

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF HENRY FORD HIGH SCHOOL School Year 2008-09

REPORT NO: 09-084

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

BACKGROUND

For School Year 2008 - 2009, 1300 students were enrolled at Henry Ford High School, which has grade levels Nine through Twelve. Ms. Sharon Dennis Collins was the Principal during this time period has been serving in this capacity since July, 2008. Prior to this assignment, she was the principal at Miller.

Ms. Cynthia Cooper, performs the bookkeeping duties and has been doing so for two years. Prior to this assignment, Ms. Cooper performed the bookkeeping duties at Murray Wright High School for 20 years.

Henry Ford High maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, fundraising activities, vending machine revenue, and special project funds (i.e., Fund 11, Title I, 31a, and Target). Sources of District Fund Revenues include Food Services (i.e., lunchroom), summer school and athletic gate receipts.

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.

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

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 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

FINANCIAL SUMMARY

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

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$93,450

AUDIT RESULTS IN BRIEF

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

- Non-compliance with District cash management policy:
 - A General Ledger was not maintained.
 - Pre-numbered duplicate receipt numbers were not referenced in the cash receipts ledger.
 - Supporting documentation did not exist for all expenditures.
 - Various check sequences were used throughout the school year.
 - Sales tax was paid on expenditures.
 - Bank reconciliations were not always prepared and/or forwarded to Central Accounting
- Cash receipts were not properly safeguarded.
- Athletic game receipts were not forwarded to the District.
- Expenditures were not always in compliance with district policy/intended purpose.
- Petty cash funds did not have adequate supporting documentation.

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

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

AUDIT FINDINGS

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

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

The following non-compliance issues were noted:

- A General Ledger was not maintained.
- Pre-numbered duplicate receipt numbers were not referenced in the cash receipts ledger.
- There were instances where disbursements did not have adequate supporting documentation.
- Checks were not always issued sequentially.
- Sales tax paid was paid on some expenditures.
- Bank reconciliations were not prepared for the November 2008 – March 2009 period.
- Bank reconciliations were not submitted to Central Accounting for the July 2008 – March 2009 period.

Cause

Lack of knowledge and adherence to existing District policies (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.

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.

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

AUDIT FINDINGS (continued)

2. Finding –Cash Receipts Were Not Properly Safeguarded

The “School Administrative Financial Manual 2006-07” (SAFM) governs the safeguarding of cash receipts.

Cash was collected by several teachers/sponsors who stored cash in desk drawers and file cabinets throughout the school, as opposed to being submitted timely to the bookkeeper for proper maintenance within the school vault/safe.

Cause

Failure to comply with SAFM and best practices regarding proper safeguarding of assets.

Effect

Failure to safeguard cash until it is deposited poses a significant risk for losses due to theft. In addition, having multiple staff members collecting and handling cash further increases the risk of loss due to theft and diminishes the accountability over cash.

Recommendation

The Principal should take the necessary actions to ensure assets are properly safeguarded by requiring all cash to be forwarded to the bookkeeper for safeguarding and timely deposit.

3. Finding – Athletic Game Receipts Were Not Forwarded to the District:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District including specific procedures for district revenue: “The District uses a blue Revenue deposit ticket. The blue deposit tickets are used for collection of funds from fines, summer school, extended day, athletics and other revenue.” The SAFM also states that “the school acts as the agent, collecting monies for the School District... Funds deposited into this account are:

- a. Lunchroom receipts
- b. Fines
- c. Athletic/league game receipts
- d. Summer school tuition
- e. Evening school tuition...”

Athletic game receipts were not forwarded to the District revenue account. Although it is common practice to deposit athletic game receipts into the school checking account, this is not in compliance with District policy.

Cause

Lack of adherence to District policies.

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

AUDIT FINDINGS (continued)

Effect

Lack of adherence to applicable policies and proper accounting practices could result in the District's inability to fully access and utilize all available funds in an optimum manner. While the District realizes the expense portion of athletic financial transactions through the school's submission of an AC-24 form with its relevant costs, it does not have the benefit of processing the revenue side of the financial transaction.

Recommendation

The Principal should ensure that all financial activity related to athletic gate receipts (i.e., revenue and expenses) are processed in accordance with established policies and procedures.

4. Finding – Expenditures not in Compliance with Policy/Intended Purpose:

The "School Administrative Financial Manual 2006-07" (SAFM) governs the cash management process as well as the budget process.

School funds were used to pay expenditures in expectation of reimbursement from the Parent Involvement budget line item.

Cause

Lack of knowledge and adherence to existing District policies (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, improper use of funds could result in a loss of future grant monies due to non-compliance.

Recommendation

The Principal should ensure that all expenditures related to Parental Involvement are processed through PeopleSoft as part of the budget process.

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

AUDIT FINDINGS (continued)

5. Finding – Petty Cash Fund Maintained Without Appropriate Financial Records:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the maintenance of petty cash funds including required documentation:

The following documentation was not maintained:

- Approval for reimbursements from the fund, and
- Supporting documentation for expenditures from the fund.

Cause

School officials did not comply with District policies. They stated they were aware of the District’s SAFM, however they had limited knowledge of the requirements to use certain forms for cash activities.

Effect

The 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 related to petty cash activity are maintained.

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

MANAGEMENT RESPONSE

Management responses provided by the Dr. Layne Hunt, Principal:

I. Finding - School Administrative Financial Manual Non-Compliance:

General Ledger – We will maintain a general ledger as of July 1, 2009 fiscal year, which will be monitored once a month with the principal or his/her designee during our monthly budget update meetings which will be conducted with the principal and bookkeeper.

The bookkeeper will use pre-numbered receipt books for all incoming cash and the receipt numbers will be reflected in the general ledger.

To ensure adequate documentation the bookkeeper will ensure and maintain copies of all receipts that are submitted for cash/check reimbursement during the monthly meetings. The administrator will monitor the bookkeeper records asking or both a witness summary of the past month financial activities. The principal and bookkeeper will have formal and informal discussions about financial statuses and activities of Henry Ford.

To prevent checks from being out of sequence, new number checks will be ordered from the bank with the beginning number check listed in the ledger; and when the last check is used the number of that check will be listed in the ledger as well.

At no time will sales taxes reimbursed nor paid to any vendor due to our tax exempt status.

The bookkeeper will submit bank reconciliations and statements on a monthly basis. The bookkeeper must also ensure that Henry Ford has adequate supplies and appropriate paperwork to ensure that the monthly reporting is complete.

Bank reconciliations must be completed and submitted by the 15th of each month to central accounting.

II. Finding – Cash Receipts Were Not Properly Safeguarded:

Any staff member collecting monies will be expected to turn such monies in to the bookkeeper before the close of business each day money is received. The staff may use a specific container to maintain their accounts before turning funds into the bookkeeper.

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

MANAGEMENT RESPONSE CONTINUED

III. Finding – Athletic Game Receipts Were Not Forwarded to the District:

Athletic funds will be deposited into the district revenue using the appropriate deposit tickets in a timely manner. The athletic director will be responsible for deposits and receipts for all athletic events.

IV. Finding – Expenditures not in Compliance with Policy/Intended Purpose:

Proper planning and preparation will be practiced by the parent organization to ensure that their expenditures are processed using PeopleSoft.

V. Finding - Petty Cash Fund Maintained Without Appropriate Financial Records:

The Principal will ensure that all appropriate personnel is knowledgeable in practicing the approved procedures for maintaining petty cash as set fourth in the “School Administrative Financial Manual 2006 – 2007 (SAFM).

**DETROIT PUBLIC SCHOOLS
HENRY FORD HIGH SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-084**

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.

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General