

**Detroit Public Schools**  
**Office of the Auditor General**



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**FINANCIAL RELATED AUDIT**  
**OF**  
**ERMA HENDERSON UPPER SCHOOL**  
**School Year 2008-09**

**REPORT NO: 09-103**

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**REPORT DATE: June, 2009**

**DETROIT PUBLIC SCHOOLS  
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**BACKGROUND**

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For the 2008-2009 school year, approximately 545 students were enrolled at Erma Henderson Upper School, which has grade levels fifth through eighth. Mr. George Goff was the Interim Principal during this time period and has been serving in this capacity since January 2009. Ms. Karyne Johnson, who retired from the District, was the Principal at the beginning of the audit period.

Ms. Beatrice Hill, Office Manager, performs the bookkeeping duties and has done so since 2004.

Erma Henderson Upper School maintains one commercial checking account at Comerica Bank. Primary sources of General School Funds are from student activities. Sources of District Fund Revenues include Food Services (i.e., lunchroom).

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**AUDIT OBJECTIVES**

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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.

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**SCOPE & METHODOLOGY**

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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)**

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- 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.

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**FINANCIAL SUMMARY**

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

ACCOU TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$1,326

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**AUDIT RESULTS IN BRIEF**

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Based on our audit of the Erma Henderson Upper School cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy and/or ineffective practices.
  - Disbursements not approved by the Principal.
  - Checks not signed by two authorized signers.
  - Checks were written out of sequence.
  - Bank reconciliations not prepared.
  - No ledger maintained.

The detail of these findings and recommendations are included in the Findings Section of this report.

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**AUDIT FINDINGS**

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**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:

- AC-4 forms were not approved by the Principal.
- Checks not signed by two authorized signers.
- Checks were written out of sequence.
- Bank reconciliations not prepared.
- No ledger maintained.

**Cause**

Lack of adherence to District policies. School officials stated that they were unaware of the District’s SAFM and therefore was not aware of specific requirements.

**Effect**

Non-compliance with 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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**MANAGEMENT RESPONSE**

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*MEMORANDUM*

**TO:** Mr. Odell Bailey, General Auditor

**FROM:** Derrick R. Coleman, Assistant Superintendent

**DATE:** June 29, 2009

**SUBJECT:** Henderson Upper School Financial Related Audit

This communication is written as a response to the audit findings on Henderson Upper School. Principal Karen Brantley-Johnson retired on January 1, 2009 and Assistant Principal George Goff, floater administrator, was available placed there until a replacement principal was identified. Ms. Beatrice Hall, Office Manager, performs the bookkeeping duties and has performed this duty since 2004.

The audit results in brief discovered that Henderson Upper has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. In addition: non-compliance with District cash management policy and/or ineffective practices; Disbursements were not approved by the principal; Checks were not signed by two authorized signers; Checks were written out of sequence; Bank reconciliations not prepared and no ledger maintained: The process of budgeting for Detroit Public Schools was established by the (DPS) Schools Administrative Financial Manual in (2006) and Board records indicate that many principals have not been in-serviced on the SAFM manual.

Henderson Upper School has been identified as a program consolidation and the school is merging with 2 other schools and being reconfigured as a pre k-8. Debra Manciell, formerly of Barbour School, has been identified as the new principal and the following actions will be recommended respective to the findings outlined in the audit review for Henderson Upper School.

➤ **School Administrative Financial Manual Non-Compliance:**

- Ensure that all staff directly responsible for financial transactions is trained on the 2006-2007 Financial Management District Policy for cash management activities.
- Also, ensure that all individuals are aware that contact from those Central Accounting Office personnel responsible for assisting in the accounting process is on the intranet.

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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