

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF OWEN ACADEMY at PELHAM

School Year 2008-09

REPORT NO: 09-154

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 - 2009, 350 students were enrolled at Owen Academy at Pelham which has grade levels Pre-Kindergarten through Eighth. Mr. Calvin Patillo was the Principal during this time period Principal and has been serving in that capacity since August 2008.

Ms. Rhonda Ray, Clerical II, performs the bookkeeping duties and has been doing so since 1996.

Owen Academy at Pelham maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include school fundraisers and grants (i.e., Skillman). The primary source of District Fund Revenues is Food Service (i.e., lunchroom).

AUDIT OBJECTIVES

The objectives of the audit were to ensure that the:

- 1) 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 ledgers did not exist, transaction activities were derived by totaling cash receipts 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. Research was performed 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 example, lunchroom deposits.

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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 Activity for Owen Academy at Pelham:**

CATEGORY	AMOUNT
<u>Commercial Checking Deposits</u>	\$ 20,320

AUDIT RESULTS IN BRIEF

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

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipts were not used.
 - Check request forms were not to document Principal approval of expenditures.
 - Checks received were not stamped with the school’s bank account number and “for deposit only” prior to deposit.
 - A stale dated check was outstanding on the bank reconciliation for over two years.
 - Bank reconciliations were not signed by the Principal to indicate review and approval.

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

Achievement

Detroit Open Elementary is a recipient of the Skillman Foundation Good Schools Grant with a designation as an Aspiring School. This indicates that they have met criteria such as: (1) Improved MEAP scores with a 5 percent increase over the prior year; (2) Have an average performance in English, math and Science; and (3) Sufficient parental and community partnerships, etc.

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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 process.

The following non-compliance issues were noted:

- Pre-numbered duplicate receipts were not used.
- Check request forms were not to document Principal approval of expenditures.
- Checks received were not stamped with the school’s bank account number and “for deposit only” prior to deposit.
- A stale dated check (i.e., 6974 dated 12/15/07) was outstanding on the bank reconciliation for over two years.
- Bank reconciliations were not signed by the Principal to indicate review and approval.

Cause

Lack of compliance with policies outlined in the 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

- A. *Pre-numbered duplicate receipts were not used.***
Owen Academy will purchase numbered receipts forms with carbon to provide whenever a receipt is given beginning immediately.
- B. *Check request forms did not document Principal approval of expenditures.***
The Principal will make available AC-4 forms that are used when someone is requesting a check to be written. The forms include the following information: date, the name of the person filling out the form, the purpose of the check, the budget line item that the funds are coming from, and an approval line for the Principal. The forms must also be accompanied by receipts. Clerical will be informed that NO check will be written with out the AC-4 forms being completely filled out and signed by the Principal. This practice will start immediately
- C. *Checks received were not stamped with school's bank account number and "for deposit only" prior to deposit.***
This is a practice that is already in place. Owen Academy will continue to make sure that NO check will be deposited without the proper stamping on it.
- D. *A stale dated check (i.e. 6974 dated 12/12/07) was outstanding on the bank reconciliation for over two years.***
Owen Academy will follow the district guidelines to handle situations where checks are written and not cashed in a timely manner.
- E. *Bank reconciliations were not signed by the principal to indicate review and approval.***
Owen Academy has already begun and will continue to have ALL bank reconciliations signed by the Principal.

In addition, the Principal will download from the Detroit Public School's website the School Administrative Financial Manual 2006-07 (SAFM) for the administrative and clerical to ensure compliance when managing school funds.


Respectfully submitted by:

Mr. Calvin B. Patillo, 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