

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
GARVEY ACADEMY
School Year 2008-09

REPORT NO: 09-087

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 262 students were enrolled at Garvey Academy, which has grade levels Pre-Kindergarten through Eighth. Mr. James Hearn was the Principal during this time period and has been serving in this capacity since July 2005.

Mr. Judith Bale, Secretary, performs the bookkeeping duties and has been doing so since 1991.

Garvey Academy maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities, and special project funds (i.e., Skillman, Title I & Media). Sources of District Fund Revenues include Food Services (i.e., lunchroom) and basketball games.

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>	\$279,880

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy:

- Bank reconciliations were not signed by the Preparer, providing accountability for preparation.
- Bank reconciliations were not reviewed by the Principal.

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

Achievement

Garvey Academy is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Improving School. This indicates that they have met criteria such as: (1) Overall improvements over the last two years; (2) Improved MEAP scores with a 10% increase in two subject areas; and (3) Sufficient parental and community partnerships, etc.

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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 function within the District.

The following non-compliance issues were noted:

- Bank reconciliations were not signed by the Preparer, providing accountability and evidencing timely preparation.
- Bank reconciliations were not reviewed by the Principal.

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. Also, given the amount of funds in this account, the importance of supervisory review of bank reconciliations is heightened.

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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MANAGEMENT RESPONSE

July 24, 2009

This letter is in response to the audit findings that was performed in May 2009 for Marcus Garvey Academy. Upon reading the results of the audit finding I am in agreement with the finding, **“Monthly bank reconciliation statements from Comerica bank were not signed by the principal.”** The absence of signatures on the bank statements was not an intention act, but a lack of understanding that as a part of maintaining good budgetary oversight practices, the building principal should sign the monthly bank reconciliation statements to confirm that he / she acknowledges all banking activities, transactions, and balances for that particular month. This standard audit practice will now be implemented effective immediately and adopted as a part of Garvey Academy’s sound budgetary practices. Thank you for given me the opportunity to response to the audit findings.

Educationally Yours,

James A. Hearn, Principal

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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