

# **Detroit Public Schools Office of the Auditor General**



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## **CROCKETT & MUMFORD HIGH SCHOOLS**

**REVIEW OF CASH RECEIPTS AND BANK DEPOSITS**

**REPORT NO: 10-017SP**

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**REPORT DATE: December 9, 2010**

## **RESULTS IN BRIEF**

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Our review of accounting records at Crockett and Mumford High Schools respectively, identified several errors that we believe require adjustments including cash balances that were adjusted by non cash transactions, outstanding deposits in-transit that were not recognized in bank reconciliations, differences in amounts between bank balances and cash receipts and adjusted cash ledgers that indicate amounts of \$27,112 and \$8,020, respectively that may have went un-deposited. In addition, unrecorded cash receipts were documented for approximately \$13,866 and \$25,427, respectively, which should be included in the school's accounts. These matters were turned over to the Inspector General for further investigation given the possibility of misappropriation of cash. We believe the investigation should cover the entire Fiscal Year 2009 – 2010.

In addition to concerns about missing funds, we shared our concerns about actions taken by the third-party accounting firm including their adjustments to the cash ledgers without any indication that they, not the bookkeeper made such adjustments. Also, issues related to bank reconciliations that were not properly prepared and the failure on the part of the contractor firm to investigate questionable and unexplained transactions raise concerns about the quality of the work being performed by the firm.

Finally, even in addressing noted concerns about the quality of work performed, we believe the larger concern for the District is not having trained and knowledgeable bookkeepers on site at the school to properly document and account for all cash transactions. The role of the accounting firm is to record these transactions in a monthly bank reconciliation, but if receipts and disbursements are not properly documented or unauthorized purchases are made, at best, the contractor accounting firm can only prepare bank reconciliations based on existing documentation. Our experience from past school audits indicates that missing documentation is one way that questionable and unauthorized purchases are concealed and may be an indication that cash was misappropriated.

## **BACKGROUND**

As part of the annual audit, the District's external auditors questioned why deposits in transits were outstanding for over 30 days, which led to the Department of Cash Management contacting the Office of the Auditor General (OAG) to request a review of cash receipts and bank deposit activity at Crockett and Mumford High Schools for the period March – August 2010. The auditors raised concerns as a result of audit testing of selected outstanding bank deposit transactions from these schools for review. These transactions appeared on the schools' bank reconciliations prepared by an accounting firm contracted by the Finance Department which started providing services to Crockett and Mumford in May 2010. The firm was contracted to perform School Based Accounting work including the compilation of bank reconciliations based on data prepared by the schools Bookkeeper

During the period under review, the bookkeeper was responsible for updating transaction in QuickBooks and preparing bank reconciliations. The firm reconciled all bank accounts from July 2009 through April 2010. A consultant from the firm prepared the bank reconciliations from March through August based on information provided in QuickBooks. Table 1.1 on page 2 illustrates the dates when monthly bank reconciliations for these two schools were completed by the third-party accounting firm.

The audit team completed its field work on December 2, 2010.

**Table 1.1: Monthly Bank Reconciliation Completion Dates**

<b>School</b>	<b>Monthly Bank Reconciliation</b>	<b>Date Prepared</b>
<b>Crocket High School</b>	March and April 2010	June 16th
	May, 2010	June 17th
	June, 2010	July 22nd
	July, 2010	September 15th
	August, 2010	September 30th
<b>Mumford High School</b>	March, April, May 2010	July 19th
	June, 2010	July 26th
	July, 2010	September 15th
	August, 2010	September 29th

**OBJECTIVE, SCOPE & METHODOLOGY**

The objectives of this review were to determine (1) if cash receipts at Crockett and Mumford High Schools were properly recorded and fully accounted for in bank reconciliations that were prepared timely and accurately and (2) if documented transactions in the accounting records of Crockett and Mumford High Schools matched bank deposits. The review covered the accounting records at both schools for the period March 1, 2010 to August 31, 2010.

The Office of the Auditor General (OAG) reviewed the following documents as provided by the District’s Cash Management Division: cash receipts journals; bank statements; bank reconciliations; general cash ledger; sub-ledgers; and trial balances for the two schools in question. The audit team reviewed duplicate receipt forms on site at the schools. These forms support cash receipts entries into the ledger balance. The Cash Management Division provided the OAG with copies of each school’s bank statements, bank reconciliations and cash receipts ledgers for the period under review. Both schools were visited to review the Duplicate Cash Receipt forms.

# **DETAILED REPORT**

## **CROCKETT HIGH SCHOOL**

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### **Bookkeeping Errors and Questionable Accounting Transactions**

Based on our review of the accounting records, we identified the following bookkeeping errors and questionable adjustments to the books and accounting records at Crockett High School. These findings were reviewed with Cash Management and the contractor accounting firm. Those findings that were resolved have been removed from this audit report; however, the following matters represent ongoing concerns:

- Pre-numbered duplicate receipt forms prepared when cash or checks were received exceeded the amount recorded in the cash receipts ledger by \$26,380.24 for March and April. The cash receipts ledger balance exceeded the receipt totals per the pre-numbered duplicate receipt forms by \$13,865.54 for the period May – July 2010.
- The cash receipts ledger was adjusted (increased) for non-cash transaction representing the reversal of stale dated checks and transfers from other school activity accounts totaling \$12,372.82.
- The April 2010 bank reconciliation showed two deposits for \$771.15 and \$633.00 that were still in transit from the previous month's bank reconciliation. In addition, the deposits did not appear on May's bank reconciliation.
- For the period under review, all bank reconciliations reflected no reconciling items; however, the bookkeeping errors and adjustments noted above would have negated these results.
- The bank reconciliations prepared by the contractor accounting firm were not approved by the school's Principal as required by the DPS Policy – they were approved by the firm's management level consultants.

## **MUMFORD HIGH SCHOOL**

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We identified similar bookkeeping errors and questionable accounting transactions at Mumford High School. These findings were also reviewed with Cash Management and contractor accounting firm. Similar to transactions at Crockett High School the following matters have not been addressed.

- The cash receipts ledger balance exceeded receipt totals per the pre-numbered duplicate receipt forms by \$33,447.10. In addition, bank deposits exceeded the aggregate of the Duplicate Receipt Forms by \$25,426.87. This indicates that receipt forms were not provided to the remitter of the funds.
- The April 2010 bank reconciliation showed a deposit in transit of \$400.00 that was also reflected on the March bank reconciliation. The disposition of this deposit is unknown.
- For the period under review, all bank reconciliations reflected no reconciling items; however, the bookkeeping errors and adjustments noted above would have negated these results.
- The bank reconciliations prepared by the contract accountants were not approved by the school's Principal as required by the School Administrative Financial Manual (SAFM). Instead, they were approved by firm's management line consultants.

### **Adjusted Ledgers Indicate Potential for Missing Funds**

Based on the adjusted cash ledger balance of \$92,519.54, it appears that \$27,111.78 in cash receipts at Crockett High School and \$8,020.23 at Mumford High School may have been received but not deposited into the schools' bank account. Our auditors adjusted the cash ledger balance for bank deposits that were not recorded on the ledger and to remove non-cash journal entries that increased the cash ledger balance.

As shown in Table 1.2 below, comparing the adjusted ledger balance amounts to the bank balance found that just over \$27,000 in cash transactions from Crockett High School were not deposited. The bottom row of Table 1.2 illustrates the amount auditors found when comparing existing cash receipts to bank balances, which at a minimum, represents an amount that may have been misappropriated. As such, our findings have been turned over to the Office of the Inspector General for further review and investigation.

**Table 1.2 - Crockett High School Analysis**

	<b>Transactions</b>	<b>Calculations</b>		<b>Balances</b>
<b>A</b>	Cash Receipts Supported by Duplicate Receipt Forms			\$ 78,654.00
<b>B</b>	Receipts Recorded in the Ledger			\$ 91,029.12
<b>C</b>	Bank Deposits per - Bank Statement & Ledger			\$ 65,407.76
<b>D</b>	Auditor Adjusted Ledger Balance			\$ 92,519.54
<b>E</b>	Non-Cash Adjustments to the Ledger Balance			\$ 12,372.82
<b>F</b>	Duplicate Deposits Recorded on the Ledger			\$ 12,517.00
<b>G</b>	Ledger Balance (Less Than) Duplicate Receipt Forms			\$ 26,380.24
	<b>Calculations</b>			
<b>B-C</b>	Un-Deposited Funds – Per Ledger Balance	\$ 91,029.12	\$ 65,407.76	\$ 25,621.36
<b>D-C</b>	Un-Deposited Funds -Per Adjusted Ledger Balance	\$ 92,519.54	\$ 65,407.76	<b>\$ 27,111.78</b>
<b>B-A</b>	Unrecorded Receipts – Per Ledger Balance	\$ 91,029.12	\$ 78,654.00	\$ 12,375.12
<b>D-A</b>	Unrecorded Receipts – Per Adjusted Ledger Balance	\$ 92,519.54	\$ 78,654.00	\$ 13,865.54
<b>A-C</b>	Un-Deposited Receipts – Per the Bank Statement	\$ 78,654.00	\$ 65,407.76	\$ 13,246.24

Using the same approach for Mumford High School, our auditors prepared an adjusted cash ledger balance and compared to funds in the bank for the period in question. As shown in Table 1.3 below, we found that \$8,020 was unaccounted for using the adjusted balance amount. We also compared the cash receipts balance with the balance in the bank and found just over \$25,400 of receipts had not been recorded in the Duplicate Receipt Book. Again, this matter was turned over to the Office of Inspector General for further review and investigation.



**Table 1.3 - Mumford High School Analysis**

	<b>Transactions</b>	<b>Calculations</b>		<b>Total</b>
<b>A</b>	Cash Receipts Supported by Duplicate Receipt Forms			\$ 52,287.31
<b>B</b>	Receipts Recorded in the Ledger			\$ 82,506.45
<b>C</b>	Bank Deposits Per - Bank Statement & Ledger			\$ 77,714.18
<b>D</b>	Auditor Adjusted Ledger Balance			\$ 85,734.41
	<b>Calculations</b>			
<b>B-C</b>	Un-Deposited Funds – Per Ledger Balance	\$ 82,506.45	\$ 77,714.18	\$ 4,792.27
<b>D-C</b>	Un-Deposited Funds - Per Adjusted Ledger Balance	\$ 85,734.41	\$ 77,714.18	<b>\$ 8,020.23</b>
<b>B-A</b>	Unrecorded Receipts Per Ledger Balance	\$ 82,506.45	\$52,287.31	\$ 30,219.14
<b>D-A</b>	Unrecorded Receipts Per Adjusted Ledger Balance	\$ 85,734.41	\$52,287.31	\$ 33,447.10
<b>C-A</b>	Unrecorded Receipts Per Bank Deposits	\$ 77,714.18	\$52,287.31	\$ 25,426.87

**Role of Contract Firm Not Sufficient to Address Cash Management Risks**

In March 2010, the District contracted with a local accounting firm to provide school based accounting services including (1) performing bank reconciliations, (2) creating or updating the check register and cash receipts journals and updating the trial balance for 123 Detroit Public Schools. The firm was also tasked with appraising the training needs at the schools. As noted earlier in this report, our auditors raised concerns about the quality of work performed by this firm.

Notwithstanding these concerns, the role established and performed by the firm is not sufficient to address many of the cash management risks that exist at the schools. Audits conducted by our office of cash management systems in the schools found that unauthorized and questionable purchases are often concealed because no documentation is maintained on such purchases. We also found evidence that monies were received at the schools but not recorded or deposited in the bank as is the case with Crockett and Mumford High Schools.

The findings related to the lack of bank reconciliations and improper preparation of bank reconciliations is being addressed by the contract accounting firm, but the other issues require day to day oversight that can best be provided by a trained bookkeeper on site.

## **CONCLUSION**

Due to the lack of staffing resources at the schools and prior audit findings on the lack of bank reconciliations for school cash accounts, the District contracted with a local accounting firm to ensure that all bank reconciliations were prepared by year-end. The firm did meet the objective of preparing bank reconciliations for the 123 Detroit Public Schools, however, we found some errors in the work and instances where reconciling items were not investigated that raised concerns about the quality of work performed by this firm. For example, the OAG did not see evidence that the accounting firm investigated bookkeeping errors or unusual accounting entries in the books and records at the schools such as outstanding deposits in transits over a 30-60 day period. This should have raised a flag and efforts undertaken to clearly understand the disposition of cash received but not deposited. It appears these balances were written-off, which resulted in bank reconciliations with no reconciling items for several months. We understand that the firm was instructed by the District's Cash Manager to write-off these outstanding amounts at year-end, however, we disagree.

We shared our concerns with Cash Management which is the division that hired the accounting firm and they agreed with and addressed some of the findings, but decided against making adjustments for the findings discussed in this report.

Finally, hiring of a firm to prepare bank reconciliations on a monthly basis was necessary to ensure that the work was completed properly; however, it is a short-term solution and does not mitigate the need for ongoing, school-based oversight of these accounts.

## **RECOMMENDATION**

To address findings related to differences between adjusted cash ledgers, cash receipts and bank balances, we recommend that the:

- Inspector's General's Office perform a detailed investigation based on our preliminary findings for the entire Fiscal Year 2009 – 2010.

## **MATTERS FOR CONSIDERATION**

The accounting firm's contract with the District was renewed through July 2011 to perform bookkeeping services for all elementary, middle and high Schools. While this function is very critical to ensuring that all schools bank reconciliations are completed by the end of the fiscal year, it does not replace the benefits of having full-time bookkeepers and accounts on staff at schools with significant levels of transactions and revenues.

As such, the Chief Financial Officer for the District may wish to consider:

- Performing a cost benefit analysis of having this firm perform school-based accounting services rather than using trained DPS employees to perform these duties, and to the extent resources are not available to do so,
- Implementing compensating internal controls at the schools until such time trained bookkeepers can be dispatched to the schools to provide day to day oversight of cash receipts and disbursements.

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## **MANAGEMENT RESPONSE**

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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.

A handwritten signature in blue ink, appearing to read 'O. Bailey', with a large, stylized flourish at the end.

Odell W. Bailey, CIA  
Auditor General