

# Detroit Public Schools Office of the Auditor General



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## FINANCIAL RELATED AUDIT OF ROBESON ACADEMY School Year 2008-09

**REPORT NO: 09-164**

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**REPORT DATE: June, 2009**

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**BACKGROUND**

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For School Year 2008 – 2009, approximately 534 students were enrolled at Robeson Academy, which has grade levels Preschool through Eighth. Dr. Jeannette Collins is the current Principal and has been serving in this capacity since 2001.

Ms. Latisha Clark, Head Secretary, performs the bookkeeping duties and has done so since 2002. She was the Bookkeeper at Finney High School from 1999 until she started at Robeson.

Robeson Academy maintains two commercial checking accounts; one with Comerica Bank and one with Michigan First Credit Union. Primary sources of General School Funds include student activities and donations (e.g., corporate donations). Sources of District Fund Revenues include Food Services (i.e., lunchroom & summer school).

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**AUDIT OBJECTIVES**

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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.

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**SCOPE & METHODOLOGY**

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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.
- 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.

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**SCOPE & METHODOLOGY (continued)**

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- 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 example, 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.

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**FINANCIAL SUMMARY**

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**Table 1.1: Cash Receipts from General and District School Funds (July 2008 – March 2009)**

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$ 7,410

**Table 1.2: Unauthorized Bank Account – Michigan First Credit Union**

ACCOUNT TYPE	Balance (As of April 30, 2009)
<u>Checking Account Deposits</u>	\$609
<u>Savings Account Deposits</u>	\$141
TOTAL	\$750

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**AUDIT RESULTS IN BRIEF**

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Based on our audit of the Robeson Academy cash management process, we noted the following control weaknesses:

- Non-compliance with District cash management policy:
  - Supporting documentation for expenditures was not maintained
  - Bank reconciliations were not signed by preparer or reviewer
  - Receipt numbers were not referenced in the ledgers
  - Disbursements were not approved by the Principal
- Restricted funds were not identified in a separated activity account
- Unauthorized bank account maintained with no retention of financial records

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

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**AUDIT FINDINGS**

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**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:

- Supporting documentation for expenditures was not maintained
- Bank reconciliations were not signed by preparer or reviewer
- Receipt numbers were not referenced in the ledgers
- Disbursements were not approved by the Principal

**Cause**

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests as required for in the District’s SAFM.

**Effect**

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

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**AUDIT FINDINGS (continued)**

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**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 - School Restricted Funds not Identified as a Separate Activity Account:**

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

Restricted funds deposited into the school checking account were not clearly identified, in the school ledger, as a separate activity account.

**Cause**

Non-compliance with district policy (i.e., SAFM).

**Effect**

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. In addition, the school cannot easily identify uses of restricted funds to prove they were used for their intended purpose(s).

**Recommendation**

The Principal should ensure restricted funds are clearly identified in separate activity accounts, as well as ensure expenditures charged to this activity account are in compliance with intended purposes of the funds.

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.

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**AUDIT FINDINGS (continued)**

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**3. Finding – Unauthorized Bank Account Maintained with No Retention of Financial Records:**

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.”

The audit disclosed the school maintained an account at Michigan First Credit Union. In addition,

- The account was maintained in the name of two school staff members.
- Insufficient documentation was maintained i.e., the following required records were not retained:
  - Bank Statements
  - Bank Reconciliations.
  - Pre-numbered duplicate receipt forms.
  - Cash Receipts/Disbursements Ledgers.
  - Documentation of approval for expenditures.
  - Supporting documentation for expenditures.
  - Bank Deposit Tickets.

**Cause**

Lack of adherence to existing District policies and procedures.

**Effect**

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

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**AUDIT FINDINGS (continued)**

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**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.

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**MANAGEMENT RESPONSE**

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July 13, 2009

Odell W. Bailey  
Auditor General  
Detroit Public Schools

Dear Mr. Bailey,

I am now in receipt of your letter and the draft audit report for Robeson Academy forwarded by Dennis Johnson via our DPS iMail system July 11, 2009. The audit report has been reviewed and I am in concurrence with all of its findings and recommendations. In order to comply with Board Policy and remain in compliance we will complete the following actions as recommended by the auditors:

1. Close the account at Michigan First Credit Union and deposit the balance in the school's checking account at Comerica;
2. All monies collected for school activities will be turned in to the designated bookkeeper at the end of each day to be deposited in the school's checking account at Comerica;
3. All banking reconciliations will be entered on DPS forms provided by the district on the DPS Intranet;
4. All staff responsible for financial transactions will be trained on District Policies for cash management activities as detailed in the "School Administrative Financial Manual, 2006-2007."

I understand it is my fiduciary responsibility to maintain effective control and safeguards over all cash management issues within my school. I am thoroughly committed to following the auditors' recommendations as outlined in the report and have already begun taking actions to address the four steps listed above.

Sincerely,

Dr. Jeannette Collins, Principal

Pc: Derrick Coleman, Regional Superintendent



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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