

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF SCOTT MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-169

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 459 students were enrolled at Brenda M. Scott Middle School, which has grade levels Sixth through Eighth Grade. Ms. Brenda Butler was the Principal at the beginning of the school year, however, passed prior to the beginning of our field work. The acting Principal during the time period of our review was Mrs. Evelyn Mann.

Ms. Love, Secretary collects the financial information and forwards the information to Ms. Weatherspoon, an outside contractor, who performs the bookkeeping duties and has done so since July 2003.

Scott Middle School maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities. 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 and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$4,512

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the control weaknesses related to compliance with District cash management policy. Specifically,

- Non-compliance with District cash management policy and/or ineffective practices
 - Bank reconciliation are not consistently signed off
 - Single signer for check disbursements
 - A Profit and Loss statement was not completed for a fundraiser
- Lack of controls over checking account.

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

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AUDIT FINDINGS

1. Finding – Proper Segregation of Duties Was Not Maintained:

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

Non-compliance with District cash management policy and/or ineffective practices:

- Bank reconciliation had not been completed for the period of July 2008 through March 2009.
- A volunteer parent is operating a store that sells beverages and snacks to students without receiving District approval
- Profit and Loss statements had not been completed for the operations of a store within the school to specifically detail the results of operations.

Cause

School officials stated they were unaware of the District’s SAFM and therefore were not aware of requirements for cash receipt activity.

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 also 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 – Lack of controls over checking account:

The “School Administrative Financial Manual 2006 -07:” (SAFM) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

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

Cause

An authorized check signer transferred to another school and a second check signer died
Lack of adherence to District policy 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 amount are documented on the face of the check.

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MANAGEMENT RESPONSE

Brenda Scott Middle School
Accountability + Added Value = Achievement



July 31, 2009

Mr. Odell W. Bailey
Auditor General
Detroit Public Schools

Being a graduate of the district and fortunate enough to be the brand new leader of Brenda Scott Middle School I'd like to personally thank you for the work that you and your office are doing to put things in order in the Detroit Public Schools. This letter serves as Brenda Scott Middle School's response to the audit findings of July 2008 through March 31, 2009 conducted by your office.

I have copied the statements from the audit and will be addressing each concern separately in *bold italics*.

1. Finding – Proper Segregation of Duties Was Not Maintained:

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

Non-compliance with District cash management policy and/or ineffective practices:

- Bank reconciliation had not been completed for the period of July 2008 through March 2009.

All monthly bank reconciliations for FY09 were reviewed and the error was found. In the future, the clerical and administrative staff will ensure that bank reconciliations are properly completed, signed and submitted within 5 business days of the end of the month.

- A volunteer parent is operating a store that sells beverages and snacks to students without receiving District approval.

My staff has informed me that the former principal, Beverly Butler, did not allow soda pop and other similar beverages and snacks to be sold on school grounds. Brenda Scott will not allow beverages and snacks to be sold in the future unless such sales have been properly approved by the District.

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MANAGEMENT RESPONSE (continued)

- Profit and Loss statements had not been completed for the operations of a store within the school to specifically detail the results of operations.

A ledger will be purchased and used to catalog the expenses and revenues of the school store. In addition, staff members facilitating the use of the store will receive proper training for the management and accounting of expenses and revenues generated by the store.

School officials stated they were unaware of the District's SAFM and therefore were not aware of requirements for cash receipt activity.

A copy of the "School Administrative Financial Manual 2006-07" was printed and will be stored in the records room of Brenda Scott M.S. Mrs. Love and all future clerical staff will be in-serviced on the District's financial policies and required to have up-to-date contact information for the Central Accounting Office.

2. Finding – Lack of controls over checking account:

The "School Administrative Financial Manual 2006 -07:" (SAFM) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

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

A check request form for Brenda Scott Middle School must be thoroughly completed, received, and reviewed before a check is written and signed by two authorizers. We will take the necessary steps to ensure that Comerica Bank is aware that two authorizers must be written on any check from Brenda Scott M.S. for that check to be valid.

Any further recommendations that the Auditor General's Office might have will be greatly appreciated.

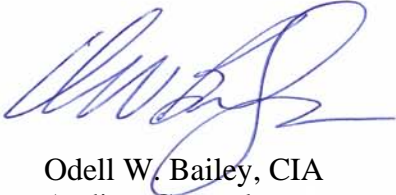
Respectfully,

Philip T. Van Hooks, Principal
Brenda Scott Middle School
18440 Hoover
Detroit, MI 48205

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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 and title.

Odell W. Bailey, CIA
Auditor General