

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF CROCKETT HIGH SCHOOL School Year 2008-09

REPORT NO: 09-051

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 - 2009, 852 students were enrolled at Crockett High School which has grade levels Ninth through Twelfth. Ms. Brenda Belcher served as Principal during this period and had been doing so since 2005. Ms. Deborah Hurst will serve as Principal for the 2009-2010 School Year.

Ms. Vania Moore, Clerical III, performs the bookkeeping duties and has been doing so since February 2009. For the balance of the school year, the bookkeeping duties were performed by: Ms. Kayla Franklin, from August 2008 through March 2009 and Mr. Gary Moore, in August 2008.

Crockett High School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include program fees (cosmetology and nursing), small class project fundraisers, district grants and added cost funds. Sources of District Fund Revenues include Food Services (i.e., lunchroom), and athletic gate receipts

AUDIT OBJECTIVES

The objectives of the audit were to ensure that the:

- 1) 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 ledgers did not exist, transaction activities were derived by totaling cash receipts 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. Research was performed 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

FINANCIAL SUMMARY

Table 1.1 **Cash Receipts from General School and District Funds (July 2008 – March 2009)**

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$46,060

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:
 - Checks were written to “Cash.”
 - Pre-numbered duplicate receipt forms (AC-1 forms) were not issued at the time cash was received.
 - Pre-numbered duplicate receipt forms (AC-1 forms) were not issued in sequential order.
 - Funds received were not recorded in the General Ledger.
- Petty cash fund was maintained without appropriate financial records.
- Athletic receipts and fines collected were not deposited into the District’s Revenue Account.

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 “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management process.

The following non-compliance issues were noted:

- Pre-numbered duplicate receipt forms (AC-1 forms) were not issued at the time cash was received.
- Pre-numbered duplicate receipt forms (AC-1 forms) were not issued in sequential order.
- Funds received were not recorded in the General Ledger.

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.

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.

2. Finding – Petty Cash Fund Maintained without Appropriate Financial Records:

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

The following documentation was not maintained:

- Approval for reimbursements from the fund, and
- Supporting documentation for expenditures from the fund.

Cause

School officials did not comply with District policies regarding proper retention of documentation. In addition, checks were written to cash to replenish the petty cash fund, which is a violation of the district policy.

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AUDIT FINDINGS (continued)

Effect

The school funds are more susceptible to fraudulent transactions when there is insufficient recordkeeping and supporting documentation.

Recommendation

The Principal should ensure that all appropriate records related to petty cash activity are maintained in compliance with District policy.

3. Finding – Athletic Game Receipts and Fines Were Not Forwarded to the District:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District including specific procedures for district revenue: “The District uses a blue Revenue deposit ticket. The blue deposit tickets are used for collection of funds from fines, summer school, extended day, athletics and other revenue.” The SAFM also states that “the school acts as the agent, collecting monies for the School District... Funds deposited into this account are:

- a. Lunchroom receipts
- b. Fines
- c. Athletic/league game receipts
- d. Summer school tuition
- e. Evening school tuition...”

Athletic game receipts and fines were not forwarded to the District revenue account. Although it is common practice to deposit athletic game receipts into the school checking account, this is not in compliance with policy.

Cause

Lack of adherence to District policies.

Effect

Lack of adherence to applicable policies and proper accounting practices could result in the District’s inability to fully access and utilize all available funds in an optimum manner. While the District realizes the expense portion of athletic financial transactions via the school’s submission of an AC-24 form with its relevant costs, it does not have the benefit of processing the revenue side of the financial transaction.

Recommendation

The Principal should ensure that all financial activity related to gate receipts (i.e., revenue and expenses) are processed in accordance with established policies and procedures.

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MANAGEMENT RESPONSE

Management responses provided by Ms. Deborah Hurst, Principal (new principal).

After conversation with Brenda Belcher, who was principal at Crockett High School for the 2008-2009 school year, I concur with the results of the audit. I believe strongly that the identification of a school bookkeeper who is properly trained in accounting skills as well as District financial policies and procedures is the best method to create a financial environment that follows the policies and procedures of the District and promotes “clean” and accurate financial practices.

Regarding Finding #1 – School Administrative Financial Manual Non-Compliance

To correct the non-compliance issues the corrective actions will include:

- *Print the School Administrative Financial Manual and make sure it is available for anyone assigned to maintain financial records.*
- *Make sure that anyone assigned to financial responsibilities is properly trained.*
- *Identify a bookkeeper as soon as possible to insure consistency in all financial processes.*
- *Make sure that AC-1 forms are used in sequential order for both receipts and cash deposits*
- *Make sure that all funds are recorded in the general ledger.*

Regarding Finding #2 – Petty Cash Fund Maintained without Appropriate Financial Records

To correct issues related to the Petty Cash Fund, corrective actions will include:

- *Print the School Administrative Financial Manual and make sure it is available for anyone assigned to maintain financial records.*
- *Make sure that anyone assigned to financial responsibilities is properly trained.*
- *Identify a bookkeeper as soon as possible to insure consistency in all financial processes.*
- *Maintain all petty cash activities in compliance with District policy.*

Regarding Finding #3 – Athletic Game Receipts and Fines Were Not Forwarded to the District

To correct issues related to Athletic Game Receipts and Fines, corrective actions will include:

- *Print the School Administrative Financial Manual and make sure it is available for anyone assigned to maintain financial records.*
- *Make sure that anyone assigned to financial responsibilities is properly trained.*
- *Identify a bookkeeper as soon as possible to insure consistency in all financial processes.*
- *Seek clarification of policies related to athletic game receipts – conversation with Health and PE Department has reiterated that schools are to keep athletic receipts to offset the costs related to maintaining an athletic program.*
- *Once we have clarity, the policy will be followed by everyone involved with athletic funds.*
- *Book fines and lost book fees will be forwarded to the District per policy.*
- *All receipts will be processed in accordance with established policies and procedures.*

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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