

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
BATES ACADEMY
School Year 2008-09

REPORT NO: 09-007

RELEASE DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

BACKGROUND

For the 2008-2009 school year, approximately 850 students enrolled at Bates Academy, which has grade levels Kindergarten through eighth. Ms. Jennifer Spencer was the Principal during this time period and has been serving in that capacity since August 2008.

Ms. Betty Owens, Clerical III, performed bookkeeping duties and has done so since 1998.

Bates Academy maintains one commercial checking account at Comerica Bank. Primary sources of General School Funds are from student activities, fundraisers, vending machines and special project funds (Skillman). 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.

**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

SCOPE & METHODOLOGY (continued)

- 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.
- 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>	\$137,880

AUDIT RESULTS IN BRIEF

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

- Non-compliance with District cash management policy and/or ineffective practices.
 - Per-numbered duplicate receipt numbers not recorded on the ledger.
 - Pre-numbered duplicate receipts were not issued in sequential order.
 - Multiple receipt books were used during the period.
 - Disbursements were not approved by the Principal.
 - Supporting documentation for expenditures was not maintained.

**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

AUDIT RESULTS IN BRIEF (continued)

- Inaccurate/incomplete deposit slips documentation.
- Petty cash fund maintained improperly.

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

Achievement

Bates Academy was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an High Performing School. This indicates that they met criteria such as: (1) Excel at state exams, Students either meet or exceed grade level expectations in English, math and science; (2) Offer challenging curricula to all students; (3) Set an expectation that all children will learn and achieve.

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:

- Per-numbered duplicate receipt numbers not recorded on the ledger.
- Pre-numbered duplicate receipts were not issued in sequential order.
- Multiple receipt books were used during the period.
- Disbursements were not approved by the Principal.
- Supporting documentation for expenditures was not 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 related to cash receipts and disbursements results in non-standardize procedures that can vary with each school, which can result in processing inefficiencies. In addition, failure to request and approve cash disbursements can result in inappropriate or unauthorized purchases.

**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

AUDIT FINDINGS (continued)

Recommendation

The Principal should ensure that all staff participating in financial transactions is familiar with and 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 – Inaccurate/Incomplete Deposit Slip Documentation:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the banking process:

The total of pre-numbered duplicate receipt forms, since the last deposit, did not always agree with the amounts recorded on deposit tickets.

Cause

School officials did not comply with District policies and best practices.

Effect

Incomplete and /or inaccurate records impact the ability to determine whether all receipts collected were deposited into the bank account.

Recommendation

The Principal should require all cash receipt numbers and amounts to be accurately noted on deposit slips in order to ensure that all funds received by the school are deposited into the school account.

3. Finding – Petty Cash Fund Improperly Maintained:

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

The school maintains a petty cash fund that is predominately used to give students lunch money. The school does not maintain sufficient records related to the petty cash fund as follows:

- Approval for reimbursements from the fund, or
- A ledger of disbursements and replenishments.

**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

AUDIT FINDINGS (continued)

Cause

School officials stated that they were aware of the District's SAFM, however they only have some, and limited knowledge of the requirements to use certain forms for cash activities.

Effect

The school funds are more susceptible to fraudulent transactions when inadequate recordkeeping and unrelated receipts are maintained as supporting documentation for the fund.

Recommendation

The Principal should ensure that all appropriate records related to petty cash activity are maintained.

**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

MANAGEMENT RESPONSE

Management Responses provided by Jennifer Spencer, Principal:

The proper procedure on receiving, recording and verifying cash collected at the school has been implemented.

In regard to the receipt books, the after school program has a separate receipt book and a different person collecting the funds with cash collected by the armored trucks.

We have corrected the two incidences where there was only one person on the check to sign for goods and services.

In conclusion, it was great to have the audit, to ensure the proper systems are in place for the future.

**DETROIT PUBLIC SCHOOLS
BATES ACADEMY
FINANCIAL RELATED AUDIT
REPORT NO. 09-007**

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', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General