

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
NORTHWEST EARLY CHILDHOOD
School Year 2008-09

REPORT NO: 09-150

REPORT DATE: June, 2009

**DETROIT PUBLIC SCHOOLS
NORTHWEST EARLY CHILDHOOD
FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, approximately 105 students were enrolled at Northwest Early Childhood School, which has Pre-Kindergarten and Kindergarten. Ms. Nyote Mobley-Strong was the Principal during this time period and has been serving in this capacity since October 2008. In addition to her role as Principal, Ms. Mobley-Strong also performed the bookkeeping duties for Northwest Early Childhood.

Northwest Early Childhood maintained a commercial checking account with Chase Bank. Primary sources of General School Funds included fundraising activities and donations. 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.
- 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.

**DETROIT PUBLIC SCHOOLS
NORTHWEST EARLY CHILDHOOD
FINANCIAL RELATED AUDIT
REPORT NO. 09-150**

SCOPE & METHODOLOGY (continued)

- 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 – March2009):**

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$21,493

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 cash receipt books were not used.
 - Check request forms were not used to authorize check expenditures.
- Lack of Segregation of Duties

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

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 cash receipt books were not used.
- Check request forms were not used to authorize check expenditures.

**DETROIT PUBLIC SCHOOLS
NORTHWEST EARLY CHILDHOOD
FINANCIAL RELATED AUDIT
REPORT NO. 09-150**

AUDIT FINDINGS (continued)

Cause

The school official stated that she was unaware of the District's SAFM and therefore was not aware of the requirement to use certain forms for cash receipts and check requests.

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, 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.

2. Finding – Lack of Segregation of Duties :

The "School Administrative Financial Manual 2006 -07:" (SAFM) governs the cash management function including adequate segregation of duties.

We noted the Principal performed the bookkeeping duties of receiving funds, maintaining cash receipts and disbursement ledgers, preparing funds for deposit, authorizing expenditures, writing checks and reconciling the bank account. As such, there were no checks in balances or independent verification of transactions.

Cause

Lack of proper segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

Effect

The school account was susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

District management working with the Principal should segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by another staff member.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

**DETROIT PUBLIC SCHOOLS
NORTHWEST EARLY CHILDHOOD
FINANCIAL RELATED AUDIT
REPORT NO. 09-150**

MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor
FROM: Derrick R. Coleman, Regional Superintendent
DATE: July 23, 2009
SUBJECT: Northwest Early Childhood School Financial Related Audit

This communication is written as a response to the audit findings on Northwest Early Childhood Center.

The audit results in brief discovered that Northwest Early Childhood Center has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. For School Year 2008 – 2009, approximately 105 students were enrolled at Northwest Early Childhood School, which has Pre-Kindergarten and Kindergarten. Ms. Nyote Mobley-Strong was the Principal during this time period and has been serving in this capacity since October 2008. In addition to her role as Principal, Ms. Mobley-Strong also performed the bookkeeping functions for Northwest Early Childhood.

Northwest Early Childhood maintained a commercial checking account with Chase Bank. Primary sources of General School Funds included fundraising activities and donations. Sources of District Fund Revenues include Food Services (i.e., lunchroom). A summary of concerns are related to a lack of segregation of duties, per-numbered duplicate receipt form was not always issued and bank reconciliations were not signed by the reviewer. The process of budgeting for Detroit Public Schools was established by the (DPS) Schools Administrative Financial Manual in (2006). Board records indicate that many principals have not been in-serviced on the SAFM manual.

Recommendations:

Northwest Early Childhood Center has been slated to close, if the principal is placed elsewhere, she must 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 2006-2007. The principal shall 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.

The Principal should segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by another staff member. In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

**DETROIT PUBLIC SCHOOLS
NORTHWEST EARLY CHILDHOOD
FINANCIAL RELATED AUDIT
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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.

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Odell W. Bailey, CIA
Auditor General