

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF OSBORN HIGH SCHOOL School Year 2008-09

REPORT NO: 09-153

REPORT DATE: June 30, 2009

Fisher Building · 3011 West Grand Boulevard · Suite 601A · Detroit, Michigan 48202

Office: (313) 873-7685 · Fax: (313) 873-7028

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BACKGROUND

For School Year 2008 - 2009, 1,300 students were enrolled at Osborn High School, which has grade levels 9th through 12th. Mr. Steven McGhee served as Principal during this period and had been serving in this capacity since August 2008.

Pacemaker Accounting performed the bookkeeping duties during this period and has been doing so since February 2008. Ms. Mays-Love, Assistant Principal, was also involved in Osborn's cash management process. She was responsible for collecting cash receipts.

Osborn High School maintains two commercial checking accounts one with Comerica Bank and one with Chase Bank. Primary sources of General School Funds include vending machines, senior class dues/fees, community donations, and field trips. Sources of District Fund Revenues include Food Services (i.e., lunchroom) and athletic gate receipts.

AUDIT OBJECTIVES

The objectives of the audit were to ensure that the:

- 1) 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 ledgers did not exist, transaction activities were derived by totaling cash receipts 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. Research was performed 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 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.

FINANCIAL SUMMARY

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

CATEGORY	AMOUNT
<u>Chase Bank Checking Deposits</u>	\$ 71,806

CATEGORY	AMOUNT
<u>Comerica Bank Check Account Balance</u>	\$ 97

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:
 - Pre-numbered duplicate receipt forms were not used.
 - Check request forms were not available to document Principal approval of expenditures.
 - Supporting documentation was not available for some expenditures.
 - Bank reconciliations were not signed to indicate the Principal’s review and approval.
 - The fundraising process included improper cash management practices.
- Authorized signers were not current on one bank account.
- Cash receipts were not always properly safeguarded.
- Athletic gate receipts were not forwarded to the District.

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 process.

The following non-compliance issues were noted:

- Pre-numbered duplicate receipt forms were not used.
- Check request forms were not available to document Principal approval of expenditures.
- Supporting documentation was not available for some expenditures.
- Bank reconciliations were not signed to indicate the Principal’s review and approval.
- Athletic related concession supplies and workers were paid from sales proceeds as opposed to requesting check issuance via the completion of the AC-24 form and a properly authorized school check request form.

Cause

Lack of compliance with the 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 – Bank Account Signing Authorities Were Not Current:

The “School Administrative Financial Manual 2006-07” (SAFM) as well as the “Procedures for Authorized Signers on School Checks” (issued by the Finance Division) governs the cash management process including banking and proper signatories.

The audit disclosed that the checking account at Comerica Bank did not include the current Principal as an authorized signer.

AUDIT FINDINGS (continued)

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Cause

Per the Principal, Central Accounting was contacted to have the account closed. However, the account remained open, as of the audit period.

Effect

School funds are not available for use since the principal is not authorized to access funds.

Recommendation

The Principal should send a documented request to Central Accounting to be added as an authorized signer. If a response is not received within one business week, the request should be escalated to senior management within the Finance Division.

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 policy.

Cause

Lack of adherence to District policies.

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 via 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.

AUDIT FINDINGS (continued)

Recommendation

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

4. Finding – Cash Receipts Were Not Always properly Safeguarded:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management process including proper safeguarding of assets.

There were occasions when cash receipts related to senior dues were taken home by the Teacher Sponsor.

Cause

Lack of adherence to District policies and good business practices.

Effect

Funds are susceptible to loss, theft, and/or misappropriation.

Recommendation

The Principal should ensure compliance with the SAFM and proper safeguarding of by requiring all funds to be given to the Bookkeeper to be locked in the school safe/vault.

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MANAGEMENT RESPONSE

Osborn Educational Complex
Corrective Action Plan
In Compliance with the Findings of the Financial Related Audit
Report NO 90-153

Principals
Thomas Parker
Dr. Carmen Wilson
Dr. Dennis Myles
Renard Pitts

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

Action Taken:

All staff is currently being trained on the District Policy for cash management activities
All staff will receive a binder that entails cash management procedures as well as directions on
how to find vital information on the intranet and a phone/email list for vital personnel.

Finding 2 **Finding – Bank Account Signing Authorities Were Not Current:**

The new principals at Osborn will by October 1 send a documented request to Central Accounting to be
added as authorized signers. If that request is not received, principals will follow up with senior
management in the Finance Division.

Finding 3 **Finding – Athletic Game Receipts were not Forwarded to the District:**

Action Taken:

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

Finding 4 **Finding – Cash Receipts Were Not Always properly Safeguarded:**


Action Taken:

Principals have appointed a secretary as bookkeeper. She will be responsible for properly safeguarding
all funds by documenting amounts and locking them in the school vault.

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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