

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF RANDOLPH VOC/TECH CENTER School Year 2008-09

REPORT NO: 09-161

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BACKGROUND

For School Year 2008-2009, 750 students were enrolled at Randolph Vocational Technical (Voc/Tech) Center which has grade levels 10 through 12. Ms. Gwendolyn Miller was the Principal of the school during this time period and has been serving in that capacity since 2007.

Ms. Euginia Holimon, Accountant, performs the bookkeeping duties and has done so since 2006.

Randolph Voc/Tech maintains one commercial checking account at Comerica Bank. Primary sources of General School Funds are student activities, fundraisers and donations from partners (e.g., Electrical Workers Union 58 and Solomon's Plumbing). Sources of District Fund Revenues include Adult Education, GED and Construction evening classes.

AUDIT OBJECTIVES

The objectives of the audit were to ensure that:

- 1) The cash management system is effective in controlling the receipt, processing, deposit, and disbursement and accounting of funds to limit any risk of theft, misuse and/or misappropriation, and
- 2) General School funds (*for example, student fees, fundraising activities, grants, etc.*) and District funds (*for example, lunchroom receipts, fines, athletic/league game receipts, summer school tuition, etc.*) are properly accounted for, safeguarded and used as intended

SCOPE & METHODOLOGY

The scope of the audit was to review the cash management activities from July 1, 2008 through March 31, 2009 for school year 2008-2009.

- 1) Interviewed key school officials to obtain an understanding of their cash management process.
- 2) Prepared a process narrative documenting the controls in place for each source of revenue.
- 3) Reviewed monthly cash receipt and cash disbursement ledgers: If the ledgers did not exist, transaction activities were compiled by totaling cash receipt records and reviewing the check register for cash disbursements.

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SCOPE & METHODOLOGY (continued)

- 4) Completed a cash receipt ledger template: The ledger was designed to identify funds, which may have been received but not deposited. Performed research as necessary.
- 5) Performed a cash count: All cash on hand waiting to be deposited, as of the audit date, was counted under dual control by a field auditor and witnessed by a school official. The count did not include sealed cash for lunchroom deposits.
- 6) Compiled financial data via bank reconciliation templates: Reviewed reconciliations completed by the schools to identify banking irregularities and reconciling items outstanding for an extended period of time. Confirmed bank reconciliations were completed as reported to the Office of Central Accounting.

FINANCIAL SUMMARY

Table 1.1: Cash Receipts from General School and District Funds (July 2008 – March 2009)

ACCOU TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$147,186

AUDIT RESULTS IN BRIEF

Based on our audit of the Randolph Voc/Tech cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipt forms were not issued for funds received.
- Stale dated transactions were included as outstanding on the bank reconciliations.
- Salary payments were made to the Accountant and a Teacher.
- Local, State and Federal Taxes were not appropriately submitted.
- Tuition collected is not deposited into the District's revenue Account.

The findings of this audit will be turned over to the Inspector General's Office for further investigation. Details of these findings and recommendations are included in the Findings Section of this report.

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AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

The following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM):

- Pre-numbered duplicate receipt forms are not issued for funds received.

Cause

The QuickBooks system is used to maintain the school financial records. Therefore, the school uses sale receipts generated by the system.

Effect

Since the receipts are not duplicate in nature and do not lend themselves to being signed by the preparer and a copy given to the person submitting funds, they do not fulfill the requirements outlined in the SAFM.

Recommendation

The Principal should ensure that all staff participating in financial transactions is familiar with and trained on District policy for cash management activities as detailed in the “School Administrative Financial Manual 2006-07.”

Also, the Principal should ensure that all individuals involved in the cash management process are aware of where current District policies are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

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AUDIT FINDINGS (continued)

2. Finding – Stale dated transactions were included as outstanding on the bank reconciliations

Journal entries, checks and deposits dated from July 31, 2006 through September 29, 2008 are listed on the bank reconciliation as outstanding. In total, the following 31 inappropriate and/or stale dated transactions are listed as outstanding in the school records:

Net Effect of Stale/Inappropriate Outstanding Entries		
Number of Items	Description	Amount of Items
Journal Entries		
6	Total Inappropriately Outstanding Journal Entry Credits	\$(2,541.77)
13	Total Inappropriately Outstanding Journal Entry Debits	3,371.97
19	Net Effect of Inappropriately Outstanding Journal Entries	<u>\$ 830.20</u>
Checks and Deposits		
7	Total Stale Outstanding Checks	\$ (618.87)
5	Total Inappropriately Outstanding Deposits	3,750.19
12	Net Effect of Stale Outstanding Items	<u>\$ 3,131.32</u>
31	Total Net Effect of Inappropriate/Stale Outstanding Entries	<u><u>\$ 3,961.52</u></u>

Since Journal Entries are generated by the Accountant to rectify errors and make necessary adjustments to the records, they should not be outstanding. In addition, the “outstanding” checks dates ranged from January 11, 2007 to September 29, 2008. According to District policy checks are considered “stale” after 6 months. Furthermore, the 5 outstanding deposits were recorded for dates from October 12, 2006 to February 5, 2009. Per our review, over \$3,000 of this amount related to payments for the Adult Educations program that were made with “Master Card” credit cards. There is no evidence that these transactions have cleared the schools checking account.

Cause

The Accountant has not received or obtained the training necessary to properly use the Quick Books program and does not know how to remove the inappropriate items from the system. In addition, the Accountant indicated she was not aware she needed to research and rectify the “outstanding” checks and deposits.

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AUDIT FINDINGS (continued)

Effect

Due to the “out standing” Journal Entries on the system, the school cannot assure that the general ledger balance is correct. Although the general ledger reconciles to the bank statement balance each month, it appears to be overstated by almost \$4,000. The Stale Dated Checks either represent financial obligations the school has not fulfilled or funds that could be available for other expenditures. Furthermore, the “Outstanding Deposits” are either funds that the school is due from the credit card company, or an overstatement of revenue. ▲

Recommendation

The Principal should ensure that:

1. All inaccurate transactions are removed from the system;
2. All stale dated checks are investigated and rectified, with District approval,
3. All “outstanding deposits” are investigated and rectified, and
4. The Accountant receives the training necessary to properly use Quick Books or receive authorization form the District’s Accounting Department to uses another system.

3. Finding – Improper salary payments made to the Accountant and Teacher

Payments were made from the school account to the school’s Accountant and a “teacher” that was not hired through the Human Resources Department. The amounts were categorized as “Salary Expense” in the school ledger. The payments totaled \$6,656.68, for the period July, 2008 through March 2009, as follows:

Description	Services Rendered	Amount
Accountant	Accounting Service for Adult Education Program	\$4,814.62
Teacher	Plumbing Teacher	1,842.06
Total		\$6,656.68

The Accountant, who receives a paycheck as a DPS employee, was also paid for accounting services related to the Adult Education Program which is held at the school after normal school hours. Therefore, the program must be in compliance with the policies and procedures outlined in the SAFM and Community Use of Schools Manual. As indicated in the SAFM “*All payments to employees must be made through the Office of Payroll.* In addition the Community Use of Schools Manual indicates, “All payments to District employees for such activities shall be made by the District Office of Payroll in accordance with the information submitted by the Office of Community Use regarding all Community Use activities.”

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AUDIT FINDINGS (continued)

Additionally, according to the guidelines from the District's Labor Relations Division, Accountant and other members of the OSAS (Organization of School Administrators and Supervisors) related employees do/not qualify to receive overtime payments.

Cause

The former Principal contacted the District's Human Resources Department, when the Accountant started at the school, and was informed that overtime could not be paid for these purposes. Therefore, he authorized the payment for these services from the checking account. To date, this practice has been in place since the 2006 school year. In regards to the Adult Education Teacher, neither the current Principal nor the Accountant knows why he is paid from the school checking account or how long this practice has been in place.

Effect

The payments to these employees reduced the amount of funds available for other purposes and were not in compliance with the District's Human Resources and Community Use of Schools policies and procedures.

Recommendation

The Principal should ensure that:

1. Employees of the District are only paid according to the stipulations in the District contract related to their position, and
2. Teachers working at the school are hired in compliance with all Detroit Public School Human Resources policies and procedures.

In addition, this matter will be referred to the District's Office of the Inspector General.

4. Finding –Local, State and Federal Taxes were not Appropriately Submitted

There was not evidence that:

1. Local, State and Federal taxes were withheld for the salaries paid to the Accountant and Teacher from the school account and W-2 (Wages and Taxes Statements) forms were submitted to the Federal Government.
2. State sales tax totaling \$211, collected on merchandise sold in the school boutique, was not forwarded to the State of Michigan.

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AUDIT FINDINGS (continued)

The Accountant is a salaried employee of the District for whom wages and taxes are reported on a W-2 (Wages and Tax Statement). In addition, the Accountant and Teacher are “common law” employees of the District because the Principal controls the details of how the services they provide are performed. Therefore, neither of them qualifies to receive a 1099 (Miscellaneous Income).

According to the “State of Michigan Sales Tax, Use Tax, Income Tax Withholding and Single Business Tax Estimates Forms and Instructions” the school must register to pay sales tax. Even though the school qualifies as a nonprofit organization, the State indicates that any tax they do collect must be paid to Treasury regardless of the amount of gross sales.

Cause

According to the Accountant she thought it was sufficient and appropriate to prepare and submit 1099 forms for the wages she and the Teacher received. In regards to the submission of sales tax, the school records indicate \$211 was collected and the Accountant indicated that she submits checks to the State of Michigan for sales tax collected. However, no disbursement of sales tax to the State of Michigan is reflected in the school records.

Effect

The payments to the Accountant and Teacher were made in violation of the Internal Revenue Code. The school is also in violation of the State of Michigan’s Sales Tax Legislation. These are serious infractions that put the District in danger of being fined by the State and/or Federal Governments.

Recommendation

The Principal should ensure the school’s operations are in compliance with State and Federal Tax laws, by contacting and using the proper District Departments for guidance in these areas. In addition, this matter will be referred to the District’s Office of the Inspector General.

5. Finding – Tuition Collected was not Deposited into the District’s Revenue Account

Tuition collected for Adult Education and Construction Trade (i.e., Masonry, Plumbing, Electrical, and Heating /Air Conditioning) Classes totaling nearly \$40,000 was not deposited into the District’s revenue account or forwarded directly to the Central Accounting Department. Instead, funds were deposited in the schools checking account.

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AUDIT FINDINGS (continued)

Cause

The school administration indicated that only the amount to “cover the salaries of teachers paid from the payroll” is forwarded to Central Accounting. The remainder is retained in the school checking account to pay for supplies and the salaries of the Accountant and Teacher as indicated above. However, based on information received from Central Accounting, there is no evidence that checks have been forwarded to or deposits made into the District’s Revenue bank account by the school.

Effect

The school is not in compliance with the requirements of the District’s SAFM. Therefore, the tuition collected is not available in the District’s Revenue account to cover the salaries and benefits of teachers providing services at the school as well as other expenses.

Recommendation

The Principal should ensure that tuition collected for any purpose is deposited into the District’s Revenue account.

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MANAGEMENT RESPONSE

Management response provided by Gwendolyn Miller, Principal.

Response to Audit Findings

1. **Finding – School Administrative Financial Manual Non-Compliance:**

I am in agreement with the above mentioned findings regarding the fact that pre-numbered duplicate receipt forms were not issued for all instances for which funds was received. However, receipts were written for tuition and fees received for the Adult Skill Trades Program students. The use of the QuickBooks system was implemented by the District's Central Office Finance Department prior to my assignment to Randolph. Upon my arrival the process was continued. I was informed at that time that Eugenia Holimon, the Accountant, was trained by the Office of Financial Training & Technical Support on the use of the QuickBook System with the assistance of Ms. Wanda Taylor. Ms. Taylor came to Randolph on many occasions to work with Ms. Holimon on using the QuickBook system. Ms. Holimon also received assistance from Mr. Srujan Bodepudi and Mr. Tyrone Proctor in the Office of Financial Training & Technical Support. I was informed that the QuickBook system was being monitored by the Office of Financial Training & Technical Support.

Recommendation

The recommendations given are accepted and will be implemented.

Corrective Measures to Be Taken:

The following items will be implemented to assure that the cash management process is followed.

- At the time of this writing I have begin to examine and review the cash management procedures as outlined in the School Administrative Financial Manual 2006 – 07. I will also review with Ms. Holimon the procedures for proper cash management.
- Contact will be made with the Office of Financial Training & Technical Support for additional training for the accountant and me on the cash management process.
- Contact information for the Central Accounting Office personnel responsible for assisting in the accounting process will be made.
- At the time of this writing the use of pre-numbered duplicate receipts has been implemented. A pre-numbered duplicate receipt will be given to all individuals submitting monies, in addition to recording the deposit on the QuickBook system

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MANAGEMENT RESPONSE (continued)

2. **Finding – Stale dated transactions were included as outstanding on the bank reconciliations.**

I am in agreement with these findings. However, I was informed that Eugenia Holimon, the Accountant, was trained by the Office of Financial Training & Technical Support on the use of the QuickBook system. Ms. Wanda Taylor came to Randolph on many occasions to work with Ms. Holimon on the use of QuickBook system. Ms. Holimon also received assistance from Mr. Srujan Bodepudi and Mr. Tyrone Proctor in the Office of Financial Training & Technical Support on the use of the QuickBook system. It was acknowledged by Office of Financial Training & Technical Support of many occasions that for some reason that all the components of the QuickBook system was not set up properly and did not perform all task properly. However, with the reconciliation of the bank statement it was accepted and it continued to be used.

Corrective Measures to Be Taken

1. **All inaccurate transactions are removed from the system;**

Neither I nor Ms. Holimon has an administrative password to remove inaccurate transactions from the QuickBook system. As stated before, Ms. Taylor has been to Randolph on many occasions to assist with the use of the QuickBook system with no effect. We will again request assistance from the Office of Financial Training & Technical Support in rectifying improper setup of the QuickBook system.

2. **All stale dated checks are investigated and rectified, with District approval,**

Contact will be made with the company/individuals to whom check were written to obtain information on the status of the check. If the check has been cashed, contact will be made with Comerica Bank in an effort to rectify its non appearance on the bank statement. If the check has not been received by the person to whom the checked were written a stop-payment will be placed on the check, voided in the QuickBook system and a new check written to the company/individual.

- Checks entered on the QuickBook system in error will have to be removed by someone from the Office of Financial Training and Technical Support.

3. **All “outstanding deposits” are investigated and rectified,**

- All deposit slips will be check against the monthly bank statements and against all deposit slips prepared for the armored car pick.
- Contact with Comerica Bank will be made to make sure all outstanding deposits of the particular amounts were actually made.
- Deposits that are outstanding will be checked against the receipts written for tuition and fees for the Adult Skill Trades students, and the type of payment made.

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MANAGEMENT RESPONSE (continued)

- In the event that the outstanding deposits are from payments made with credit cards, the credit card company will be contacted in an effort to obtain the payment.
 - Deposits entered on the QuickBook system in error will have to be removed by someone from the Office of Financial Training and Technical Support.
4. Contact will be made with the Office of Financial Training & Technical Support for additional training for the accountant and me on the use of the QuickBook system. Until such time that the QuickBook system is properly installed and working properly and proper training has been received an additional accounting method of recording all deposits, checks, and reconciling the bank statements will be used. In the event the QuickBook system cannot be corrected I will request that Randolph not use the QuickBook system and that we be allowed to utilize a different accounting system.

3. **Finding – Improper salary payments made to the Accountant and Teacher**

I am in agreement with these findings. However, upon my assignment to Randolph as the Principal the Adult Skill Trades Program was in existence and had been for many years. The staff for the Adult Skill Trades program consisted of five Day Trade teachers, employed to teach the five Skill Trades classes after regular school hours, on Program Coordinator, one secretary, and Independent Contractors Accountant. Off the five Day Trade teachers two were employees of the District and three were considered Independent Contractors hired to teach their trade. During the second year of my assignment to Randolph I sought to eliminate the Independent Contractors who were teaching a class and replace them with staff who is regular employees of the District. The Day Trades teachers employed by the District were invited to teach the classes, the Heating, Air Conditioning and Ventilation teacher agreed to teach the class, the Electrical teacher began a full-time teacher, employed by the District, the Masonry Day Trades teacher was cut due to low enrollment, and the outside Plumbing teacher remained as the Adult Skill Trades teacher.

Corrective Measures to Be Taken

- The steps that will be taken to rectify this problem will again be to invite the Plumbing II Day Trade teacher to teach the plumbing class. If the Day Trade teacher still does not want to teach after hours a request will be made to have the position posted for a part-time plumbing instructor. All interested Independent Contractors will be required to complete and submit an applicant for hirer to the District's Human Resource Department. No Adult Skill Trades classes will be offered provided the proper hiring process is not fulfilled.

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MANAGEMENT RESPONSE (continued)

- A Form 4034 will be submitted for Ms. Holimon's employment in the Adult Skill Trades Program. If additional employment is denied, her employment with the Adult Skill Trades program will not resume during the 2009/10 school year. The collection of the tuition and fees for supplies and the writing of the receipts will be performed by the program coordinator and/or the secretary.

4. **Finding – Local, State and Federal Taxes were not Appropriately Submitted**

I am in agreement with these findings. However, upon my assignment to Randolph it was the practice of the school that Independent Contractors was provided a Form 1099 and a copy of the Form 1099 was submitted to the state and the federal government. I was informed by Randolph's previous administrator that this was the procedure they had been instructed to use by previous district administration for the employment of Independent Contractors.

Corrective Measures to Be Taken

1. There will be no Independent Contractors working any of the programs offered. Everyone will be hired and assigned by the District's Human Resource Department. All parties interested in will be required to complete and submit an applicant for hirer to the District's Human Resource Department.
1. According to the State of Michigan website on the payment of Sales Tax is less than \$750 the sales tax payment must be made by February 28. The sales tax collected on merchandise sold in the school boutique in the amount of \$211 and any additional sales tax collected prior to December 31, 2009 will be submitted to the State of Michigan prior to February 28.

The procedure to make sure the sales tax is properly recording will be as follows:

- The teacher for the boutique will keep a contentious record of all sales made and the taxes collected. The teacher will submit a copy of the record monthly to the principal for review. The principal will then submit a copy to the accountant.
- If the principal notice that the amount of the sales tax collected will be less than \$750 for the year, then a Form 45 will be completed to have the taxes submitted in February the following year.
- If the principal notice that the amount of the sales tax collected will exceed the \$750 for the quarter, then a Form 45 will be completed by the principal to have the taxes submitted prior to the 20th day of the month following the quarter.

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MANAGEMENT RESPONSE (continued)

5. Finding – Tuition Collected was not Deposited into the District’s Revenue Account

The findings of this audit seem to be accurate and are accepted. However, a Form 45 was completed and signed by the principal for the submission of the tuition funds, subsequently the check was voided by the accountant and there is no record that the check was ever rewritten and submitted.

Corrective Measures to Be Taken

1. The tuition and the fees for supplies collected and a pre-numbered duplicate receipt will be written at the time the monies are received. The funds will be counted and submitted to the principal along with an initialed adding machine tape tally of the receipts issued.
2. The principal will then count and verify the monies received against the total on the adding machine tape. The principal will initial the adding machine tape as correct.
3. All funds will be placed in the safe in the vault along with the adding machine tape.
4. The next day the adding machine tape tally will be submitted to the accountant indicating the amount of funds received. The funds placed in the safe will be verified by the accountant and the principal. In the event of the accountant is absent the task will be performed by the principal and the assistant principal.
5. Monies received from the Ultimate Boutique and the Food Mart will be submitted, everyday funds are collected, to the assistant principal for verification. The assistant principal and the teacher will initial the tally sheet; submit a copy to the principal, and a copy to the accountant.
6. An armored car deposit slip for deposit into the District’s Revenue bank account will be completed by the accountant and placed in the safe for pick-up on the next pick-up.
7. In the event that the accountant is denied additional employment status, the collection of the tuition and fees for supplies and the writing of the receipts will be performed by the program coordinator and/or the secretary.
8. This procedure will be followed everyday monies are received.

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Our audit was performed in accordance with U.S. General Accounting Office Government Auditing Standards and Standards of the Institute of Internal Auditors.

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Odell W. Bailey, CIA
Auditor General