

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF FOREIGN LANGUAGE IMMERSION & CULTURAL STUDIES SCHOOL School Year 2008-09

REPORT NO: 09-085

REPORT DATE: June 30, 2009

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DETROIT PUBLIC SCHOOLS
FOREIGN LANGUAGE IMMERSION &
SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-085

CULTURAL

BACKGROUND

For School Year 2008 – 2009, 700 students were enrolled at Foreign Language Immersion and Cultural Studies School which has grade levels Pre-Kindergarten through Eighth. Ms. Ineala Chambers is the current Principal and has been serving in that capacity since 1989. The bookkeeping duties have been performed since 2004 by Ms. Anita Nyame-Addo.

Foreign Language Immersion and Cultural Studies School maintain one commercial checking account with Chase Bank. Primary sources of General School Funds include fundraisers, field trips 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. 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.

SCOPE & METHODOLOGY (continued)

DETROIT PUBLIC SCHOOLS
FOREIGN LANGUAGE IMMERSION &
SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-085

CULTURAL

- 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> | \$9,444 |

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
 - Supporting Documentation for cash receipts and disbursements was not available
 - Receipts were not recorded in a pre-numbered duplicate receipt book
 - Check request forms were prepared and approved by the same person
 - Deposits were not consistently made in a timely manner
 - Disbursement checks only require one authorized signature
 - All bank reconciliations and ledgers were not prepared.

- Lack of Safeguarding of Assets

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

AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

DETROIT PUBLIC SCHOOLS
FOREIGN LANGUAGE IMMERSION &
SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-085

CULTURAL

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

The following non-compliance issues were noted:

- Supporting documentation for cash receipts and disbursements were not available for review.
 - Pre-numbered Duplicate Receipt Forms were not used to record cash receipts.
 - Supporting documentation for expenditures was not available for review.
- Pre-numbered duplicated cash receipts forms were not written for all cash received
- Check request forms were not consistently used to approve disbursements, and the same person prepared and approved the request form.
- While the Principal has the deposits in her possession, deposits were not made in a timely manner.
- The account is set-up to permit disbursements with only one authorized signature.
- Bank reconciliations and cash receipts ledgers from October 2008 through March 2009 were not prepared until April 2009.

Cause

School officials stated they 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 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.

AUDIT FINDINGS (continued)

2. Finding – Assets Not Adequately Safeguarded:

DETROIT PUBLIC SCHOOLS
FOREIGN LANGUAGE IMMERSION &
SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-085

CULTURAL

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs safeguarding of cash receipts.

- All cash receipts are not properly safeguarded due to being kept inside of a locked closet. The closet houses a safe that at the time of our audit the safe could not be opened because no one knew the combination. The closet is located in a high traffic area.

Cause

School official stated the combination to the safe is unknown and would costs significant amounts of money to have the combination on the safe changed.

Effect

Lack of adherence to District policies and best practices could result in financial losses due to theft.

Recommendation

The Principal should take the necessary actions to ensure assets are properly safeguarded by immediately depositing receipted funds. In addition, the Principal should inquire whether a safe from a closed school can be transferred for their use, or obtain the funds to have it repaired.

**DETROIT PUBLIC SCHOOLS
FOREIGN LANGUAGE IMMERSION &
SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-085**

CULTURAL

MANAGEMENT RESPONSE

Thank for your feedback on the detailed financial audit for the Foreign Language Immersion and Cultural Studies School (FLICS).

I appreciate your assistance with the preparation and submission of the bank reconciliation documentation.

As the administrative leader of the school, I shall ensure that all FLICS staff members responsible for financial transactions are trained on District policy for cash management activities as detailed in the "School Administrative Financial Manual 2006-07."

In addition, I 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 Central Accounting Office personnel in the accounting process.

Further, I shall take action to safeguard the assets by immediately depositing any receipted funds, as well as acquire or repair the safe.

Respectfully submitted,

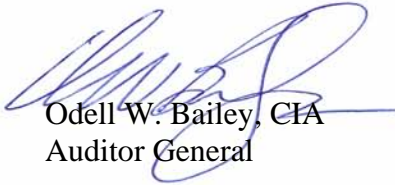
Ineala D. Chambers, Principal

DETROIT PUBLIC SCHOOLS
FOREIGN LANGUAGE IMMERSION &
SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-085

CULTURAL

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