

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF ROBINSON MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-165

REPORT DATE: June, 2009

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ROBINSON MIDDLE SCHOOL
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BACKGROUND

For the 2008-2009 School Year, approximately 308 students were enrolled at Robinson Middle School, which has grade levels Sixth through Eighth. Ms. Sharon Lee was the Principal during this time period and has been serving in this capacity since 2005.

Ms. Lee and Doris Morris, Clerical III, performed the cash receipts and disbursement related bookkeeping duties. A third-party contractor prepares the general ledger and bank reconciliations.

Robinson Middle School maintains one commercial checking account at Comerica Bank. Primary sources of General School Funds are from student activities, vending machine proceeds, and special project funds (i.e., Exxon Grant, Target and California Milk Process). Sources of District Fund Revenues include Food Services (i.e., lunchroom).

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.
- 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)

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

ACCOUT TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$1,037

AUDIT RESULTS IN BRIEF

Based on our audit of the Robinson Middle School cash management process, we noted control weaknesses related to cash disbursements and bank reconciliations:

- Non-compliance with District cash management policy and/or ineffective practices.
 - Check request forms were not used to document approval of expenditures,
 - A check was signed without indication of the amount prior to distribution,
 - No general ledger was maintained,
- Financial records were not available for review.

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

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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:

- Check request forms were not used to document approval of expenditures.
- A check was signed without indication of the amount prior to distribution.
- No general ledger was maintained.

Cause

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests included 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.

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 – Financial Records Were Not Available for Review:

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

Bank deposit slips and check stubs for the audit period were not available for review.

Cause

The documentation was mistakenly given to a third party contractor, which was hired to prepare the ledgers and bank reconciliations.

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AUDIT FINDINGS (continued)

Effect

School funds are more susceptible to fraudulent transactions when there is insufficient recordkeeping and supporting documentation.

Recommendation

The Principal should ensure that all appropriate records are maintained in compliance with District policy and good business practices.

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MANAGEMENT RESPONSE

**REMUS ROBINSON MIDDLE SCHOOL
RESPONSE TO AUDIT
July 13, 2009**

Management Responses provided by Sharon Lee, Principal:

We appreciate and agree with the audit recommendation and have taken the corrective action necessary to ensure our internal cash management process adheres to the policies outlined in the Manual.

Finding #1-School Administrative Financial Manual Non-Compliance:

1. **The AC-4 form was not used to authorize check requests**—We have corrected this deficiency and make sure all checks have an AC-4 form and written authorization prior to writing.
2. **A check was signed without indication of the amount prior to distribution**—This is not normal procedure. However, at the time we were in need of materials for the fax machine to facilitate completion of work and the PeopleSoft system was unavailable. We needed to go to Staples and make a purchase but were unable to determine what the cost was prior to going to the store. This was an exception and in the future will not be done.
3. **No general ledger was maintained**-We were not familiar with the standards set forth in the SAFM and as a result only did Cash Receipts and Cash Disbursements Journals on a monthly basis. We requested and received a General Ledger for the fiscal year from our third party contractor.

Finding 2: Financial Records not Available for Review

In the month of March we inadvertently enclosed our original bank statement. This is not our normal procedure. In the future, we will make sure this does happen again. The school checkbook is never out of our control. The contractor is given copies of documents—not the original. All of our documents are at the school for the fiscal year 2008-2009.

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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