

**State of Delaware  
Office of Auditor of Accounts**

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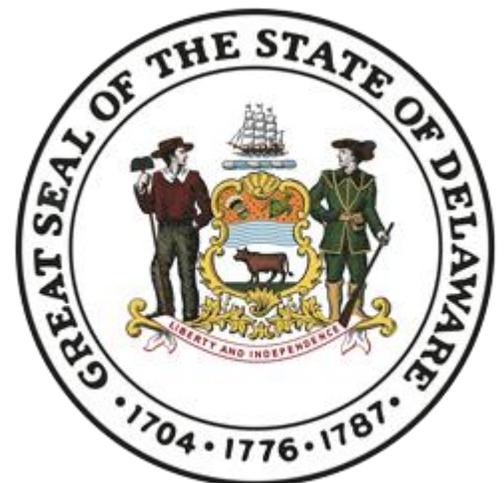
**Cape Henlopen School District  
Mariner Middle School Band Boosters  
Performance Audit**

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**January 1, 2009 through December 31, 2010**

**Fieldwork End Date: October 6, 2011  
Issuance Date: October 20, 2011**

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts





STATE OF DELAWARE  
**OFFICE OF AUDITOR OF ACCOUNTS**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

**PHONE: 302-739-4241**  
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To the Superintendent of Cape Henlopen School District:

The attached report provides the results of our performance audit of the Mariner Middle School Band Boosters student activity funds.

My office was authorized, under 29 Del. C., c. 29, to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by the U.S. General Accountability Office, which has issued generally accepted government auditing standards.

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report can be accessed online through the Auditor of Accounts website at <http://www.auditor.delaware.gov>.

Sincerely,

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts

October 6, 2011



**State of Delaware**  
**Office of Auditor of Accounts**  
**R. Thomas Wagner, Jr., CFE, CGFM, CICA**

## *At a Glance*

### *Working Hard to Protect YOUR Tax Dollars*

#### *Why We Did This Review*

The Office of Auditor of Accounts (AOA) conducted a performance audit of the Mariner Middle School's (the School) Band Boosters account for the period January 1, 2009 through December 31, 2010 at the request of the Cape Henlopen School District (the District). The District requested the audit as a result of ongoing problems they have experienced with a change in band directors in the 2008-2009 school year.

#### *Background*

The District is accountable to the public for all actions, including the use of student activity funds. It is important that the individuals responsible for administering the student accounts review and abide by the current policies and regulations set in place by the District.

The District defines student activity funds as "funds raised for, by, or in the name of a school, class, or officially sanctioned student organization or activity."

For further information on this release, please contact:

Kathleen O'Donnell  
 (302) 857-3919

#### **What We Found**

While the District had policies and procedures in place, management failed to safeguard the student activity funds from being mishandled by not adhering to District policies and procedures. School and District officials failed to perform the following required actions:

- Did not conduct annual internal audits.
- Did not provide evidence that they directly received and reviewed the Band Boosters bank statements.
- Did not receive monthly account reconciliations.
- Did not receive required information regarding fundraisers.

This lack of management oversight resulted in serious internal control problems, including the following:

- Opening of an unauthorized external checking account.
- Assessment of \$140 in bank overdraft fees on the account.
- Lack of receipts provided for cash received.
- Deposits not made timely.
- Potentially incomplete deposits.
- Checks processed with only one of the two required signatures.
- One instance of inappropriate use of student funds.
- Reconciliations between the School's records and the bank statements were not performed.
- \$711 in possible refunds due to parents and students.
- Fees charged to students that were not approved by the Principal.

The Band Director did not receive any formal notice of discipline regarding the mismanagement of the Band Boosters funds.

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## ***Objective, Scope, and Methodology***

The audit objective was to determine whether the Mariner Middle School's (the School) Band Boosters account was maintained in the best interest of the students and parents who made contributions for the period of January 1, 2009 through December 31, 2010. During a review of the Cape Henlopen School District's (the District) student activity accounts process, we identified several operational areas to evaluate with respect to the District's policies that govern the management of student activity funds.

The Office of Auditor of Accounts (AOA) performed the following procedures:

- Obtained the District's *Student Activity Funds Management Guide and Reference Manual* (the Manual). Reviewed the Manual to identify key internal controls.
- Conducted interviews with appropriate school personnel and documented, in narrative format, our understanding of the School's procedures for maintaining the School's Band Boosters Account.
- Prepared a flow chart documenting the School's Student Activity Funds Management process.
- Reviewed the revenue and expenditure transactions and any related activity within the School's Band Boosters account for the adequacy of the key internal controls and the proper management of those transactions.
- Performed data analysis over three years of the account activity to identify trends and anomalies in the transactions. Investigated any trends and anomalies identified.
- Reviewed the personnel records of the Band Director.

Our observations, findings, and related recommendations resulting from these procedures are presented in this report.

## ***Background***

The School serves grades six through eight in the District and offers many student activity programs, including various athletic programs, concert band, chorus, and drama club. With the change of band directors in the 2008-2009 school year, the School experienced ongoing problems with the management of the Band Boosters' funds. The District requested AOA to perform an audit of the School's external Band Boosters account.

The District defines student activity funds as "funds raised for, by, or in the name of a school, class, or officially sanctioned student organization or activity." These funds include money received from fundraising activities of student organizations, donations received from community organizations or individuals in support of a specific student organization, and money collected from students to offset the costs of student organization activities or for payment of student obligations.

The District, through its Manual, established regulations and guidelines for administering student activity funds. The Manual includes sections that describe the responsibilities of the District Office, principals, school operations officers who are accountable for each school's funds, and each activity's sponsor (usually a teacher or a coach). Also included in the manual are sections covering internal controls, receipt and disbursement procedures, and accounting for specific activities.

## ***Mismanagement of Band Boosters Funds***

### **Poor Management**

Without approval, the School's Band Director opened an external bank account independent of the established student activity account. The School became aware of the Band Director's intent to open an external checking account when they received a letter from him in September 2009 requesting permission to open the account. Although the District Office did not approve it, the external account was active from October 2, 2009 until September 24, 2010, when the Band Director was forced to close the account. The School was first notified of the external account when the bank called to have the Band Director sign the required signature card, which was subsequently signed on October 29, 2009. Despite several fundraiser requests with no corresponding deposits or monthly reconciliations being submitted to the School's Senior Secretary, neither the School nor the District Office took action until the School received a notice from the bank, on June 18, 2010, that the account was overdrawn. In an email from the District's Business Operations Director on July 9, 2010, the Band Director was given a list of things to do regarding the account, which included closing the account by July 30, 2010.

When dealing with student activity funds, the District's Manual requires that all funds be deposited into an interest-bearing account. The interest earned on these accounts is used for the benefit of the students in the student-related activities. The Free Business Checking account opened by the Band Director was in fact a non-interest-bearing account. The School's Senior Secretary stated that the official student activity account held by the School is an interest-bearing account.

Through our review of documentation related to the account, we found serious internal control problems. Multiple checks were processed without proper supporting documentation or with only one of the two required signatures, including one check with the second signature of an unauthorized signer. The most egregious issue we found related to the purchase of bank gift cards worth \$855. These gift cards were allegedly used to pay a bus company for transportation expenses; however, we could not substantiate that they were used for that purpose due to nature of the transaction. During the time period reviewed, two checks were written directly to the same bus company.

In addition, many transactions were not reflected in the records maintained by the Band Boosters. None of the deposit slips reviewed contained two signatures to demonstrate that the Band Boosters dually verified the amount of funds collected. The lapse of time between the receipt of funds and the corresponding deposit ranged from 6 days to 30 days. We also found one instance where the original cash amount per the deposit slip was crossed out and a new, lower amount was written in. Due to insufficient records, including inadequate fundraiser approval documentation and inconsistent receipt issuance, it is difficult to conclude that all Band Boosters funds were actually deposited and not held for inappropriate use.

We found no evidence that reconciliations between the School's records and the bank statements were performed or that the Principal directly received and reviewed the bank statements. We question whether reconciliations could be performed properly due to the volume of discrepancies between the records maintained by the Band Boosters and those maintained by the bank.

We also found that it is the responsibility of the District Office to perform internal audits regarding the student account funds<sup>1</sup>. A primary duty of the Business Operations Director is "auditing financial documents of the checking accounts for: Student Accounts; Cafeteria; Petty Cash; Internal Accounts";

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<sup>1</sup> Cape Henlopen School District's Student Activity Fund Management Guide and Reference Manual, August 2009

however, AOA found no record of an internal audit performed at the District level, only a compilation of documents regarding the issues concerning the account, which was collected by the School.

### **Band Boosters Funds**

Documentation maintained by the Band Boosters conflicted with the bank account records concerning refunds due to students and parents. The Band Boosters reported that \$711 in refunds were due to students and parents; however, these refunds were not paid from their bank account, in part due to the account being overdrawn by the end of the 2009-2010 school year. During the time the account was active, \$165 in fees were assessed by the bank due to the overdrafts, \$70 of which was subsequently refunded at the request of the School.

The Band Director, through the 2009-2010 Mariner Middle School Band Handbook, imposed fees upon students that were never approved by the School Principal. The fees were for reeds and general maintenance products, which included valve oil, slide grease, cork grease, sticks, and mallets. While the handbook stated that these fees were mandatory and would result in the students not receiving their report cards if left unpaid, not all students paid the fees. The discrepancies among the different records maintained made it difficult for us to accurately determine the amounts collected from the students and whether the funds were appropriately spent to purchase the products discussed above.

### **Conduct of the Band Director**

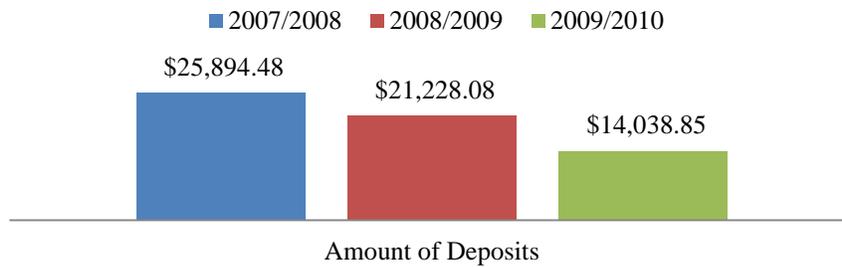
The Band Director acknowledged his understanding of the policies and procedures governing the student activity accounts with his signature on the District's Student Activity Funds Management Memorandum for the 2009-2010 school year. Yet, he failed to secure liability insurance for the Band Boosters organization and he was unable to provide proof of the validity of the federal identification number used to open the external checking account, both of which were required by the Manual.

Further review of the Band Director's personnel file revealed that he was forewarned about our Office's audit regarding the Band Boosters account. There was also documentation, including a letter of reprimand, regarding the Band Director's inappropriate behavior on two separate occasions. The poor conduct displayed from the Band Director alone should have resulted in disciplinary action. Our review of information prepared by the School showed that there have been several e-mails and verbal meetings between the Band Director and the administrative officials of the School and the District Office about closing the unauthorized account and releasing all pertinent financial information to the School's Senior Secretary. After a review of the personnel file, school employee records, and information prepared by the School, we determined that the Band Director did not receive any formal notice of discipline in regards to the mismanagement of the Band Boosters funds.

### **Band Account Analysis**

The School's administration expressed concern over the receipt of funds in the Band Boosters account for the 2009-2010 school year. Over the past several years, receipts have decreased as illustrated in Figure 1.

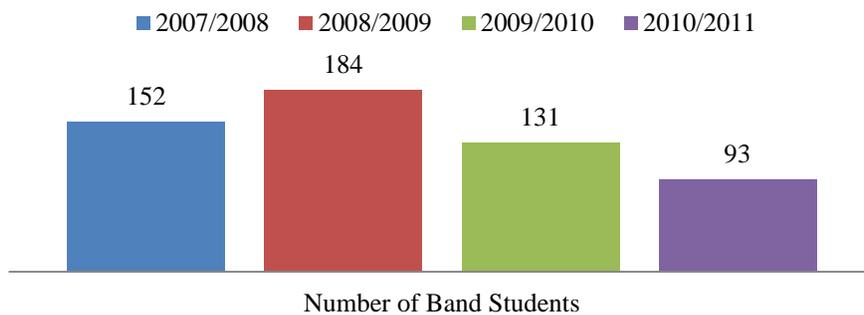
**Figure 1:  
Band Account Deposits**



During our testwork, we discovered factors that may have contributed to the decrease in the amount of funds deposited into the band account. These factors include a decrease in both the amount of students participating in band and the amount of fundraisers and bake sales held.

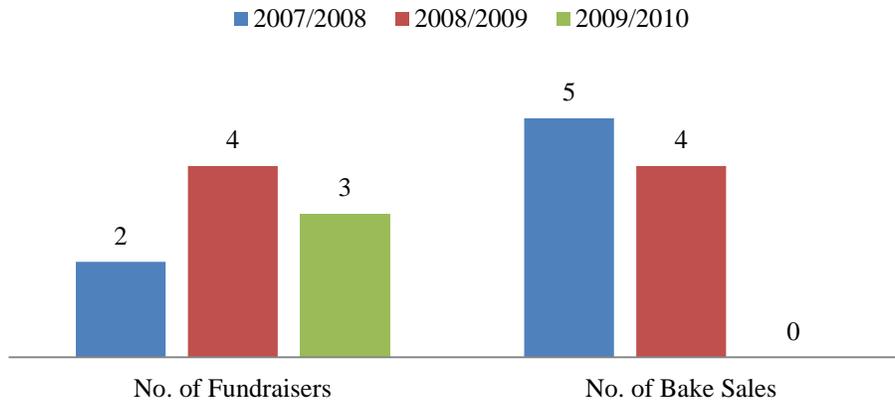
As shown in Figure 2 below, the number of students participating in band during the 2009-2010 school year has decreased from the previous years. Further review found that enrollment in band continued to decrease during the 2010-2011 school year. We performed additional analyses to determine if the decrease was consistent with the student population and found the percentage of the student population participating in band was 31% in 2007-2008, 38% in 2008-2009, 30% in 2009-2010, and 21% in 2010-2011.

**Figure 2:  
Students Enrolled in Band**



We also discovered that the change in the number of fundraisers and bake sales held over the same three-year period was similar to the change in enrollment. This change is shown in Figure 3.

**Figure 3: Fundraisers and Bake Sales**



**Conclusion**

We determined that management failed to safeguard the Band Boosters funds from being mishandled by not ensuring that the policies and procedures were followed and not taking sufficient action when the District suspected abnormal funds practices by the Band Director. With the appropriate monthly reconciliations and account review, any warnings of mismanagement would have been present and management would have been able to stop the problem before it became an issue.

It has been expressed to us that the District will rely on our audit to take disciplinary action against the Band Director. The actions of the District with respect to enforcing policies and disciplining employees should not have been contingent upon results of the audit performed by our office.

**Recommendation**

Based on the results of our review, AOA recommends that the District and School ensure all student activity accounts are maintained in the best interest of the students by adhering to the Manual and taking timely, appropriate action when an employee is not in compliance.

## Auditee Responses

### Cape Henlopen School District

Kevin E. Carson, Ed.D.  
Superintendent



DISTRICT OFFICE  
1270 KINGS HIGHWAY  
LEWES, DE 19958  
302-645-6686  
FAX 302-645-6684

IS IT BEST FOR STUDENTS?

October 6, 2011

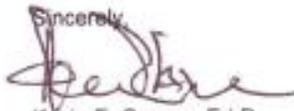
Mr. Thomas Wagner, Jr.  
Auditor of Accounts  
Office of Auditor of Accounts  
Townsend Building, Suite 1  
401 Federal Street  
Dover, DE 19901

RE: Audit Response Mariner Middle School Band Boosters

Dear Mr. Wagner:

In response to the Cape Henlopen School District Mariner Middle School Band Boosters Performance Audit, the district offers the following response.

Cape Henlopen School District will insure all student activity accounts are managed in the best interest of the students by adhering to the Student Activity Funds Management Guide and Reference Manual and take the sufficient, appropriate action when an employee is not in compliance.

Sincerely,  


Kevin E. Carson, Ed.D.  
Superintendent

KEC/jmh

cc: Oliver Gumbs, Director of Business Operations  
CHSD Board of Education

## ***Distribution of Report***

This report is intended solely for the information and use of the Cape Henlopen School District and is not intended to be, and should not be, used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and the Department of Finance.

Copies of this report have been distributed to the following public officials:

### Executive Branch

The Honorable Jack A. Markell, Governor, State of Delaware  
The Honorable Thomas J. Cook, Secretary, Department of Finance  
The Honorable Ann S. Visalli, Director, Office of Management and Budget  
The Honorable Lillian M. Lowery, Ed.D., Secretary, Department of Education  
Mr. Kristopher Knight, Director, Division of Accounting

### Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of the Controller General

### Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General

### Other

Dr. Kevin E. Carson, Superintendent, Cape Henlopen School District