

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF MARTIN LUTHER KING JR., SENIOR HIGH SCHOOL School Year 2008-09

REPORT NO: 09-120

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 1500 students were enrolled at Martin Luther King Jr., Senior High School, which has grade levels Ninth through Twelfth. Ms. Sharon Robinson was the Principal during this time period.

Ms. Shirley Archibald, Head Secretary, performs the bookkeeping duties for the school and has been doing so since September 2008.

Martin Luther King Jr., Senior High School maintains a checking account with Chase Bank, Primary sources of General School Funds include student activities, fundraisers, vending machine revenue, donations, special project funding (i.e., Skillman Grant & Title I), fees (student ID replacements, lost/damaged books, locks. Sources of District Fund Revenues include Food Services (i.e., lunchroom), athletic gate receipts, and Extended Day program.

The band also had a separate checking account with Fifth Third Bank and a savings account with Michigan First Credit Union. The savings account was closed during the school year and remaining funds were transferred to the checking account.

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 and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Chase Bank Checking Deposits</u>	\$225,989

Table 1.2: Cash Receipts from Fundraisers and Donations (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Fifth Third Bank Checking Deposits</u> <i>(Band Account)</i>	\$8,211

Auditors Note: Total revenue generated from on-going sale of sundry items for the July 2008 through March 2009 period totaled \$95,653.15.

Table 1.3: Cash Receipts from Fundraisers and Donations (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Michigan First Credit Union Savings Deposits</u> <i>(Band Account)</i>	\$22,767

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AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the following control weaknesses related

- Non-compliance with District cash management policy:
 - Cash Receipts:
 - Cash was not verified at the time of receipt.
 - Receipts were not always issued when there was an exchange of cash.
 - The fundraising cash process was not properly managed: (1) All proceeds were not deposited into the bank account and (2) Profit and loss data was not always maintained.
 - Cash Disbursements:
 - Check request forms were not used consistently.
 - Supporting documentation for expenditures was not always maintained.
 - Bank Reconciliations:
 - Cash receipt and disbursement ledgers were not always prepared and/or were incomplete.
 - Monthly reconciliations were not prepared.
- Non-compliance with State College Board fee reductions.
- Undeposited Cash Receipts.
- Unauthorized bank accounts and inappropriate cash management practices.
- Athletic gate receipts were not forwarded to the district.

The detail of this finding and recommendation is included in the Findings Section of this report.

Achievements

Martin Luther King Jr., Senior High School is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Emerging School. This indicates that they have met criteria such as: (1) Demonstrating the ability to assist students in obtaining satisfactory ACT and SAT scores; (2) Offering college prep curricula to most students; and (3) Having strong graduation and grade-level-retention rates, etc.

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AUDIT FINDINGS

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

The "School Administrative Financial Manual 2006-07" (SAFM) governs the cash management function within the District.

Non-compliance was noted regarding the following:

- Cash Receipts:
 - Cash was not verified at the time of receipt.
 - Receipts were not always issued when there was an exchange of cash (e.g., prom ticket sales, athletic gate receipts, etc.). Also, during a cash count an overage of \$8,880.81 was noted i.e., cash was collected but no receipts were issued. The receipts consisted of the following: (1) Lock Fees: \$58; (2) Temporary ID Fees: \$122.81; and (3) Prom Ticket Sales: \$8,700.
 - The fundraising cash process was not properly managed:
 - All proceeds were not deposited into the bank account i.e., reimbursement for expenditures were made directly from sales proceeds.
 - Profit and loss data was not maintained for the Prom ticket sales.
 - Per a Teacher/ Sponsor, there was a not-for-profit sale of girls costume, books, softball sweatshirt, etc. However, there was no evidence that the activities had been authorized, nor were any financial records maintained to confirm that sales resulted in no profit.
- Cash Disbursements:
 - Check request forms were not used consistently including the "Detroit Board of Education Receipt For Payment For Athletic Game Service."
 - Supporting documentation for expenditures was not always maintained.
- Bank Reconciliations:
 - Cash receipt and disbursement ledgers were not prepared for the months of July 2008 and August 2008.
 - The cash receipt ledgers for the months of September 2008 through March 2009 were incomplete i.e., they did not include all receipts and bank deposits.
 - Monthly reconciliations were not prepared for the July 2008 through March 2009 period.

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AUDIT FINDINGS (continued)

Cause

Lack of adherence to existing District policies (i.e., SAFM.) and best practices.

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should ensure that all staff responsible for financial transactions, are 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.

2. Finding –Undeposited Cash Receipts:

The "School Administrative Financial Manual 2006 -07:" (SAFM) governs the safeguarding of assets and timely deposit of cash receipts.

Per a review of cash receipt documentation and the bank statement, it appears that approximately \$10,514 was received but not deposited. The funds were received in October 2008 and had not been deposited as of the audit fieldwork date i.e., May 20, 2009.

Cause

Untimely deposits of cash receipts can increase the risk of loss and theft. It also limits available resources for management purposes. Lastly, management decisions may be negatively impacted by untimely and/or inaccurate financial data.

Effect

Lack of adherence to District policies and best practices could lead to theft or loss of funds.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should determine whether the funds were deposited and if so include supporting documentation in the financial records. If not, the Principal should take the necessary actions to ensure assets are properly safeguarded and deposits are made regularly (i.e., daily or bi-weekly) i.e., review of SAFM and proper training for all applicable personnel.

Auditor's Note

It should be noted that this issue has been forwarded to the Office of the Inspector General.

3. Finding – Unauthorized Bank Accounts and Inappropriate Cash Management Practices:

The Finance Division issued a “Procedures for Authorized Signers on School Checks” detailing the authorized financial institutions to maintain school bank accounts and the need to close unauthorized accounts, as indicated below:

“**Note:** All school checking accounts must be at either Comerica Bank or JPMorgan Chase Bank. If the school account is at another financial institution, please contact the Office of Accounting to make the necessary changes.”

In addition, the “School Administrative Financial Manual 2006-07” states that if an account is going to be used for school/community group sponsored activities, then a separate account should be established by the parent or community group, with the retention of applicable financial documentation.

The audit disclosed the Band maintained a savings account at Michigan First Credit Union (it was stated that the account was closed in April 2009) and a checking account at Fifth Third Bank, both of which the principal stated she was not aware existed. The accounts were in the name of the ML King High School band. It is unclear whether the District’s Employee Identification Number (EIN) was used to open the accounts, which is a violation of District policy.

In addition, the principal stated that she thought the fundraising proceeds were being deposited into the school checking account, as opposed to the separate bank account.

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AUDIT FINDINGS (continued)

The following detailed exceptions are also noted:

- A teacher served as the Band President, authorized signer on the account and bookkeeper for the accounts.
 - The following bookkeeping exceptions were noted:
 - Funds were not consistently deposited in a timely manner by the Teacher/Band President/Bookkeeper.
 - Receipts were not issued consistently.
 - Financial records were maintained on the Band President's/Teacher's/Bookkeeper's personal laptop.
 - During the course of the audit, in May 2009, it was noted that January 2009 cash receipts had not been entered into the cash receipts ledger.
 - The financial process included payment of expenses via cash, as opposed to issuing checks for expenditures.
- In August 2008, the Principal made a request to the Band President/Teacher/Bookkeeper to discontinue the on-going sale of chips, sodas and various sundry items. However, based on bank account and other financial data, a total of \$54,716 was collected during the August 2008 through March 2009 period. Per the bank statement, total revenue from July 2008 through March 2009 was \$95,653.15.
- Another Teacher/Band Assistant also sold various sundry items remaining from previous concession sales. She stated that proceeds were deposited into the bank checking account; however there was insufficient data to confirm whether this occurred.
- The band participated in additional fundraising events, which were not always authorized by the Principal and Assistant Superintendent.

Cause

Lack of adherence to existing District policies (i.e., SAFM.) and best practices.

Effect

There is no assurance of accountability over the funds deposited into the account, making school funds more susceptible to inappropriate use and/or misappropriation.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should contact the Office of Accounting to receive proper instructions on how to close the unauthorized account and ensure all school bank accounts are maintained at authorized financial institutions.

In addition, the Principal should ensure that all staff responsible for financial transactions, are trained on District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07.”

Lastly, 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.

4. Finding – Non-Compliance with State College Board Fee Reductions:

The State of Michigan Department of Education governs College Board fee reductions including Advance Placement Exams. Per the State of Michigan letter dated April 21, 2008 there are students who are not required to pay the \$54 Advanced Placement Exam Fee, rather the State should be billed for the fee with no charges to the student.

This process did not appear to take place within the i.e., all students were charged for exams with no determination whether students were eligible for free exams. In addition, the students were charge \$86 per exam.

Cause

Lack of knowledge and adherence to State guidelines.

Effect

Lack of adherence can lead to potential fines and/or penalties, as well as a negative impact to the District’s reputation.

Recommendation

Determine whether students were eligible for free Advance Placement exams and if so, process refunds. Also, confirm the \$54 exam fee rate to determine whether students who may have been ineligible for the fee reduction, are eligible for refunds due to the \$32 fee overcharge.

The Principal should ensure that all staff responsible for financial transactions clearly understand their financial responsibilities and if not are aware of who to contact within the District to obtain clarification.

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AUDIT FINDINGS (continued)

5. Finding – Athletic Game Receipts Were not Forwarded to the District:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District including specific procedures for district revenue: “The District uses a blue Revenue deposit ticket. The blue deposit tickets are used for collection of funds from fines, summer school, extended day, athletics and other revenue.” The SAFM also states that “the school acts as the agent, collecting monies for the School District... Funds deposited into this account are:

- a. Lunchroom receipts
- b. Fines
- c. Athletic/league game receipts
- d. Summer school tuition
- e. Evening school tuition...”

Athletic game receipts were not forwarded to the District revenue account. Although it is common practice to deposit athletic game receipts into the school checking account, this is not in compliance with policy.

Cause

Lack of adherence to District policies.

Effect

Lack of adherence to applicable policies and proper accounting practices could result in the District’s inability to fully access and utilize all available funds in an optimum manner. While the District realizes the expense portion of athletic financial transactions via the school’s submission of an AC-24 form with its relevant costs, it does not have the benefit of processing the revenue side of the financial transaction.

Recommendation

The Principal should ensure that all financial activity related to gate receipts (i.e., revenue and expenses) are processed in accordance with established policies and procedures.

Auditor’s Note

It should be noted that this report has been forwarded to the Office of the Inspector General.

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MANAGEMENT RESPONSE


Management response provided by Ms. Deborah Jenkins, Principal (new principal).

Mrs. Sharon Robinson is now retired. However, as the newly assigned principal, July 2009, Deborah Jenkins will ensure that all staff responsible for financial transactions clearly understands their financial responsibilities via training and DPS support.

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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