

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF CLEVELAND MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-036

REPORT DATE: June 30, 2009

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BACKGROUND

For the School Year 2008 – 2009, 708 students enrolled at Cleveland Middle School, which has grade levels seven through twelve. Ms. Donna Thornton was Principal during this time period and has been serving in this capacity for four years. The bookkeeping duties have been performed since July 1, 2007 by Mrs. Lillian Rush, Clerical IV. The bank reconciliation function was not being performed at the school until April of 2009 when the district assigned Ms. Deanna Thomas to assist in the process.

Cleveland Middle School maintains a commercial checking account with Chase Bank. At the beginning of the school year, they also maintained a commercial checking account at National City that was closed in February 2009. Primary sources of General School Funds include student activities, vending machines, senior dues, prom fees and donations. 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 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 Activity for Cleveland Intermediate School:

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$16,207

AUDIT RESULTS IN BRIEF

Based on our audit of Cleveland Intermediate School’s cash management process, we noted the following control weaknesses:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipt forms were not issued.
 - Bank reconciliations were not prepared.
 - Bank reconciliations were not signed by the preparer and /or reviewer
 - Check request were not signed by the employee requesting the check
 - Disbursements were not approved by the Principal or Assistant Principal
- Unauthorized bank account maintained with no retention of financial records

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 following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM):

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipt forms were not issued.
 - Bank reconciliations were not prepared.
 - Bank reconciliations were not signed by the preparer and /or reviewer
 - Check request were not signed by the employee requesting the check
 - Disbursements were not approved by the Principal or Assistant Principal

Cause

School officials stated that they were unaware of the requirements to use certain forms included in the District’s 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.

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AUDIT FINDINGS (continued)

2. Finding – Unauthorized Bank Account Maintained with No Retention of Financial Records:

The Finance Division issued a “Procedures for Authorized Signers on School Checks” detailing the authorized financial institutions to maintain school bank accounts and the need to close unauthorized accounts, as indicated below:

“**Note:** All school checking accounts must be at either Comerica Bank or JPMorgan Chase Bank. If the school account is at another financial institution, please contact the Office of Accounting to make the necessary changes.”

The audit disclosed the school maintained an account at National city Bank.

- Insufficient documentation was maintained i.e., the following required records were not available for review during the time of the audit:
 - Bank Statements
 - Bank Reconciliations.

Cause

Lack of adherence to District policies and procedures.

Effect

There is no assurance of accountability over the funds deposited into the account, making school funds more susceptible to inappropriate and/or misappropriation. The account was closed February 2009.

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.” In addition, 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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MANAGEMENT RESPONSE

Management responses provided by Mr. Derrick Coleman, Regional Superintendent:

1. **Corrective Action Plan**

All staff responsible for financial transactions will attend mandatory training on District policy for cash management activities, as detailed in the "School Administrative Financial Manual 2006-07."

All individuals involved in the cash management process will be made 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.

All staff with responsibilities associated with cash management, clerical, Title I & 31a compliance and administration will be mandated to train on District policies on the intranet.

All staff will be mandated to have quarterly meetings with the principal to ensure that accurate financial accountability has been maintained.

2. **Corrective Action Plan**

Sufficient documentation will be maintained for all bank statements and reconciliation forms by all responsible parties for every account.

Records will always be readily accessible and made available for auditing purposes.

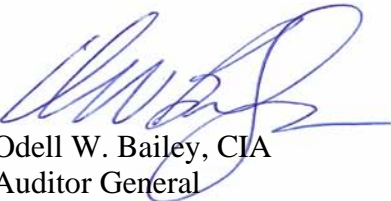
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Our audit was performed in accordance with U.S. General Accounting Office Government Auditing Standards and Standards of the Institute of Internal Auditors.

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