

Detroit Public Schools
Office of Auditor General



FINANCIAL RELATED AUDIT
OF
ANN ARBOR TRAIL MAGNET
MIDDLE SCHOOL
School Year 2008-09

REPORT NO: 09-002

REPORT DATE: June 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 454 students were enrolled at Ann Arbor Trail Magnet Middle School, which has grade levels Kindergarten through Eighth. Ms. Deborah Ferguson was the Principal during this time period and has been serving in this capacity since 2003.

Ms. Kathlyn Kendrick, Secretary, performs the bookkeeping duties and has done so for eight years.

Ann Arbor Trail Magnet Middle maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraising activities and special project funds (i.e., Skillman Grant). 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.
- 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.

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SCOPE & METHODOLOGY (continued)

- 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 and District School Funds (July 2008 – March2009):**

| ACCOUNT TYPE | AMOUNT |
|-------------------------------------|----------|
| <u>Commercial Checking Deposits</u> | \$46,837 |

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy:

- Checks were issued with only the signature of the Principal
- No formal check request forms were used to authorize check disbursements
- Bank reconciliations were not signed and dated by the Preparer or the Reviewer

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

It should be noted that Ann Arbor Trail Magnet Middle is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Aspiring School. This indicates that they have met criteria such as: (1) Improved MEAP scores with a 5% increase over the prior year; (2) Have an average performance in English, math and Science; and (3) Sufficient parental and community partnerships, etc.

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:

- Checks were issued with only the signature of the Principal
- No formal check request forms were used to authorize check disbursements
- Bank reconciliations were not signed and dated by the Preparer or the Reviewer

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AUDIT FINDINGS (continued)

Cause

School officials stated they were not aware of the District's SAFM and therefore was not aware of the requirement to use certain forms for cash receipts and check requests.

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, 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.

MANAGEMENT RESPONSE

Ann Arbor Trail Magnet PreK-8 School
7635 Chatham
Detroit, MI 48239
313-274-8560

June 26, 2009

Odell W. Bailey, CIA
Auditor General
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Mr. Bailey:

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MANAGEMENT RESPONNS (continued)

On Thursday, June 25, 2009 I received a copy of my audit report from your office. This report covered the assessment results provided by an independent audit agency. According to the report the following were areas of concern:

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy:

- **Checks were issued with only the signature of the Principal**
- **The AC-4 form was not used**
- **Bank reconciliations were not signed and dated by the Preparer or the Reviewer**

It is our goal to comply with all of the policies and procedures set forth by the district. To that avail the following steps are now in place to assure that further violations of this nature will no longer occur:

- **All Checks will by endorsed by two approved signers**
- **Requisition for Reimbursement/Distribution of Funds Form**
- **Principal and Preparers signature on all bank reconciliations sheets.**

I was able to acquire a copy of the district's "School Administrative Financial Manual 2006-07," and provided Ms. Kathlyn Kendrick the school secretary and myself with a copy. Unfortunately, I was informed by Ms. Shirley Crumpler that the district no longer uses AC-4 form, therefore I created a form to replace the no longer used document (please see attached). All bank reconciliations will be reviewed by me and Ms. Kendrick whereby we will sign and submit to the proper department and personnel.

Sincerely,

Deborah J. Ferguson
Principal

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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 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General