

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF STARK SCHOOL OF TECHNOLOGY School Year 2008-09

REPORT NO: 09-174

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 182 students enrolled at the Stark School of Technology which has grade levels Pre-Kindergarten thru Fifth. Ms. Cynthia Watt was the Principal during this time and has been serving in that capacity since 2008.

Ms. Betty Witherspoon, third-party accountant, performs the bookkeeping duties and has done so since June 2008.

The Stark School of Technology maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include school fundraisers and district grants (Head Start). The primary source of District Fund Revenues is the lunchroom collections.

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>	\$2,506

AUDIT RESULTS IN BRIEF

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

- Non-compliance with the School Administrative Financial Manual
 - Pre-numbered duplicate receipts were not utilized
 - Bank reconciliations were not signed by the preparer or approver
 - Supporting documentation was not present for all expenditures
- Proper Segregation of Duties was not 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 receipts are not utilized
- Bank reconciliations completed by the third part bookkeeper accountant are not initialed by the preparer or signed by the Principal as the approver
- Supporting documentation was not present for all expenditures including receipts, invoices and/or check requests

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, 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.

2. Finding – Proper 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.

Cause

Proper separation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

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AUDIT FINDINGS (continued)

Effect

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

Recommendation

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.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Assistant Superintendent

DATE: July 13, 2009

SUBJECT: Stark School of Technology Financial Related Audit

For School Year 2008 – 2009, Ms. Cynthia Watt was the Principal for Stark School of Technology during this time and served in that capacity since 2008. Ms. Betty Witherspoon, third-party accountant, performed the bookkeeping duties and had done so since June 2008. Stark School of Technology has been identified as a program closure and Principal Watt has received a notice of non renewal.

The audit results in brief discovered that Stark School of Technology School has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. 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.

Finding – Inadequate Controls Over Athletic Receipts and Disbursements:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function within the District. Non-compliance with District cash management policy. Stark School of Technology was sited for not maintaining supporting documentation for expenditures. Bank reconciliations were not signed by the preparer and reviewer. In addition, pre-numbered duplicate receipts are not utilized. Bank reconciliations are not signed by the preparer or approved. Supporting documentation was not present for all expenditures. Proper segregation of duties was not maintained

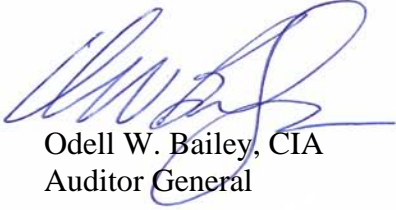
Recommendation

Principal Ms. Cynthia Watt has received a notice of non renewal and is no longer with the district. In the event she attains employment within the district, she shall ensure that all appropriate records related to cash activity are maintained in compliance with District policy and good business practice. In addition, she shall ensure that all staff responsible for financial transactions, are trained according to the District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07.

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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