

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF DETROIT TRANSITION CENTER EAST

School Year 2008-09

REPORT NO: 09-063

REPORT DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
DETROIT TRANSITION CENTER - EAST
FINANCIAL AUDIT
REPORT NO. 09-063**

BACKGROUND

For School Year 2008 - 2009, 247 students were enrolled at Detroit Transition Center - East which is a Special Education Center for young adults ages 20 thru 26 teaching them vocational skills. Ms. Julia Purkett is the current Principal and has been serving in that capacity since 2005.

Ms. Diane Shepherd, Curriculum Coordinator and Cannon Accounting Service, a third party accountant perform the bookkeeping duties and have done so since 2007. Ms. Sheppard collects cash receipts and writes checks. Cannon Accounting Service prepares the monthly transaction ledgers and completes the monthly bank reconciliation.

Detroit Transition Center East maintains one commercial checking account with Chase Bank. Primary sources of General School Funds include school fundraisers, senior class dues, school retail store, copy center sales, food service sales and the auto shop (engines, repairs and body work). There are no District Fund Revenues collected at this school.

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 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)

CATEGORY	AMOUNT
<u>Commercial Checking Deposits</u>	\$ 11,010

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 receipts were not used to document cash receipts.
 - Check request forms were not used and/or signed to document the Principal's approval of expenditures.
 - Cash receipts were not deposited in a timely manner.
 - Bank reconciliations were not signed by the Principal to indicate review and approval.
- Loans were given to employees from School funds
- Disbursements were made from cash receipts awaiting deposit.
- Principal authorized the Bookkeeper to sign her signature on a check.

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 receipts were not used to document cash receipts.
- Check request forms were not used and/or signed to document the Principal's approval of expenditures.
- Cash receipts were not deposited in a timely manner.
- Bank reconciliations were not signed by the Principal to indicate review and approval.

Cause

School officials stated they were unaware of the District's SAFM and therefore were not aware of certain forms and requirements for cash receipt activity.

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.

2. Finding - Loans were given to employees from School funds."

Loans totaling \$362 were given to employees from school funds. One loan, for \$200, was issued with school check number 11138 on November 20, 2008. At the time of the audit, \$150 of this amount remained outstanding. The other loan, of \$162, was in cash. Although the Principal indicated payments have been made, they could not be traced to specific deposits into the school account.

Cause

Lack of Compliance with the SAFM and good business practices.

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AUDIT FINDINGS (continued)

Effect

Using school funds for an unallowable purpose is a violation of policy which reduced the amount of funding available for authorized school activities and could result in a loss of funds if loans are not fully repaid.

Recommendation

The Principal should take immediate actions to collect any outstanding loan due to the School and ensure that School Funds are not used as a source of loans going forward. This matter will be forwarded to the Inspector General's Office to ensure monies are fully collected.

3. Finding – Disbursements were made from cash receipts awaiting deposit.

Funds collected were held at the school until at least \$100 is available for deposit. In the interim, expenditures were made from funds awaiting deposit.

Cause

Lack of Compliance with the SAFM and good business practices.

Effect

Paying expenses with cash receipts is an unacceptable practice that circumvents the controls in place to ensure documentation exists for disbursements. This practice can result in a loss of funds and/or accountability over School funds.

Recommendation

The Principal should ensure School Funds are initially deposited into the school account where checks can be written for authorized disbursements.

4. Finding –Principal authorized the Bookkeeper to sign her signature on a check.

A check was issued on which the Bookkeeper was authorized to sign the Principal's signature.

Cause

The Principal was not available to sign the check.

Effect

Authorizations of employees to sign the Principal's signature on checks make school funds more susceptible to loss, theft and misappropriation.

Recommendation

The Principal should ensure proper authorization of expenditures by restricting others from signing checks for her in her absence.

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MANAGEMENT RESPONSE

Finding 1 Response: A pre-numbered receipt book will be purchased to properly document all cash receipts going forward.

Finding 2 Response: District specified forms will be utilized and will require principal's signature to document principal's approval of expenditures going forward.

Finding 3 Response: All cash receipts will be deposited daily.

Finding 4 Response: The principal will sign and review bank reconciliations to indicate approval.

Finding 5 Response: The school's fund will not be used to give staff loans.

Finding 6 Response: No cash will be distributed from cash receipts, checks will be written for all disbursements as per the SAFM guidelines.

Finding 7 Response: The principal will not authorize the Bookkeeper to sign her signature on school checks.

Signed: Julia Purkett, Principal

Date: August 12, 2009.

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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