

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
DETROIT SCHOOL OF ARTS
School Year 2008-09

REPORT NO: 09-062

REPORT DATE: June, 2009

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BACKGROUND

For the 2008-2009 school year, approximately 800 students were enrolled at Detroit School of Arts, which has grade levels ninth through twelfth. Dr. Denise Davis-Cotton was the Principal during this time period and has been serving in this capacity since 1992.

Ms. Satonya Griffin, Bookkeeper, performs the bookkeeping duties and has done so since January 2009. Previously, the bookkeeping was performed by Cannon Accounting Company from July 2008 – December 2008.

Detroit School of Arts maintains a commercial checking account at Chase Bank. Primary sources of General School Funds include student activities (e.g., concerts) and fundraising activities and special project funding (Skillman Grant). Sources of District Fund Revenues include Food Services (i.e., lunchroom & summer school), Summer School Transition Program (for incoming 9th graders) and Extended Day Program.

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: 1Cash Receipts from General School and District Funds July 2008 – March 2009

ACCOU TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$123,053

AUDIT RESULTS IN BRIEF

Based on our audit of the Detroit School of Arts cash management process, we noted control weaknesses related to compliance with District cash management policy:

- Checks were not signed by two authorized signers.
- Checks were not issued sequentially.
- Bank reconciliations were not signed and dated by preparer or reviewer.

The detail of these findings and recommendations are included in the Findings Section of this report.

Achievement:

Detroit School of Arts was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an Aspiring School. This indicates that they met criteria such as: (1) Close to becoming a High Performing, or Improving school; (2) Improved MEAP scores, with a 5% increase over the previous year; (3) Average performance in English, math, and science.

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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.

The following non-compliance issues were noted:

- Checks were not signed by two authorized signers.
- Checks were not issued sequentially.
- Bank reconciliations were not signed and dated by preparer or reviewer.

Cause

Failure to comply with 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.

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MANAGEMENT RESPONSE

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Principal's Response to Audit Findings

Finding Number One: *Checks were not signed by two authorized signers.*

One Hundred Forty-Nine Checks were issued during the audit period July 1, 2008 – March 31, 2009. The assistant principal, through human error, did not affix the proper and required second signature on four (4) of the one hundred forty-nine (149) checks issued during the audit period. The checks were #2604 – Deposit for the Homecoming Dance; #2607 – Dance Department Inventory; #2623 – Site Visit Expenses for International Baccalaureate Approval Process (Skillman); and #2624 International Baccalaureate Site Visit Review Panel.

There are three **Required** signatures, along with the bookkeeper's initials on the AC-4 (as well as required invoices as documentation for the four checks) which the second signatory- -through human error- -failed to sign.

Corrective Action: Prior to the audit, the principal reviewed the AC-4's and supporting documentation, thus becoming the first signatory on checks. The bookkeeper would take the check and supporting documentation to the Assistant Principal for the second signatory. There were times when the Assistant Principal secured the first signature from the Principal, and followed with the required second signatory.

Upon review of the audit, the Principal has modified the check signing process. After all supporting documents are collected with the AC-4, the Assistant Principal will be the **First** signatory on issuing checks. The Assistant Principal will sign *in the presence of the Principal*. The Principal will be the second signatory, signing in the presence of the first signatory, to prevent re-occurrence of this Finding

Finding Number Two: *Checks were not issued sequentially.*

According to Detroit School of Arts' checkbook (for the auditing period 2008-2009), one hundred fifty-six (156) checks were written in sequential order. Seven (7) of the one hundred fifty six checks were **voided** which may be the cause for the auditors Finding Number Two.

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MANAGEMENT RESPONSE (continued)

CHECK NUMBER	DATE	REASON FOR THE VOID
2614 / Skillman	10/28/08	Rescheduling of IB Training
2615 / Skillman	10/28/08	Rescheduling of IB Training
2639 / Skillman	12/16/08	Duplicate Reservation for IB Training
2655	02/02/09	Date written on the "Pay to the Order of" Check Line
2664	02/12/09	Check not Approved by the Principal
2696	03/19/09	Wrong Shipment of Auditorium Light Bulbs
2728	05/14/09	Better Printing Quote and Service Provided by another Vendor

Corrective Action: All checks in range for the July 1, 2008 – March 31, 2009 audit period were in sequential order. Only voided checks were out of sequence.

Finding Number Three: *Bank reconciliations were not signed and dated by preparer or reviewer.*

Corrective Action: The Principal concurs with the findings related to the signing of the monthly reconciliations. Despite the mitigating factors related to the signing of the monthly reconciliations, moving forward, the Principal will add a line item –on the Monthly Reconciliation for the Preparer’s and Reviewer’s signature and date.

NOTE: As staff are assigned to the building, The Principal will not assume that the District provides training and support *via the District’s bookkeeper, and will adhere to the recommendation contained in this report* by ensuring “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 will “ensure that all individuals involved in the cash management process are aware of where current District polices are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.”

Prepared and Submitted by:



Dr. Denise Davis-Cotton

Date: June 29, 2009

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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.

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
Auditor General