to assess the Program and whether it is achieving its intended purpose and when and if adjustments to the program are necessary.

Effect

Without formal procedures requiring the timely submission of information on program revenues including the reconciliation of game receipts with tickets sold the District's oversight of the K-8 program is limited and may not be sufficient to detect irregularities in a timely manner. This also limits the ability to make timely program adjustments.

Recommendation(s)

7. The Program director should work with HK and all other K-8 Program service providers to establish appropriate and reasonable reporting requirements that will allow for the assessment of whether the requirements under the MOU are being met. These requirements should include specific timeframes when reports should be submitted, and the review protocol for assessing items submitted.
8. The Program director should require copies of monthly bank statements and related reconciliations be provided to program personnel within a reasonable time (i.e., 3 days) after being received from the bank. The monthly reconciliations should be actively reviewed for completeness and accuracy by the program director and evidence of the review should be present. Program and cash management personnel should receive view access to the bank account. Also, a full accounting of disbursements from the bank account should also be received and reviewed, and

9. The Program director should consider preparing an annual report of the program operations over the last year that captures program revenues and expenses, participation by sport and school and future plans for the program

Risk: **High**

Finding: (6)

Accountability could be enhanced with focus on individual game activity

Criteria

Cash activities should be accounted for and documented by individual game to provide the greatest level of accountability.

Condition

Cash activity for the K-8 program's 5th - 8th Grade Basketball League is being accounted for on a daily basis for multiple schools and games. There can be as many as 5 games played at a single location on game day for the 5th - 8th Grade Basketball League. This reduces the level of accountability that could be helpful in assessing the success of the program for a given school and it possibly limits the amount gate receipt revenue generated from these games.

Effect

By paying the single entry fee an individual could stay and watch all games played at that location. If the program elected to charge a fee for each game played, the receipts from gate fees could possibly increase. This, however, could require greater staff resources for each game and the issuance of different color tickets for each game played.

Accounting for the games individually and ensuring that attendees pay separately for each game will require a higher level of administration at some additional costs. However, any increase in cost could be offset by higher gate receipt revenue.

Recommendation

10. The Director of the K-8 Program in consultation with cash management officials should consider whether the benefit of charging an entrance fee for each game outweighs the cost of added administration.

Risk: **Low**

Conclusion

Over the years, declining enrollment and shrinking budgets have led to decisions by DPS as well as other school districts to eliminate many extra-curricular activities including intramural sports. The District's K-8 Sports Program provides students with an opportunity to participate in a variety of intramural sports in a supervised environment where they can get exercise while enjoying competitive activities.

Research studies have determined that the benefits of sports and other enrichment activities can equip students with a sense of self-esteem that can have a positive impact on academic performance. Many of the parents were pleased to have their students participate in sports activities and students have voiced their support for the program. Consequently, the K-8 Sports Program has been successful with over 1,300 students participating (fall and winter sports) during the first year, according to the program director.

Going forward the program is likely to become even more popular with students. With this in mind, the importance of developing strong policies and procedures to govern how the program will operate and how program revenues can be generated and spent is important. Of the utmost importance is ensuring that program funds are properly safeguarded and available to offset future program expenditures. This includes having the funds in a DPS-authorized account, closely monitoring the cash and game activity, adding needed internal controls and reporting out to management on the outcome of program operations.

We applaud the District and its program director as well as the service provider who jointly worked through any impediments to deliver a successful sports program for the students. By implementing the recommendations in this report, we believe the program's level of accountability and transparency can be strengthened and help to ensure its success and sustainability in the future.

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 an external peer review.

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.



Odell W. Bailey, CIA
Auditor General

MANAGEMENT RESPONSE

The auditee (K-8 Sports Program, Director) generally agreed with the findings and recommendations contained in the report.