

Detroit Public Schools
Office of the Auditor General



**FINANCIAL RELATED AUDIT
OF
BOYKIN CONTINUING EDUCATION
CENTER**

School Year 2008-09

REPORT NO: 09-015

REPORT DATE: June, 2009

**DETROIT PUBLIC SCHOOLS
BOYKIN CONTINUING EDUCATION CENTER
FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, approximately 100 students were enrolled at Boykin Continuing Education Center, which has grade levels Seventh through Twelfth. Ms. Karen Durant was the Principal during this time period and has been serving in this capacity for four years. Ms. Durant also performs the bookkeeping duties for the school.

Boykin Continuing Education Center Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include fundraisers, vending machine revenue 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.

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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 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 and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$17,094

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 copy cash receipt books were not used.
 - Cash was not verified at the time of receipt.
 - Check request forms were not used to request check issuance.
 - Deposits were not consistently made in a timely manner.
 - Financial data was not recorded timely and financial ledgers were maintained offsite.
 - Cash receipt and cash disbursement ledgers were not forwarded to the Office of Central Accounting.
 - All bank reconciliations were not prepared.
- Lack of segregation of duties since the Principal performed all the responsibilities of bookkeeping.

The detail of this finding and recommendation is included in the Findings Section of this report.

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AUDIT RESULTS IN BRIEF (continued)

Achievement:

It should be noted that Boykin Continuing Education Center 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:

- Pre-numbered duplicate copy cash receipts were not issued when cash/ checks were received.
- Cash was not verified at the time of receipt.
- Check request forms were not used to request check issuance.
- Deposits were not consistently made in a timely manner, rather deposits were every two – three months.
- Financial data was not recorded timely i.e., once a month. In addition, financial data was stored/ maintained on the Principal’s home computer.
- Cash receipt and cash disbursement ledgers were not forwarded to the Office of Central Accounting.
- Bank reconciliations were not completed for July 2008 through September 2008

Cause

Lack of 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.

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AUDIT FINDINGS (continued)

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.”

2. Finding – Lack of Segregation of Duties:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function including proper separation of duties.

We noted the Principal performed the bookkeeping duties of receiving funds, maintaining cash receipts and disbursement ledgers, preparing funds for deposit, authorizing expenditures, writing checks and reconciling the bank account, resulting in an adequate segregation of duties.

Cause

Lack of adherence to District policy requiring a separation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

Effect

The school account was more susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by another staff member.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Regional Superintendent

DATE: July 23, 2009

SUBJECT: Boykin Continuing Education Financial Related Audit

This communication is written as a response to the audit findings on Boykin Continuing Education Center. The audit findings suggested there were control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. In addition, there was non-compliance with District cash management policy and/or ineffective practices. Cash was not verified at the time of receipt. Pre-numbered duplicate cash receipts were not used. AC-4 forms, nor any other documents were used to request and obtain authorization for check issuance. Deposits were not made in a timely manner, rather done every 3-4 months. Financial data was not recorded timely and financial data was stored on the home computer of the principal. Cash receipt and cash disbursement ledgers were not forwarded to the office of Central Accounting. Also, bank reconciliations were not completed for July 2008 through September 2008.

Boykin 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 improved standardized test scores, have an average performance in core areas, and sufficient parental and community partnerships.

Recommendations:

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. As a result of the aforementioned accounting practices, the school account was more susceptible to inaccuracies and/or misappropriation of funds. Principal Karen Durant must segregate cash management duties and ensure that financial transactions are being performed by another staff member. Principal Durant should authorize and monitor cash management functions including a review of monthly back reconciliations and provide evidence by signing and dating applicable financial records. The principal must 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 2006-2007. Principal Alexander shall 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.

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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