

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF LANGSTON HUGHES ACADEMY School Year 2008-09

REPORT NO: 09-109

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 250 students were enrolled at Langston Hughes Academy, which has grade levels Kindergarten through Eighth. Ms. Angela Broaden was the Principal during this time period and has been serving in this capacity since 2002. Previously, she was Assistant Principal for two years.

Ms. Veronica West, Head Secretary, performs the bookkeeping duties and has done so since 2008. She has no prior bookkeeping experience.

Langston Hughes Academy maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, fundraising activities and special project funds (i.e., Skillman Grant). Sources of District Fund Revenues include Food Services (i.e., lunchroom).

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 School and District Funds (July 2008 – March 2009)

ACCOU TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$6,680

AUDIT RESULTS IN BRIEF

Based on our audit of the Langston Hughes Academy 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
- Expenditures not in compliance with policy/intended purpose.

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

Achievement

Langston Hughes Academy is a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an Improving School. This indicates that they met criteria such as: (1) Overall improvement over the last two years; (2) Improved MEAP scores, with 10% increase in two subject areas; (3) Students who are performing at a satisfactory rate in English, math, and science.

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AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

The following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM):

- Funds not recounted and verified immediately.
- Pre-numbered Duplicate Receipt Forms were not available for amounts received.
- Receipt numbers were not recorded on the ledger.
- Disbursements were not approved by the Principal.
- Sales tax was paid on purchases.

Cause

School officials stated that they were unaware of the District’s SAFM and therefore was not aware of the requirements to use certain forms for cash activity and check requests

Effect

Lack of adherence to District policies related to cash receipts and disbursements results in non-standardize procedures that can vary with each school, which can result in processing inefficiencies. In addition, failure to request and approve cash disbursements can result in inappropriate or unauthorized purchases.

Recommendation

The Principal should ensure that all staff participating in financial transactions is familiar with and 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 polices 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. Expenditures not in Compliance with Policy/Intended Purpose

An individual, that was not hired through the Detroit Public Schools Human Resource Department nor contracted with through the Contracting and Procurement Department, was paid for services rendered.

Cause

The human resources and/or procurement process was circumvented when a “Disk Jockey” was hired directly and paid with funds from the school checking account.

Effect

Compliance of with local, state and federal laws is not assured when individuals are not hired through the proper channels.

Recommendation

The Principal should ensure the hiring of individuals, to provide goods and services to the school, are in compliance with all Detroit Public School Human Resources and/or Contracting and Procurement Departments policies and procedures.

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MANAGEMENT RESPONSE

TO: Odell W. Bailey, Auditor General, Detroit Public Schools

FROM: Angela M. Broaden, Principal, Langston Hughes Academy

DATE: July 31, 2009

SUBJECT: Financial Audit Findings

Audit Finding

1. Finding – School Administrative Financial Manual Non-Compliance

- I have changed my secretarial staff and had them trained in the area of bookkeeping (by Ms. Taylor who works for DPS.)

- Funds are counted and verified immediately by two of four of the following staff:
 - A. Angela Broaden – Principal
 - B. Harry Coakley – Curriculum Leader
 - C. Marla Greenbaum – Counselor
 - D. Veronica West – Head Secretary

- Receipt Books have been purchased and are being used by one of the following:
 - A. Veronica West – Head Secretary
 - B. Harry Coakley – Curriculum Leader

- All disbursements are approved by me and a memorandum gives details of how to get approval for check request and that we are not allowed to reimburse sales tax paid out.

2. Expenditures not in Compliance with Policy/Intended Purpose

I did follow district's procedures regarding school activities and at that time indicated the purchase of a Disc Jockey. I did not follow the district's procedure in hiring someone who is vendored by the district and will make sure this mistake does not happen again.

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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