

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-077

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
FARWELL MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-077**

BACKGROUND

For School Year 2008 – 2009, 435 students were enrolled at Farwell Middle School, which has grade levels Fifth through Eighth Grade. Ms. LaVerne Jordon was the Principal during this time period and has been serving in this capacity since 2006.

Ms. Joyce Campbell, Head Secretary, has performed the bookkeeping duties since 2008.

Farwell Middle Schools maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include special project funds (i.e., Safe and Drug Free Schools Grant). 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.

**DETROIT PUBLIC SCHOOLS
FARWELL MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-077**

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>	\$1,329

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,

- Pre-numbered duplicate receipts are not utilized
- Bank reconciliations for the school year were not completed
- Receipted checks are not being restrictively endorsed

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

Achievements

Farwell Middle School received a “Safe and Drug Free School” Grant in the amount of \$2,500 in April 2009.

**DETROIT PUBLIC SCHOOLS
FARWELL MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-077**

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 were not completed for the period of July 2008 through April 2009
- Receipted checks are not being restrictively endorsed

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 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.

**DETROIT PUBLIC SCHOOLS
FARWELL MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-077**

MANAGEMENT RESPONSE

Management response provided by Ms. LaVerne Jordan, Principal.

Principal Jordan will ensure that all Farwell staff responsible for financial transactions are aware of District Policies and must adhere to the District Policies /Guidelines regarding financial transactions.

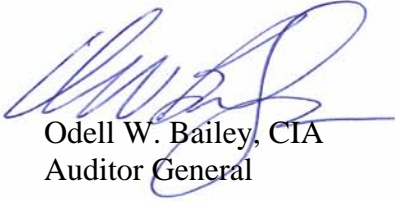
Bank Reconciliation statements are complete at this time.

Principal Jordan/Head Secretary, Joyce Campbell will restrictively endorse all receipted checks.

**DETROIT PUBLIC SCHOOLS
FARWELL MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-077**

Our audit was performed in accordance with U.S. General Accounting Office Government Auditing Standards and Standards of the Institute of Internal Auditors.

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Odell W. Bailey, CIA
Auditor General