

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF GOLIGHTLY CAREER & TECHNICAL CENTER School Year 2008-09

REPORT NO: 09-089

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 1000 students were enrolled at Golightly Career & Technical Center, which has eleventh and twelfth grade levels. Ms. Laura Royster was the Principal and has been serving in this capacity since 2001. The bookkeeping duties have been performed by Mr. Dwayne Berry, since 2002.

Golightly Career & Technical Center maintains a savings account at Comerica used a reserve for funds received from Golightly Career Technical Center’s advisory boards (business professionals partnered with the school in a program advisory capacity). A commercial checking account is maintained at Comerica Bank. Primary sources of General School Funds include revenue generated by the customer service programs within the school and operated by the students and managed by the Program Directors.

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 Receipts from General and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$31,434

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 receipt forms were not prepared and distributed,
 - Bank deposit slips were not in agreement with supporting documentation
 - Bank deposits were hand delivered by the bookkeeper,
 - Bank reconciliations were not signed and dated by preparer or reviewer.
- Sales register tapes were not generated for revenue producing activities.
- Petty cash fund maintained without appropriate 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 “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 receipt forms were not prepared and distributed – Several different customer service activities that generate revenue reported instances where cash receipts were given to the bookkeeper and a pre-numbered duplicate receipt form was not provided as evidence of monies received.
- There were a number of instances where the pre-numbered duplicate receipts agreed to the Daily Cash Count Form but did not agree to the Bank Deposit Slip or the Bank recorded deposit.
- Bank deposits were hand delivered by the bookkeeper, even though the school utilized the services of an armored car service.
- Bank reconciliations were not signed and dated by preparer or reviewer.

Cause

Although School officials stated that they were unaware of the Districts SAFM requirements, it appears that the requirements were not adhered to by school administrators.

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 - Sales register tapes were not generated for revenue producing activities:

The primary source of general school funds include revenue generated by the customer service programs within the school, including: *CG's Restaurant; That Special Place Boutique; Computech and the Glass House*. Each activity starts with a beginning cash balance of \$30.00 to \$100.00. A register tape of all sales is not generated, to assist with reconciling the amount of cash that should be on hand at the end of the day.

Cause

Sales were not recorded using pre-numbered duplicate cash receipt forms or alternatively the generation of the Sales Register Tape to determine the gross sales amounts..

Effect

There is no assurance that all monies are accounted for which the risk of misappropriation of funds is significantly increased.

Recommendation

The Principal should ensure that sales register tapes are generated on a daily basis. The total of per the sales register tape should then be reconciled to the amount of cash and checks on hand to ensure that all monies earned and received are properly accounted for.

3. 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 school has four petty cash accounts opened in the general ledger: (1) Petty Cash Main Office; (2) Teachers and Staff; (3) Hospitality; Food Service; and (4) Engineering.

Currently, Petty Cash Main Office is the only active account. The account maintains a balance of \$150.00 and is used for miscellaneous purchases of less than \$30.00. A cash count of the Petty Cash drawer found \$1.72 in the drawer, \$11.09 in documented receipts and \$138.91 was unaccounted. In addition, records related to petty cash funds were insufficient. Specifically,

The following documentation was not maintained:

- Approval for reimbursements from the fund.
- Ledger of disbursements and replenishments.
- Supporting documentation for expenditures from the fund.

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AUDIT FINDINGS (continued)

Cause

School officials stated that they were unaware of the District's SAFM and the petty cash policy requirements

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 and good business practices.

Auditor's Note: Given the sensitive and significant nature of the lack of controls over cash receipts, the Office of the Auditor General reported the details of these findings to the Inspector General's Office for additional review and investigation.

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MANAGEMENT RESPONSE

Management response provided by Mrs. Betty L. Edwards, Principal:

1. Corrective Measures for School Administrative Financial Manual Non-Compliance:

- ✓ Pre-numbered Duplicate Receipt Forms will be prepared and distributed for all customer service activities that generate revenue.
- ✓ Pre-numbered Duplicate Receipt Forms will also be used to ensure that Daily Cash Count Forms, Bank Deposit Slips, and Bank Recorded Deposits all coincide.
- ✓ All bank deposits will be picked up by the school's armored car service.
- ✓ All bank reconciliations will be signed and dated by the preparer or reviewer.
- ✓ I, Mrs. Betty Edwards, Principal, will 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" or most current manual.
- ✓ I, Mrs. Betty Edwards, Principal, will 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 account process.

2. Corrective Measures for Sales Register Tapes being generated for Revenue Producing Activities:

- ✓ Sales Register Tapes or Pre-numbered Duplicate Cash Receipt Forms will be used to determine the gross sales amounts and to reconcile the amount of cash that should be on hand at the end of the business day for all customer service programs.

3. Corrective Measures for Petty Cash Fund Maintained without Appropriate Financial Records:

- ✓ Due to the sensitive and significant nature of the lack of control over cash receipts, petty cash accounts will not be active during the 2009/10 school year.

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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