

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-118

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 1057 students were enrolled at Kettering High School, which has grade level Ninth through Twelfth. Ms. Willie Howard was the Principal during this time period and has been serving in this capacity for nine years.

Mr. Tarif Kumasi, Bookkeeper, performs the bookkeeping duties for the school and has been doing so since August 2008.

Kettering High School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraisers, vending machine revenue, and special project funds (i.e., Skillman Grant, Compact, 31A & Title I, Cosmetology, Parent Booster, etc.). 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:

- 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>	\$74,430

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the following compliance related exceptions:

- Cash Receipts:
 - Funds were not always verified, prior to issuance of a receipt.
 - Receipts were not always issued sequentially.
 - Receipts were not always issued when there was an exchange of cash.
 - Variances were noted when a physical count of cash was performed.
- Bank Reconciliations:
 - Bank reconciliations were not prepared for each month.
 - Reconciliations were not signed and dated by the Preparer or Reviewer.
 - The general ledger contained obsolete financial data.

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

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AUDIT RESULTS IN BRIEF (continued)

Achievements

Kettering High School is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Emerging School. This indicates that they have met criteria such as: (1) Demonstrating the ability to assist students in obtaining satisfactory ACT and SAT scores; (2) Offering college prep curricula to most students; and (3) Having strong graduation and grade-level-retention rates, etc.

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.

Non-compliance was noted regarding the following:

- Cash Receipts:
 - Funds were not always verified, prior to issuance of a receipt.
 - AC-1 forms were still being used, as opposed to pre-numbered duplicate copy receipt books. In addition, the AC-1 forms were not always issued sequentially.
 - Receipts were not always issued when athletic gate receipts were submitted to the bookkeeper.
 - A count of the cash drawer resulted in an overage of \$90.90 i.e., there was more cash than receipts.
 - A count of cash proceeds collected from a dance concert, resulted in a positive variance of \$224.90 i.e., there was more cash than receipts.
- Bank Reconciliations:
 - Bank reconciliations for the months of September 2008 through March 2009 were not prepared.
 - Reconciliations prepared for the months of July 2008 and August 2008 were not signed and dated by the Preparer nor Reviewer, evidencing timely preparation and proper management review.
 - There was obsolete financial data being maintained on the school's general ledger. There several account related to the W.L. Jones Scholarship fund, which was depleted several years ago.

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AUDIT FINDINGS (continued)

Cause

Lack of knowledge and 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.

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MANAGEMENT RESPONSE

I assumed the position of principal for Kettering High School on July 20, 2009. My response to the Audit Findings for Kettering High School 2008-09 is based upon the areas of Cash Receipts and Bank Reconciliations that the auditors presented and what I propose to do in order to be in compliance for the 2009-10 school year.

Cash Receipts

- All funds will be verified prior to the issuance of receipts.
- Only a pre-numbered duplicate copy receipt will be used for verification of funds and the AC-1 forms will be issued in sequential order.
- Athletic gate receipts will be submitted to the bookkeeper who in turn will issue receipts to the Principal.
- All cash drawers will be balanced so that there will not be more cash than receipts.
- Every event that requires admission will have receipts that reflect the monies collected and there will be no overage of funds.

Bank Reconciliations

- Bank reconciliations will be prepared for every month as required by the SAFM
- All summer reconciliations will be signed and dated by the Preparer and the Reviewer, evidencing timely preparation and proper management review.
- Any obsolete financial data will not be maintained on the school's general ledger.

I will ensure that all staff responsible for the financial transactions of Kettering High School will be trained on the DPS policy for cash management activities using the SAFM. They will also become aware of the current District policies which are found on the DPS intranet site, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

Sincerely,

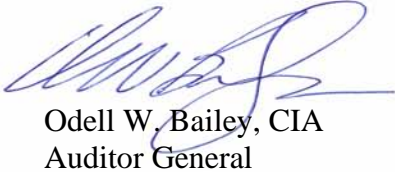
Alvin L. Ward, Sr.

Alvin L. Ward, Sr. - 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.



Odell W. Bailey, CIA
Auditor General