

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF DENBY HIGH SCHOOL School Year 2008-09

REPORT NO: 09-055

REPORT DATE: June, 2009

Fisher Building · 3011 West Grand Boulevard · Suite 601A · Detroit, Michigan 48202

Office: (313) 873-7685 · Fax: (313) 873-7028

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BACKGROUND

For School Year 2008 – 2009, 1176 students were enrolled at Denby High School, which has grade levels Ninth through Twelfth Grade. Ms. Beth Cole was the Principal during this time period and has been serving in this capacity since 2006.

Mr. Ruebenstein Washington, Assistant Principal, performs the bookkeeping duties and has done so since 2008.

Denby maintains one commercial checking account with Comerica Bank. The second account had no activity. 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
- 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.

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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 Receipts from General and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$21,292

AUDIT RESULTS IN BRIEF

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

- The following non-compliance issues were noted:
 - Pre-numbered duplicate receipts are not utilized
 - Checks written without two signatures
 - General Journal not utilized to capture bookkeeping activities
 - Bank reconciliations and cash receipt and cash disbursement ledgers were not prepared forwarded to the Office of Central Accounting monthly.
- Misappropriation of funds.
- Tuition fees deposited in wrong account (i.e., General Funds 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 - 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 are not utilized
- Checks written without two signatures
- General Journal not utilized to capture bookkeeping activities
- Bank reconciliations and cash receipt and cash disbursement ledgers were not prepared forwarded to the Office of Central Accounting monthly.

Cause

School officials stated the trained bookkeeper went out on medical leave and individuals filling in were unaware of the District’s SAFM and therefore were not aware of certain forms and 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, ensure the Principal 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 – Misappropriation of Funds:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management process and states that the Principal has a fiduciary responsibility to ensure that cash is properly safeguarded and utilized for intended purposes.

We noted a cash discrepancy involving \$500. According to Comerica, the tamperproof bag was opened and re-sealed with Scotch tape containing \$800. However, according to the armored car log, the bag was to have \$1300.

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AUDIT FINDINGS (continued)

Cause

Lack of effective oversight and non-compliance with SAFM.

Effect

Financial loss due to theft.

Recommendation

The Principal/Regional Superintendent should assist the Office of the Inspector General in any forthcoming investigations, as this issue will be forwarded to their office.

3. Tuition Collected But Not Deposited into the District's Revenue Account:

The "School Administrative Financial Manual 2006 -07" (SAFM) governs the cash management process.

Cash receipts from Extended Day Funds were deposited in the school's general fund checking account.

Cause

The school disregarded the District policy regarding the deposit of tuition into the District's Revenue account.

Effect

The school is not in compliance with the requirements of the District's SAFM.

Recommendation

The Principal should ensure that tuition collected for any purpose is deposited into the District's Revenue account.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Regional Superintendent

DATE: July 23, 2009

SUBJECT: Denby High School Financial Related Audit

This communication is written as a response to the audit findings on Denby High School. Principal Beth D. Cole was non renewed effective July 1, 2009.

The audit results in brief discovered that Denby has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. Receipts are not recorded in a pre-numbered duplicate receipt book, checks were written without two signatures, general journal not utilized to capture bookkeeping activities, bank reconciliations and cash receipt and cash disbursement ledgers were not prepared and forwarded to the Office of Central Accounting monthly. 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.

In addition to the aforementioned findings, Receipts were not recorded in a pre-numbered duplicate receipt book. Cash receipts were not posted in the cash receipts ledger. Noted was a discrepancy involving \$500.00. According to Comerica the tamperproof bag was opened and resealed with scotch tape containing \$800.00; however, the according the armored car log, the bag was to have \$1300.00. They were not recorded in the cash receipts ledger or deposited in the bank until May 2009. Tuition fees have been deposited in the wrong account.

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MANAGEMENT RESPONSE (continued)

Recommendations:

Denby High School has been identified as a program reconstitution. Currently, a search is being conducted to find the next principal for the school. Upon selection, the following actions will be recommended to the new principal respective to the findings outlined in the audit review for Denby High School. The newly hired 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 2006-2007.

The newly hired principal shall 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. In addition, the newly hired principal should ensure that tuition collected for any purpose is deposited into the District's Revenue account.

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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