

Detroit Public Schools Office of the Auditor General



ATHLETIC DEPARTMENT REPORT

**REVIEW OF CASH RECEIPTS, DISBURSEMENTS AND BANK
RECONCILIATIONS**

REPORT NO: 2010-010

REPORT DATE: October 5, 2010

RESULTS IN BRIEF

Overall, the cash management operations within DPS' Athletic Department are out of compliance with its policies and procedures. We found ten internal control deficiencies, which included failure to prepare and submit timely and accurate financial reports and bank reconciliations, lack of segregation of duties, and the lack of approval for expenditures. In addition, there is no monitoring of cash receipts and expenditures at the schools from athletic events, which increases the risk of theft or misuse of funds.

Only one bank reconciliation was completed for the entire period July 1, 1009 through June 30, 2010. Without reconciling cash transactions on a monthly basis, there is no assurance that all transactions have been captured and no way to determine the amount of cash available for disbursements. As a result of not preparing monthly bank reconciliations, the department issued a \$2,500 check without sufficient funds to cover the amount in the account.

In addition, the cash receipts and disbursements ledgers were not consistently completed and many times did not have sufficient notations as to the nature of the receipt or disbursement. The OAG was able to prepare the bank reconciliations, cash receipts, cash disbursements and general ledgers based on supporting documentation from July 2009 through August 2010 and provided them to the Department's Administrative Assistant.

The department received over \$136,000 in revenues from various sporting events last year and disbursed over \$141,000 through the department's checking account. These expenditures were in addition to the \$1,423,000 for discretionary expenses processed through the budgeted PeopleSoft System. These were expenses for sporting equipment, salaries for board and non-board coaches, transportation and marketing materials.

The department was in a period of transition last year with three different Administrators in charge of the department. The Administrative Assistant has been responsible for bookkeeping duties for the last 5 years. However, it appears that she had not received proper training on the policies and procedures set forth in the School Administrative Financial Manual (SAFM), which provides guidance on preparing financial reports.

Another contributing factor to the current control environment and operating results is the lack of oversight. The department is required to submit bank reconciliation to the Accounting Department's Cash Management Division on a monthly basis. We found only one bank reconciliation that was formally completed and approved; however, there was no communication from Cash Management as to the status of the outstanding bank reconciliations and financial reports.

According to Cash Management's response our in Consolidated School Audit Report, training will be scheduled for all school and central office bookkeepers and the financial manual would be updated to ensure that those responsible for cash management are knowledgeable of the requirements. However, this has not occurred to date.

OBJECTIVE, SCOPE & METHODOLOGY

The objectives of this audit were to ensure that the Athletic Cash Management System is effective in controlling the receipt, processing, deposit, disbursement and accounting of funds to limit any risk of theft, misuse and/or misappropriation.

During the period of June 25, 2010 through September 13, 2010, the Office of the Auditor General reviewed the cash management procedures of the Athletic Department located at Central Office, to assess compliance with the School Administrative Financial manual (SAFM). The scope covered the period July 1, 2009 through August 30, 2010.

To accomplish our objectives, key officials from the Athletic Department were interviewed to obtain background information and understand their roles in the cash management process. Process narratives were prepared documenting the controls in place for cash receipts, disbursements and bank reconciliations.

We performed a follow-up review of previous audit recommendations originating from two previous audit reports affecting the Department of Athletics. They included: The Office of Health, Physical Education, Safety and Athletics Cash Receipts from Athletic Events dated September 25, 2009 and The Review of Cash Receipts Process at Basketball Games, dated April 2010.

The OAG reviewed monthly bank reconciliation, cash receipt and cash disbursement ledgers, if available; otherwise reconciliations and ledgers were compiled based on the available documentary support.

DETAILED REPORT

BACKGROUND

In 2009, at the direction of the Emergency Financial Manager, Robert Bobb, the Office of the Auditor General (OAG) attended sporting events to monitor cash handling activities and procedures at various schools. The entire process was observed from the initial receipt of funds to deposits into the school's general fund account. The School Administrative Financial Manual (SAFM) provides the guidelines for schools and the Athletic Department's cash management policies and procedures and it states that revenues from Athletic events are District Funds and therefore should be submitted to and accounted for by the Athletic Department. However, it was noted that some of the sporting events are actually sponsored by the district and these funds were handled differently.

The Athletic Department is required to prepare and submit bank statements, bank reconciliations and cash receipts and disbursement journals to the Accounting Department's Cash Management Division, monthly.

The Office of the Auditor General (OAG) used the requirements set forth in the SAFM to measure compliance with cash management policies. To provide an objective assessment of compliance, the OAG rated the internal control compliance using a scale that identified outstanding, good, fair and poor performance based on the number of internal control violations noted during the audit.

This rating system is consistent with previous school audits which are under the same criteria for performance. Internal control systems with zero findings were rated Outstanding; those with 1-5 findings were rated Good; those with 6-9 findings were rated Fair and those with 10 or more internal control findings were rated Poor performers.

FINDINGS

Cash Management System Lacks Controls Required to Ensure Accountability

The Athletic Department's cash management system in place lacks the internal controls that are required to ensure an effective process exists for controlling the receipt, processing and disbursement and accounting of cash transactions which resulted in the following conditions:

- Financial records that are normally generated from the detailed transaction data were not consistently and accurately prepared for review and distribution, including: bank reconciliations, cash receipts, cash disbursements and general ledgers.
- Receipts for the collection of cash and checks from athletic events were not provided by the Athletic Department as required by the SAFM. As a result, there is no way of verifying the accuracy of revenues from athletic events.

- The Articles of Service Form (AC-4) was not completed as a requirement to obtain a check for the payment of assets and services. Without this documentation, a clear line of accountability or authority to expend funds from the checking account cannot be established.
- A check for \$2,500 was returned for Non-Sufficient Funds (NSF) as a result of not knowing the department's true cash position. This situation is directly associated with not properly or consistently preparing the bank reconciliations for 11 out of 12 months.
- Schools are depositing revenues from athletic events into their individual checking account versus submitting the funds to the District's checking account as required by the SAFM. This issue was brought to the attention of Cash Management in our Consolidated School Audit Report and the Review of Cash Receipts Process at Basketball Games Report. The Director of Cash Management indicated that this process will not change until a new process can be established and a bookkeeper assigned to the Athletic Department. No timeframe was provided.
- Significant purchases of equipment and services were acquired through the checking account and not the Discretionary Fund in PeopleSoft. These kinds of purchases should flow through the budgetary process in PeopleSoft and not the checking account that should be used to off-set expenses from revenue generating events.

In our September, 2009 report on Cash Receipts from Athletic Events Audit Report we recommended that the Athletic Department implement recommendations to address control weaknesses over the cash disbursement process. This would include using a pre-numbered duplicate receipt book, issuing receipts for cash received from schools, preparing monthly bank reconciliations.

**Amount of Cash Transactions
And Budgetary Expenditures
Can be Significant**

The amount of cash transactions generated in the Athletic Department has been significant. Now that the funds are being tracked this year provides a benchmark of what can be expected from various sporting activities such as football and basketball games and collectively for the entire DPS athletic program.

We documented \$136,362.86 collected from sporting activities with over \$122,222 from admissions and concession sales and \$14,140 from other revenue sources.

Table 1.1 Athletic Department Cash Receipts

| DPS Central Athletic Dept. July 2009 thru June 2010 | | | |
|--|-------------------------------------|--------------------------|----------------------|
| Cash Receipts Ledger | | | |
| | Admissions / Concessions | OTHER REVENUE | TOTAL |
| July | \$ 17,538.50 | \$ - | \$ 17,538.50 |
| August | \$ - | \$ - | \$ - |
| September | \$ - | \$ - | \$ - |
| October | \$ 7,029.00 | \$ - | \$ 7,029.00 |
| November | \$ - | \$ - | \$ - |
| December | \$ 49,202.00 | \$ - | \$ 49,202.00 |
| January | \$ 1,075.00 | \$ 1,562.00 | \$ 2,637.00 |
| February | \$ 24,755.50 | \$ - | \$ 24,755.50 |
| March | \$ 4,792.00 | \$ 73.13 | \$ 4,865.13 |
| April | \$ 17,830.00 | \$ 3,650.00 | \$ 21,480.00 |
| May | \$ - | \$ 273.00 | \$ 273.00 |
| June | \$ - | \$ 8,582.73 | \$ 8,582.73 |
| Total | \$ 122,222.00 | \$ 14,140.86 | \$ 136,362.86 |

Expenses that were paid through the checking account totaled \$141,638 and included payment for game officials, event workers, marketing materials, and rental expenses associated with basketball tournaments during the holidays.

Table 1.2 Athletic Department Cash Expenses

| DPS Athletic Dept. July 2009 - June 2010 | |
|---|----------------------|
| Cash Expense Summary | |
| Expense Type | Amount |
| Game Official's Pay | \$ 33,140.64 |
| Event Workers Pay | \$ 26,199.40 |
| Event Expenses | \$ 70,230.71 |
| Field Maintenance | \$ 12,067.41 |
| Total | \$ 141,638.16 |

The Athletic Department receives an annual appropriation for personnel services and discretionary expenses as shown in table 1.3. However, to date, funds from athletic events are still not being forwarded to the athletic fund as required.

The most significant expenditures were made through the discretionary line item in the budget for the payment of coach's salaries, equipment, transportation and office supplies. The Athletic Administrator needs to determine the nature of expenses that will be paid from the checking account vs. the budget.

Table 1.3 Athletic Department Discretionary Fund Expenses

| DPS Athletic Dept. July 2009 - June 2010 | |
|---|-----------------|
| Discretionary Fund Expenses | |
| Expense Type | Amount |
| Office Supplies | \$ 843.41 |
| DPS - Coaches Pay | \$ 93,891.54 |
| Non-DPS Coaches Pay | \$ 721,263.41 |
| Marketing Expenses | \$ 7,562.68 |
| Equipment & Maintenance | \$ 336,569.73 |
| Transportation Services | \$ 262,933.00 |
| Total | \$ 1,423,063.77 |

Given that the amount of deposits can be significant, the need for a strong internal control environment is critical to assuring that monies will only be used as intended.

**Athletic Department Internal Controls
System Rated As Poor**

The cash management system in place at the Athletic Department would be rated as a poor based on the ten internal control weaknesses we documented in this audit. The Office of the Auditor General prepared a rating system in our Consolidated School Audit Report for internal control weaknesses to provide a method by which internal control environments can be measured for effectiveness.

As shown in Table 1.4 below, the rating for internal controls over cash management environments with no reported weaknesses achieve an *outstanding* rating while environments with 10 or more weaknesses are rated as *poor*. The number of internal control weaknesses found provides insight into the extent of non-compliance, but it does not in itself tell the complete story nor does it reflect the severity of risk exposures

While the number of internal control weaknesses we identified in the Athletic Department's cash management system was high, the severity was not of the nature that would indicate any impropriety has occurred. We believe the Department leadership is committed to improving operations and has reached out to this office for guidance and assistance on occasion. Going forward, the department has an opportunity to set a positive example for the schools in terms of establishing effective cash management systems with proper controls to ensure full accountability.

Table 1.4: RATINGS FOR INTERNAL CONTROLS

| No. of Weaknesses | Rating |
|-------------------|-------------|
| 0 | Outstanding |
| 1 – 5 | Good |
| 6 – 9 | Fair |
| 10 - 13 | Poor |
| | |

Causes for Non-Compliance Vary

Through our discussion with Central Athletic Administration Staff, we found they were not knowledgeable of the requirements included in the School financial Administrative Manual (SAFM) which is available on the District’s intranet. The Administrative Assistant indicated that she had not received training on the standards and reports required by accounting and cash management.

The Athletic Department is required to submit bank reconciliations and ledgers to the accounting department on a monthly basis. However, we noted that only one bank reconciliation was prepared for the month of December 2009; it reflected no deposits or checks written during the month, when in fact it was their busiest month for cash collections and disbursement of checks. We found no evidence where the accounting department notified them of the errors or the lack of compliance with submitting all required reports on a monthly basis.

In addition to the lack of oversight by the Accounting division, there was no monitoring of cash management transactions for nearly four years as the District eliminated its internal audit function in 2005. Not having ongoing, consistent monitoring of cash transactions of sporting activities coupled with the lack of enforced policy could lead to a number of questionable practices that increase the risk of loss due to theft or error.

Conclusion

The responsibility for the Athletic Department to account for all of the revenues and expenses related to sporting events at all school poses a challenge for the Athletic Department given the number of sporting events over the year and at all schools.

This increases the importance of following established procedures with strong internal controls that are designed to provide a full accounting of cash transactions with accurate financial records of revenues and expenses from these activities. The revenues generated from these events are to be used for the benefit of the students and schools that attributed to their existence, as well as, to support those schools and sport programs that do not have sufficient opportunities to support themselves individually.

We found the internal controls in place in the Athletic Department to be generally ineffective and failed to comply with District policy, however, no evidence of impropriety were noted.

Although the Cash Management Department has hired an accounting firm to assist the schools and central office departments with the preparation of their reporting requirements, the effectiveness of this was not evident in our review of the Athletic Department. We have not received evidence that the SAFM has been updated and cash handling procedures related to athletic events modified.

Finally, the Athletic Department now under new leadership has an opportunity to set a positive example in how cash activities should be accounted for. The findings from this audit reveal some of the same poor record keeping practices and lack of accountability that plagued many of our school operations. At the same time, the Accounting Department which has taken some steps to ensure that schools properly account for their cash transactions needs to be more vigilant in their effort to monitor and enforce compliance.

Recommendation(s)

To help ensure cash management systems in place at Detroit Public Schools and specifically the Athletic Department are effective in ensuring cash receipts are properly documented, processed, accounted for and distributed, we recommend that:

The Athletic Department:

- Utilize the updated bank reconciliation, cash receipts & disbursements ledgers and general account reconciliation as provided by the OAG, to record receipts and disbursement for the rest of the year and prepare required financial reports.
- Require that Athletic Department personnel responsible for the cash management system be familiar with all DPS guidance set forth in the School Administrative Financial Manual as well as reviewing past OAG reports on cash transactions at sporting events.

The Accounting Division:

- Implement the plans as stated in their response to the School's Audit Report to update the SAFM, modify the cash management process for Athletic Events and provide training for all staff involved with the cash management process.
- Fulfill its oversight role by reviewing bank reconciliations in a timely manner and identifying and taking actions against non compliance.
- Develop a process to properly record revenues and expenses from Athletic Events in a Special Revenue Fund as recommended in prior years external audit reports.

MANAGEMENT RESPONSE

From: Alvin L. Ward, Sr. – Administrator of Athletics

Subject: Response to Athletic Department Report No: 10-010

Introduction

In January 2010, I was appointed to the position of Administrator of Athletics and shared the overall responsibility of running the department with the Senior Coordinator in charge. The budget and winter sports were already in full motion, so I began the process of gaining knowledge about operations, policies, procedures and departmental support through a number of sources. In June of 2010, the process of shared responsibilities a co-decision making ceased with my transition into full administrative control of the Athletic Department. We truly thank the Office of the Auditor General for the assistance and support that was provided for this office in such a short time span.

General Response

It should be noted; from January 2010 to June 2010 the overall day to day budget and historical operation of the department really fell on the shoulders of one Administrative Assistant. Above and beyond shared decision making, which affected all aspects of the operation, she managed to balance three seasons of athletic activities, noting the month of December did present a huge number of requests (as noted in Table 1.3of the report) in coaches pay, transportation, equipment and other demands that had to be submitted in a timely manner to accounting and payroll. Public Safety services were not mentioned in the report, but they also played a major role in huge budget expenses and time plus effort reporting. In checking our contingency books, a report listing December's financial statements were submitted in January and did have a high volume of activities. This does not remove the fact that at the end of the 2009-2010 school years the department ran into insufficient funds that could have been averted if other payment processes (ex. PeopleSoft Budget) were used.

Moving forward:

- The management of the contingency checking account will be assigned to a second administrative assistant. Once this transition occurs, it will allow for both the Athletic PeopleSoft Budget and Contingency Checking Account to be managed separately and more accurately.
- Bank reconciliations will be prepared in a timely monthly manner.
- The Administrator of Athletics will review the SAFM and assure the department is fully aware of and trained in all aspects that will affect the compliance and report preparation for the department.

- The Administrator of Athletics will assure that in the future receipts will be provide for the collection of cash and checks from athletic events as required by the SAFM.
- The department will use established baseline data to move forward with setting a positive example for all schools in the district, which establishes an effective cash management system with proper controls to ensure full accountability and compliance.
- The department will continue to utilize the past processes of depositing only district generated revenues into the contingency checking account until the Director of Cash Management institutes the new process.
- The department will refrain from using the checking account whenever possible for purchases that can be placed on the PeopleSoft system.
- The department will utilize the software/spreadsheet recommended by the OAG to track checking account balances for every check written.
- The department is in possession of a receipt book and going forward will issue receipts for funds received from schools.
- An immediate request will be made to the Regional Superintendent & Cash Management Director; to have a district -funded Accountant Position placed on the budget of the department, to assist with meeting all accounting and budgetary compliances.

The Athletics' Department will continue to collaborate with the departments of Budget, Contracting & Procurement, Cash Management and Auditor General, to become most effective with all fiduciary responsibilities.

Our audit was performed in accordance with U.S. 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.

A handwritten signature in blue ink, appearing to read 'O. Bailey', with a large, stylized flourish at the end.

Odell W. Bailey, CIA
Auditor General