

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF PHOENIX ACADEMY

School Year 2008-09

REPORT NO: 09-158

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 690 students were enrolled at Phoenix Academy, which has grade levels Kindergarten thru Eighth grade. Ms. Norma Hernandez was the Principal during this time period and has been serving in this capacity since August 2008. The bookkeeping duties including the monthly account reconciliations have been performed for the past 10 years by Ms. Sheila Nagy, Secretary.

Phoenix Academy maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities and special grants (Virgil Carr Endowment). Sources of District Fund Revenues include Food Services (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>	\$ 11,404

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 receipt forms were not prepared and distributed,
 - Blank checks were authorized by one signer,
 - Disbursements were not approved by the Principal,
 - Supporting documentation for expenditures was not maintained,
 - Bank reconciliations were not signed and dated by preparer or reviewer.
- Unauthorized bank account maintained.

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

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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 function within the District.

The following non-compliance issues were noted:

- Pre-numbered duplicate receipt forms were not prepared and distributed
- Blank checks were authorized by one signer,
- Disbursements were not approved by the Principal
- Supporting documentation for expenditures was not maintained
- Bank reconciliations were not signed and dated by preparer or reviewer

Cause

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests as required for in the District’s 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 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. Finding – Authorization of Blank Checks:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the maintenance of petty cash funds including required documentation:

The school issued and maintained checks that were signed by one authorized signers, in advance of receiving a check request.

Cause

There was a lack of adherence to the District’s SAFM regarding check issuance.

Effect

Checks can be cashed by unauthorized individuals and/or for unauthorized amounts.

Recommendation

The Principal should ensure that all checks are signed only after the payee and amounts are documented on the face of the check.

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MANAGEMENT RESPONSE

Management response provided by Ms. Norma Hernandez, Principal:

It is my goal and that of Phoenix Academy to comply with all of the policies and procedures set for by the district. The following steps are in place to assure that these violations will no longer occur:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipt forms were not prepared and distributed,
 - All pre-numbered duplicate receipt forms are prepared and distributed.
 - Blank checks were authorized by one signer,
 - All checks are endorsed by the two authorized signers and only after the amount has been written on check.
 - Disbursements were not approved by the Principal,
 - Principal will approve all disbursements
 - Supporting documentation for expenditures was not maintained,
 - Proper documentation for expenditures will be maintained
 - Bank reconciliations were not signed and dated by preparer or reviewer.
 - Bank reconciliations will be signed by preparer and reviewer.

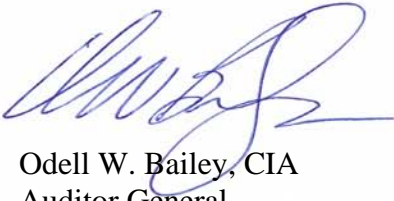
In short, I will ensure that all individuals involved in the cash management process are aware of current District policies and procedures and adhere to them

- Unauthorized bank account maintained.
 - I was not aware of the CD account with Comerica. In my attempt to close the account and transfer the funds to the authorized account I was informed that the account was opened circa 1999 and that I was not an authorized signer thus, unable to access the account. The matter has been turned over to Delores A. Brown, Deputy Chief Financial Officer/CAO. In the process of looking into this account, I discovered that there is another account with Chase bank that was to have been turned over to Phoenix when Higgins merged. That was never done. The information has also been given to Ms. Brown

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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