

DETROIT PUBLIC SCHOOLS

Office of Inspector General



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AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
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Calvin Patillo, Principal, Osborn College Preparatory Academy

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Delores A. Brown, Deputy CFO & Chief Accounting Officer
Lawanda Taylor, Director, Cash Management department

THRU: Wilbert V. Marsh, Inspector General

FROM: Odell Bailey, Deputy Inspector General - Audits

DATE: April 22, 2013

SUBJECT: Osborn College Preparatory Academy – Financial Audit

BACKGROUND

Osborn College Preparatory Academy (Osborn Prep) High School is 1 of the 9 Detroit Rising Prep Schools. These schools have been selected to operate similarly to a charter school and are being managed separately by the Chief Innovation Officer in partnership with a Governing Council which consists of civic, community, business, local leaders and a parent representative.

The school is committed to preparing students for College and Career readiness by exposing students to a rigorous college prep curriculum that emphasizes the importance of critical thinking skills. For the current school year, 321 students attend the school in grades 9 through 12. Mr. Calvin Patillo has served as Principal of the school for 3 years. Ms. Susan Andrews has served as bookkeeper (bookkeeper) for the last 4 years. Ms. Andrews receives records and deposits cash receipts and writes checks for expenditures. Each month, a third-party firm contracted through the Division of Finance - Cash Management department, prepares the monthly financial reports and bank reconciliations. Osborn Prep, 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. As of December 2012, the balance in this account was \$8,946.65.

The major sources of funds deposited into the school's account include: fundraising activities and fees received from students such as senior dues. 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.

School personnel are required to ensure accountability, fiscal integrity and proper accounting 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 (GSF).

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.

EXECUTIVE SUMMARY

Based on a review of bank records and cash receipts, we determined that nearly \$700 cannot be accounted for and is considered missing. The amount in question is an accumulation of deposit shortages and calculation errors. The audit did not attempt to identify the responsible party for the missing funds, but we believe further investigation is warranted. Although the amount of missing funds is not significant, we noted a pattern of deposit shortages that raises concern about the level of oversight being provided by the school. In general, we found a lack of supporting documentation and practices that limit the effective oversight of school funds. Specifically, cash receipts and disbursements are not being properly documented. Cash receipts for the entire month of November 2011 were not available for testing. According to the bookkeeper, the documents may have been transferred to another school in error.

In addition, we noted that multiple receipt books are being used, but those in use do not meet District specifications. That is, the school is using duplicate receipt books even though they have been cited by the third-party firm that prepares the school's financial records on several occasions to purchase the triplicate receipt forms. We also found that electronic transfers of funds from central administration were received in the amount of \$3,987.00, but were not receipted. These conditions combined with a lack of timely bank reconciliations and deposits raise concern about the quality of oversight provided for these funds. For example, the bank reconciliations for July through December 2011 were not prepared or signed off until February 2012. Although the delay can be attributed to the District's failure to timely renew the contract for the third-party vendor, the effect is that there is no assurance that all receipts are being accounted for until the bank reconciliation is prepared. Furthermore, funds collected were deposited 27 to 35 days after the date they were received.

We also noted that three different individuals signed off on the monthly financial records where the bookkeeper would normally sign. Our survey completed by the principal prior to this audit indicated that only he and the bookkeeper participate in preparing financial records for the school. Each month, the third-party firm discusses its findings related to whether the school is complying with District procedures with the principal and those responsible for financial transactions. Using other school staff in the absence of the bookkeeper is not a violation. However, because this occurred so frequently, the corrective actions recommended by the third-party provider were not implemented, which allowed the non compliance to continue.

In addition, the school is using student funds for prohibited expenditures including food for staff members, expenses related to parent teacher conferences and for coaches membership fees. The School Financial Procedure Manual clearly identifies each of these expenditures as unallowable. The principal is ultimately responsible for ensuring that funds are being used strictly for the direct benefit of the students or some segment of the student body. When funds are used otherwise, it denies students the opportunity to use these funds as intended.

Our testing also revealed that fundraisers are not being approved by the Assistant Superintendent as required by policy, and the proceeds are not being deposited in a timely manner. It is important that all fundraising activity at the school level be properly approved by the Principal and the Assistant Superintendent who have leadership responsibility for the school. This assures that the purpose and necessity for fundraisers are being vetted by those ultimately responsible.

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 the Osborn College Preparatory Academy'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, Bookkeeper/Treasurer and some activity account sponsors. Furthermore, we reviewed the regulating policy, SFPM, to assess the extent to which Osborn College Prep 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.

AUDIT FINDINGS

Missing Funds

As shown in Table 1.1 below, we identified nearly \$700 in funds that were received but not deposited. The amount represents several transactions over a period of a few months and includes a combination of deposit shortages, adjustments and recording errors. The missing funds are broken out as follows:

Table 1.1: Receipted Funds Not Deposited

Date	Amount	Reason
11/22/2011	\$ 73.95	Cash receipt 849404 for \$118.75 dated 11/21/11 was not deposited. Per bookkeeper, funds returned to activity sponsor and return of funds not recorded. The remaining balance of \$44.80 was carried as an outstanding deposit for a couple months and appeared on the February 2012 bank statement.
11/28/2011	3.95	Deposit shortage
10/2012	98.00	Deposit shortage
11/2012	80.00	Deposit shortage
12/2012	90.00	Deposit shortage
12/2012	320.00	Receipt numbers 209424 for \$180 and 209425 for \$140 both dated 12/5/2012 were not deposited into the school checking account. Per the note from the third-party firm in observations made about the December 2012 bank reconciliation, the deposit that hit the bank was \$320 short of the amount receipted. The firm goes on to say that "There is no more cash on site. All money has been accounted for and bagged through January 2013.
TOTAL MISSING	\$665.90	

Although the amount of missing funds is not significant, there is a pattern of deposit shortages that raises concern about the school's oversight of these funds. Compared to other high schools, the amount of banking activity is not overwhelming. And, both the principal and bookkeeper have been trained on the District's cash management procedures and both have been in their respective positions for at least three years. However, in addition to the missing funds we noted poor recordkeeping practices that we believe contribute to the inability to account for all funds. As a result, we believe that further investigation into the missing funds is warranted.

Lack of Supporting Documentation

We noted several instances including the aforementioned case where school officials failed to properly document cash received. The condition was identified in November 2011, by the third-party firm that cash receipts were not being documented through transmittal letters or triplicate receipts as required for student payments. Our audit also found that receipt forms lack key information such as the type of funds being received i.e., cash, checks or coins, and received checks not being copied and attached to the deposit. We were also told by the bookkeeper that the cash receipts for the month of November 2011; the same month that receipted funds were returned to an activity sponsor prior to deposit, could not be located for testing. We determined from the General Ledger that \$442.60 was recorded and that amount was deposited in November.

For the month of May 2012, we noted five checks were submitted for deposit -10039, 10040, 10041, 10042, and 10043. Our test of cash disbursements found that check 10039 for \$23.84 was for food delivery charges for the student's credit recovery program, but the actual receipt with gratuities totaled \$21.94. We found no supporting documentation for the remaining checks. The third-party firm cited the lack of supporting documentation for checks 10039, 10040 and 10043. They added that check 10042 for \$76.44 was for staff appreciation, which is a violation of District policy. However, our test work which included this same check number found no evidence of support in the files. When supporting documentation is not attached to check request forms or deposit forms, it limits the ability to assess whether or not the purchase was compliant.

Untimely Bank Deposits

For the 46 cash receipts tested, we found that 17, or nearly 37 percent, were not deposited in a timely manner when considering their armor car pickup schedule. One deposit from November 2011 was not made until February 10, 2012, or 80 days later. On average, it took 15.4 days to deposit cash receipts from Osborn College Prep. District procedures require that all funds collected be deposited by the bookkeeper as soon after collection as possible. When this does not occur, it increases the risk that the funds could be lost or stolen.

In addition to the untimely deposits of school funds, we noted that the bank reconciliations were delayed by several months during 2011. In fact, the bank reconciliations for July through December 2011 were all prepared and signed off on February 14, 2012. For July, 2011 seven months passed before the reconciliation was completed. The District, however, is largely responsible because the contract for the third-party firm was not executed until January 2012 and the bank reconciliations beginning July 2011 could not be prepared until the contract was executed. Regardless of the reason, the delay in preparing bank reconciliations significantly restricts the ability to provide oversight of school funds. Bank reconciliations and the associated financial records help attest to whether all receipts are accounted for, and the accuracy of the accounting. When this effort is

delayed by several months, there is no way of assuring all funds are being accounted for and that any discrepancies are resolved in a timely manner.

We also noted that three different individuals signed off along with the principal for those months in our audit scope. However, the survey completed by the principal indicated that only two people participate in the financial recordkeeping for the school. Proper oversight should be limited to those individuals that have received the necessary training in cash management responsibilities.

Miscellaneous Observations

We noted other irregularities during our financial audit of the school that warrant discussion. These include:

1. Unreceipted funds in the amount of \$3,986.72 which represented several wire transfers from central administration, but no receipt was issued for these funds.
2. Fundraisers were not being approved by the Assistant Superintendent as required by policy, and the proceeds were not always deposited in a timely manner. The audit also revealed that the profit and loss statement was not consistently prepared within the established timeframes.
3. Athletic payments to referees made from the school checking account, when they should be paid by the District's Office of Athletics.

CONCLUSION

To ensure that all funds are being used for the benefit of students and that all monies are fully accounted for, school administrators and their financial team must strictly follow procedures designed to meet District compliance requirements. Over time, with competing priorities principals cannot always monitor the day-to-day cash activities even though they are ultimately responsible. Moreover, most receipts are in the form of cash which increases the risk of loss due to theft. As a result, it is critically important that those assigned to bookkeeping duties be mindful about following procedures. The District has taken actions to assist in the oversight of school funds by having the third-party firm prepare a monthly internal control checklist and discuss any non compliance with procedures with the principal and bookkeeper. However, the principal has the ultimate responsibility of assuring the funds are fully accounted for and spent in accordance with policy. According to his survey response, the principal has not attended financial training since 2008. Since that time, there have been a number of revisions to procedures that were not in place in 2008.

In this regard, we believe that additional training for the principal may be helpful. At the same time, further investigation into missing funds is warranted.

RECOMMENDATIONS:

We recommend that the Principal of Osborn College Preparatory Academy ensure that:

- All cash receipts and disbursements are properly documented indicating activity accounts,
- Deposits bags be prepared the night before scheduled pick-up to facilitate timely deposits,
- Payments to referees and others providing game services be properly documented and forwarded to the Athletic Administration Office for payment,
- Monies received through wire transfer from Central Administration be receipted and properly accounted for.

We recommend that the Office of Inspector General-Investigations consider:

- Investigation of the missing funds to determine the responsible person(s).

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

AUDITEE COMMENTS

Osborn College Preparatory Academy
Calvin B. Patillo, Principal

Response to the Financial School Audit

Thank you for the opportunity to respond to the contents written in the Audit Report. Below, I have addressed those areas of concern. Our intent is to adhere to all of the district policies and procedure and make the necessary corrections to our practices:

1. Items listed under RECOMMENDATIONS (Page 8) will be implemented effective immediately. However, Osborn College Preparatory Academy does not handle payments to referees for the Athletic Department. In addition, we were not aware that we were to request a receipt or some other type of documentation for the wire transfer from the Upper School which was executed by the central office.
2. Item 2 under Miscellaneous Observations (Page 7) – we have corrected our practices in making sure that there is written approval for fundraisers from the Principal. However, please advise as to if the district still requires written approval from central administration now that we are a self-governing school. Please advise for immediate compliance on our part.
3. EXECUTIVE SUMMARY (Page 3), Paragraph one, regarding missing receipts for the month of November 2011. Those documents were packed up to prepare to move to Brenda Scott. Those materials were among those not returned to the building.
4. Triplicate receipt books have been purchased and are used.
5. EXECUTIVE SUMMARY (Page 3), Paragraph 3 – We are not sure who the third person is who signed off on the monthly financial records. We cannot find that document.
6. Missing Funds (Page 5) Table 1.1 - Item listed under dated 11/22/2011 was a practice the bookkeeper has not practiced since then. Item dated for 11/28/11, the miscount was caught by the Bank and was corrected. Items listed for 10/20/12, 11/20/12, 12/20, 12 were listed as shortages but were later found in the next month reconciliations. Those funds are not missing. Item listed under 12/20/12, the bookkeeper is not sure what occurred. She believes that she either never actually received the funds from the students or did not accurately document what she actually collected.
7. Page 2, Paragraph 1 – the discrepancy is due to a late deposit because of the holiday break.

In addition to the recommendations provided in the audit, we have implemented the following for our own practices:

1. Designate specific times when banking transaction are executed to ensure accurate documentation and accounting for all funds received. This will eliminate interruptions and interference with the process for accounting and recording funds.
2. When large amounts of money are being counted, the bookkeeper will seek assistance in counting from the principal or the fundraising sponsor to ensure accurate record keeping. Those funds will also be counted in a secured place.
3. If large sums are collected in between pick-ups, we will pay the cost for a special pick up to ensure funds are securely deposited in the account.
4. Both Bookkeeper and Principal will seek further review of district policies and procedures for handling school finances.
5. Will ensure that all district forms are completed filled out before and after the fundraising activity.
6. The principal will also research/consider the possibility of hiring a second clerical person to handle all finances. This will allow for focused and consistent compliance with district policies.

Please receive this communication as an expression of cooperation and compliance. I thank you again for your support.

Calvin B. Patillo, Principal