

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF WESTERN INTERNATIONAL HIGH SCHOOL School Year 2008-09

REPORT NO: 09-188

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 1,600 students were enrolled at Western International High School which has grade levels 9th through 12th. Ms. Rebecca Luna was the Principal and has been serving in this capacity for the past eight years. The bookkeeping/accounting duties were performed from September 2007 to January 2009 by Ms. Michelle Broughton, Teacher. Ms. Janice Dixon assumed the bookkeeping duties in February 2009.

Western High School maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include vending machines, athletic events, senior class programs (yearbook, prom, and homecoming), school fundraisers, special programs (night and summer school) and district grants (Title 1). 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. Perform 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 example, 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>	\$ 620,260

AUDIT RESULTS IN BRIEF

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

- Receipts were not recorded in a pre-numbered duplicate receipt book
- Receipt numbers were not recorded in the ledger
- Multiple receipt books were used
- Cash receipt numbers were not referenced on the bank deposit ticket
- The payee and/or amount was not documented on the check or check stub prior to distribution
- Cash receipts and cash disbursement ledgers; the general ledger and bank reconciliations were not prepared for several months
- Bank reconciliations were not prepared and approved
- Funds given to the armored car company were not deposited.
- Supporting documentation for expenditures was not maintained.
- Blank checks were signed by two authorized signer.

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:

- Receipts were not recorded in a pre-numbered duplicate receipt book
- Receipt numbers were not recorded in the ledger
- Multiple receipt books were used
- Cash receipt numbers are not referenced on the bank deposit ticket
- Cash receipts and cash disbursement ledgers were not prepared for July and August 2008. The Bank Reconciliations and General Ledgers were not prepared from September 2008 to March 2009. These reports were prepared by the auditors.
- Bank reconciliations were not prepared and therefore not signed by the preparer or the reviewer for the period July 2008 – February 2009.

Cause

The school official stated that she was unaware of the District’s SAFM and therefore was not aware of the requirements.

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.

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AUDIT FINDINGS (continued)

2. Finding - Funds given to an Armored Car Company were not deposited:

While preparing the March 2009 bank reconciliation, it was noted that two deposits-in-transit existed. Two deposits for \$1,600.00 and \$2,600.00 dated 1/27/09 and 2/10/09 respectively, appear on the Armored Car Log, however, there is no evidence the deposits were made per the bank statements.

Cause

Bank reconciliations were not prepared timely and differences between the book and bank statement balances were not properly investigated.

Effect

There is the possibility of misappropriation of funds that were collected for the use of Western International High School students.

Recommendation

The Principal should confirm that the deposits remain outstanding by confirming with the bank. If the deposits are still in-transit, the Armored Car Company should be contacted to initiate an investigation of the missing deposits.

3. Finding – Supporting documentation for expenditures were not maintained:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function within the District.

Expenditure in question:

Check Number	Date	Description	Amount
11188	9/24/08	Marriott	\$ 1,000.00

Cause

There was a failure to comply with existing District policies.

Effect

The lack of documentation supporting expenditures raises serious concerns about the legitimacy of the expenditure and whether it was used for purposes other than approved school activities.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should review the “School Administrative Financial Manual 2006-07” in order to fully and clearly understand the role of the Principal and the related financial responsibilities. In addition, all staff responsible for financial transactions should be trained on District policy for cash management activities.

4. Finding – Blank Checks were signed by two authorized signers:

The bookkeeper was in possession of a stack of blank checks. The checks were signed by the Principal and Assistant Principal and ready for issue.

Cause

There was a failure to comply with existing District policies.

Effect

The potential for theft and misappropriates is greatly increased.

Recommendation

The Principal should review the “School Administrative Financial Manual 2006-07” in order to fully and clearly understand the role of the Principal and the related financial responsibilities. In addition, the Principal should (1) cease and desist from signing blank checks, and (2) ensure that all expenditures are properly approved in advance of the disbursements checks being signed by the approved signatories.

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MANAGEMENT RESPONSE

Management Responses provided by Mr. Geraldo Vazquez, Principal:

In response to the findings of Financial Audit Report NO. 09-188 Western International High School plans to do the following:

1. Finding: Response to School Administrative Financial Manual 2006-2007 Non-Compliance:

- Effective immediately Western International High School will begin following the processes and procedures specified in the districts policy manual entitled, School Administrative Financial Manual 2006-2007.
- Western International High School will pursue professional training for all concerned parties dealing with cash management processes. We will ask the central office accounting personnel to assist us in providing the appropriate training for our staff who are responsible for cash management.

2. Finding: Funds Given to an Armored Car Company were not deposited:

- We called Total Armored Car Services and Ms. Mary regarding the two deposits in question. She requested documentation verifying that a Total Armored Car employee actually signed for the deposits on the dates in question. We faxed on August 13, 2009 at 12:35 p.m. the documentation verifying that Total Armored Car Services actually signed for and was in receipt of the two deposits in question. Total Armored Car Services will investigate and give us a written reply ASAP. I have attached a copy of the Total Armored Car Receipt Book entry for the dates in question.

3. Finding: Supporting Documentation for expenditures was not maintained:

- Expenditure in question Check No.11188 dated 9/24/2008 which was a \$1000.00 deposit for the 2008 Homecoming Dance which was held at the Detroit Downtown Marriot RenCen. We have asked the hotel event coordinator Paul Pheosanos to provide us a copy of the necessary documentation.

4. Finding: Blank Checks were signed by two authorized signers:


- The practice will cease immediately and Western International High School staff authorized to sign checks will follow the procedures specified in SAFM 2006-2007.

Receipt of all pending documentation will be forwarded to the Officer of the Auditor General.

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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