

# DETROIT PUBLIC SCHOOLS

## Office of Inspector General



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File number: 2013-FA-0014

### AUDIT REPORT

**TO:** William Aldridge, Chief Financial Officer  
Karen Ridgeway, Superintendent of Academics  
Drexell Claytor, Principal, Kettering West Wing

**CC:** Roy S. Roberts, Emergency Manager  
Kevin A. Smith, Chief of Staff, Emergency Manager  
Delores A. Brown, Deputy CFO and Chief Accounting Officer  
Clara Flowers, Assistant Superintendent  
Lawanda Taylor, Director, Cash Management department

**THRU:** Wilbert V. Marsh, Inspector General

**FROM:** Odell Bailey, Deputy Inspector General - Audits

**DATE:** April 22, 2013

**SUBJECT:** Kettering West Wing High School – Financial Audit

### **BACKGROUND**

Kettering West Wing High School is a special education institute that serves students in grades 9-12. Ms. Drexell Claytor has served as Principal of the school for 11 years. The school does not have a formal bookkeeper, but a secretary, Ms. Tina Walker assists the principal in managing student funds. Ms Walker has assisted the principal since the beginning of this school year 2012-13. Each month, a third-party firm contracted through the Division of Finance - Cash Management department (Office of Accounting), prepares the monthly financial reports and bank reconciliations. Kettering West Wing, like other schools, maintains a checking account to manage money that is collected from and/or raised by the students and school organizations.

The school's financial transactions are processed through First Independence Bank; the district's authorized banking institution. School and bank records indicate that, between July 1, 2011 and December 31, 2012, the school deposited \$12,185.80 in its general checking account and paid out \$15,196.80. As of December 31, 2012, the balance in this account was \$918.89.

The major sources of funds deposited into the school's account include: fundraising activities, vending commission and monies raised through senior activities. These funds are referred to as General School Funds, and are considered held in trust for the students' benefit, and generally used to support and offset the expenses for extracurricular and co-curricular student activities. Kettering West Wing has 8 activity accounts including the general account. The other accounts are: Special Olympics, Horticulture Entrepreneur, Educational Activities, and Scouts for Life, Room 136 and Room 133, and Department of Music Fund.

School personnel are required to ensure accountability and fiscal integrity by complying with district procedures for the receipt, deposit, disbursement, and recording of funds. The district's School Financial Procedures Manual (SFPM) provides specific rules and guidelines for the handling of General School Funds (GSFs).

This report summarizes identified internal control deficiencies and noncompliance conditions; which, if not corrected, will adversely affect the overall financial position of the school. We also make recommendations on how internal controls can be improved. Those charged with the responsibility to establish, implement and maintain effective control processes are directly addressed on the first page of this report.

We provided a draft report to the school principal for review and comment. The principal's written response is included as an appendix to this report. Additionally, relevant comments made by school personnel during the fieldwork process are included in the body of this report.

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## **EXECUTIVE SUMMARY**

We determined that the school disbursed student funds for activities that were not directly beneficial to the student body. These purchases included reimbursement of parking fees, teacher supplies over \$200, cleaning supplies, and food for a community group and a parent teacher meeting. Although the amounts spent were not significant, they are prohibited by district policy. In addition, we noted multiple (19 of 29) disbursements were to reimburse employees for purchases they made. Periodic reimbursements are often necessary and cannot be avoided. However, the District has a procedure to request a check for purchases before they occur. This is important because it allows the principal, who is ultimately responsible for student funds, the opportunity to assess the necessity and reasonableness of a purchase prior to it being made. When employees and others are allowed to purchase items for the school without authorization, it can lead to the general school fund or activity account being in a deficit. This actually occurred for two of the months in our sample.

We also determined that the school needs to ensure that bank deposits have supporting documentation for incoming receipts and include receipt numbers on deposit tickets. Doing so ensures that the necessary information is available to identify payer information and initiate collection procedures in the event a check is returned for insufficient funds. The principal stated in a survey sent out prior to the audit that she does not have an actual bookkeeper. Instead she has a teacher and secretary that help out in managing the funds as needed. The school should consider designating one of these individuals to the bookkeeping position and schedule training for that individual. This could go a long way in addressing some of the non compliance issues identified from this audit.

Finally, for the School Year 2011-2012, the District did not renew the contract for the third-party firm that prepares the financial records for this and other District schools. The contract was not renewed until January 2012, which delayed the preparation of monthly bank reconciliations from July through December 2011. Monthly bank reconciliations help to ensure that all funds are fully and accurately accounted for and identify any discrepancy between school and bank records. When this process is delayed, particularly for several months, the risk of loss due to theft or misappropriation increases and the ability to identify it is reduced. As such, we believe the Cash Management department should employ alternate procedures for assuring that funds are accounted for monthly until such time the contractor is available to prepare the schools' financial records.

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**OBJECTIVE, SCOPE  
and METHODOLOGY****Objective**

To determine whether school personnel properly managed and administered the school's General School Funds and if monies from the school's account were properly accounted for and spent for the benefit of students; and in compliance with the School Financial Procedures Manual (SFPM).

**Scope**

The subject matter of our review was Kettering West Wing school's cash receipts and disbursements for the period July 1, 2011 through December 31, 2012.

**Methodology**

To meet our objective, we reviewed supporting documentation for cash receipts and disbursements to assess the use of these funds. We also reviewed the supporting financial ledgers, bank statements and reconciliations to determine whether they supported the completeness and accuracy of the transactions. In addition, we conducted interviews with the Principal and other school personnel involved with financial transactions. Furthermore, we reviewed the regulating policies, School Financial Procedures Manual (SFPM), and the School Administrative Financial Manual (SAFM), to assess the extent to which Kettering West Wing is operating in compliance with the school district's financial guidelines and procedures. Our audit was conducted in accordance with generally accepted government auditing standards.

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## **AUDIT FINDINGS**

### **QUESTIONABLE DISBURSEMENTS AND REIMBURSEMENTS**

Our audit of check disbursements found that some were for items and services that are prohibited by District procedures. In addition, for the sample of check disbursements tested for our audit we noted many of the disbursements were for reimbursements to employees. District procedures require that authorization must be granted before a purchase is made.

#### **School Funds Used for Unallowable Expenditures**

We tested 29 disbursements for the audit period and found that 8, or nearly 28 percent, of the disbursements were for items that are not allowable based on district procedures. The eight purchases totaled \$616.00 representing about 15 percent of the \$4,227 expended for the 29 tested disbursements. The expenditures that were not allowable included:

- \$200 in teacher supplies,
- \$238 in cleaning supplies
- Reimbursements for parent and community meetings
- Parking fees to attend graduation.

Each school receives budgeted discretionary funds for office supplies and routine maintenance and cleaning supplies. The Schools Financial Procedures Manual (SFPM) clearly states that janitorial supplies and other basic routine operating expenses are not permitted; luncheon or dinner expenses which are of a personal nature or not for the benefit of students are also not allowable. Similarly, for those parent groups recognized by the District, funding is provided for food. In addition, parking expenses regardless whether incurred in conduct of district business are not permitted. When school funds are used for these and other prohibited expenditures, it denies the student body of the use of those funds for items and services that directly benefit them as students.

#### **Multiple Reimbursements**

Of the 29 disbursements tested, we noted that 19 were reimbursements. The total amount of these reimbursements was \$1,328. Of the 19 reimbursements, 15 were made payable to District employees. Two employees accounted for 7 of these reimbursements. Allowing employees to purchase incidental items that are eligible for reimbursement is an acceptable business practice. However, the expectation is that this should happen on an infrequent basis and the amount involved should be minimal. It was never intended to reimburse employees for field trips, which require planning and coordination or for \$200 in teacher supplies.

Recognizing that there will be times when school funds are needed to support student activities such as field trips and senior-related events, the Cash Management department established a procedure for employees to request checks for such activities. This provides the principal with an opportunity to assess the necessity and reasonableness of each purchase. Moreover, the SFPM

states that “authorization must be granted before a purchase is made for reimbursement.” It goes on to say that employee reimbursement may be declined for purchases made without proper authorization.

### **Untimely Bank Reconciliations**

We tested 7 months of bank reconciliations for timely preparation and outstanding deposits. Of the 7 months tested, 5 months of bank reconciliations—July and October 2011 and July and October of 2012 were prepared between 1 to 7 months late. District procedures require that bank reconciliations be prepared by the 15<sup>th</sup> of the following month.

Bank reconciliations are part of the school’s internal controls over cash; and therefore the absence of timely completion and review of monthly reconciliations reduces the assurance of the completeness and accuracy of the school’s financial statements. Accurate and timely bank reconciliations can uncover differences that may need further investigating, and can uncover errors and irregularities more quickly, thus enabling the school to take corrective action.

### **Incomplete and Untimely Deposits**

Our audit determined that the December 2011 bank deposit was not made until February 2012. As stated above, the third party firm that prepares the bank reconciliations was not contracted until January 2012, but school funds were still being deposited in accordance with the school’s armor car schedule. For Kettering West Wing, the armor car service came to the school twice before the December deposits were ultimately made. The service visited the school on December 21, 2011 and January 18, 2012. According to documented notes prepared by the 3<sup>rd</sup> party firm for the March 2012 bank reconciliation, the January deposits totaling \$394.00 were not made until February.

District procedures require that deposit bags and records be prepared the night before a scheduled armor car pickup. The District is charged \$75 for the armor car driver to come to a school whether or not a bag is picked up or not. As a result, Cash Management recommends that schools cancel the scheduled visit from the armor car service at least 24 hours before a scheduled pick up.

We also determined that deposit tickets do not list receipt numbers or have the supporting documentation attached for the incoming receipts. According to documented notes by the third-party firm that prepares the financial records for the school, deposit tickets are kept in a monthly transaction binder, but should be attached to the deposit tickets in the deposit book.

When receipt information is not captured on the deposit ticket, at a minimum, this poses a risk of not having the required payer information available in the event that collection procedures become necessary as result of deposit of a “non-sufficient funds” check. If any checks are included in a deposit, they should be endorsed “For Deposit Only (Name of school)” on the back of the check, copied, and the copy of the check maintained as supporting documentation for the cash receipt form(s) in school files. This procedure ensures that the necessary payer-identifying information is available to pursue collection if necessary.

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## CONCLUSION

School funds are collected and used for the sole purpose of supporting student curricular and extra-curricular activities. The funds provide a critical resource to school officials to address these needs for their student body. This is particularly true given the financial condition of the District and lack of available resources to assist schools in meeting these needs. As a result, school officials who are charged with the responsibility of managing these funds need to be diligent about ensuring that they are strictly used for those activities that have a direct benefit to students. Although we did not find abusive practices at the school, the use of these funds to reimburse teachers for parking or for teacher and cleaning supplies are not the type of disbursements that have a direct benefit to the student body.

Similarly, allowing employees to purchase items without proper authorization can impact school funds and lead to situations when the general school funds account is overdrawn. This occurred in August and October of 2011.

In addition to these findings, the school is not properly documenting its deposit tickets with complete information on incoming funds. The firm that prepares the financial records for the school noted this condition on more than one occasion. However, we noted that in the response to the survey that preceded the audit, the principal stated that she does not have a formal bookkeeper. The principal relies on a secretary and another teacher to assist with managing the school funds. While this is a practical solution, those fulfilling these duties should be trained on the District's cash management procedures. We believe this will help the school achieve greater compliance with the procedures and address some of the shortcomings noted in this report.

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## RECOMMENDATIONS:

We recommend that the Principal of Kettering West Wing ensure that:

- Only those activities that directly benefit students are paid for with school funds,
- Follow the check request process to ensure that all purchases are authorized before they occur,
- Designate a staff member as the bookkeeper and schedule cash management training to ensure the person is knowledgeable about district procedures,
- Bank deposit tickets are complete with receipt numbers and supporting documentation.

We recommend that the director of Cash Management ensure that:

- The contract for the 3<sup>rd</sup> party firm to prepare school financial records is renewed timely, but when this is not possible, that alternate procedures be adopted to provide some assurance that school funds are fully accounted for on a monthly basis.

Our review was performed in accordance with U.S. Government Accountability Office (formerly the 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.



Odell W. Bailey, CIA  
Deputy Inspector General for Audit

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## AUDITEE COMMENTS

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### **Kettering West Wing**

#### Audit Report Responses

#### **Executive Summary**

The parking fees was related to student activities and impacted the students positively.

Teacher supplies for \$200.00 could not be purchased with purchase orders due to non-payment by DPS to certain vendors and time restrictions (DPS credit holds), many of the items were needed immediately therefore items were purchased by teachers and reimbursed. Teacher supplies were a combination of various receipts totaling \$200.00. Many of the purchases were for the entrepreneur program.

Cleaning supplies for 238.00 were purchased for our student custodial program.

The reimbursements for parent and community meetings were purchases for our student food program which prepared the food for these meetings. This is one objective of the food program.

Untimely Bank Reconciliations is not under our control; this was delegated to the third party firm.

#### **Incomplete and untimely deposits**

Untimely deposits were due to the armor car not keeping the schedule submitted to Kettering West Wing.

Incomplete deposit slips were due to Ms. Cole (former secretary) not having adequate training.

I am requesting a meeting with the Inspector General or a representative.

Drexell Claytor, Principal  
Kettering West Wing