

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT FOLLOW UP OF MARTIN LUTHER KING JR. SENIOR HIGH SCHOOL School Year 2010-11

REPORT NO: 11-031

REPORT DATE: October 31, 2011

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**MARTIN LUTHER KING JR. HIGH SCHOOL
FINANCIAL AUDIT FOLLOW-UP REPORT
REPORT NO: (11 - 031)**

Audit Objectives

The objective of the follow-up audit was to determine if corrective actions have been taken to address significant findings in the June 30, 2009 audit report.

Scope & Methodology

The audit scope covered the 2010-2011 School Year-ending June 30, 2011. Inquires were made with the principal and bookkeeper to obtain an understanding of the actions taken to remediate the risk associated with the prior audit findings. Additionally, audit tests were performed to assess the effectiveness of the corrective actions and internal controls.

Background

School Profile

Martin Luther King Jr. Senior High School (King) has one bank account: a checking account maintained at First Independence Bank. General School Funds at King includes, student activities, fundraising, local grants and vending machines. Sources of District Fund Revenues include Food Service (i.e., lunchroom) and athletics.

Prior Audit

In 2009 financial audits were conducted at all Detroit Public Schools (DPS) to determine the level of compliance with DPS's policies and procedures. The audit covered cash receipts, cash disbursements, bank reconciliation and reporting.

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Previous Audit Finding(s)

Previous Audit Finding(s)	Corrective Action Taken	Corrective Action Partially Implemented (See Finding #1)	Corrective Action Not Taken / Repeat Finding (See Finding #1)
(1) Cash was not verified at the time of receipt.		√	
(2) Receipts were not always issued when there was exchange of cash.	√		
(3) The fundraising cash process was not properly managed: (1) All proceeds were not deposited into the bank account and (2) Profit and loss data was not always maintained.			√
(4) Check request forms were not used consistently.	√		
(5) Supporting documentation for expenditures was not always maintained.	√		
(6) Cash receipts and disbursement ledgers were not always prepared and/or were incomplete.	√		
(7) Monthly reconciliations were not prepared.	√		
(8) Non-compliance with State College Board fee reductions.	√		
(9) Un-deposited cash receipts.	√		

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Previous Audit Finding(s)	Corrective Action Taken	Corrective Action Partially Implemented (See Finding #1)	Corrective Action Not Taken / Repeat Finding (See Finding #1)
(10) Unauthorized bank accounts and inappropriate cash management practices	√		
(11) Athletic gate receipts were not forwarded to the district.	√		

Audit Conclusion

Based on our review and testing, Martin Luther King has implemented corrective actions for several prior audit findings, as follows:

- (2) Pre-numbered duplicate receipt forms were available for the amounts deposited into the school account through the Armor Car service.
- (4) Check request forms are utilized to ensure expenditures are approved and in compliance with district policy.
- (5) Receipts and invoices are maintained to document expenditures are in compliance with district policy.
- (6) Cash receipts and disbursement ledgers were prepared by contractors, engaged by Cash Management, to ensure financial records accurately reflected the financial activity documented by the school staff.
- (7) Bank reconciliations were prepared by contractors, engaged by Cash Management, to ensure the funds in the school's bank account agreed with the financial records.
- (8) Students were not charged for Advance Placement tests administered by the school.
- (9) Funds received by school staff were deposited into the bank account.
- (10) The bank account formerly identified as unauthorized was closed and all funds related to school activities are deposited into the authorized school account to ensure accountability.
- (11) Athletic game receipts are not deposited into the authorized account maintained by the Athletics Department.

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The following prior audit finding is partially implemented:

- 1) Cash was not verified at the time of receipt.

Pre-numbered duplicate receipt forms are prepared at the time funds are collected. OAG received verbal confirmation that funds are recounted upon receipt. However, verification of the amount of funds exchanged between the bookkeeper and remitter is not properly evidenced because both signatures do not appear on the duplicate receipt form.

RECOMMENDATION(s)

We recommend that all remittances of cash and checks from an individual to the bookkeeper be evidenced by the signature of the remitter and bookkeeper on the duplicate receipt form, thereby providing a level of assurance that the exchange was accurately recorded.

The following prior audit finding was not corrected:

- (3) The fundraising cash process was not properly managed: (1) All proceeds were not deposited into the bank account and (2) Profit and loss data was not always maintained.

The prior audit noted that some expenses were paid directly from the proceeds of the fundraiser rather than by check as policy requires. We did not see evidence that checks were being used for initial funding purposes. The deposit of all funds collected for fundraising purposes ensures accountability over funds collected for the benefit of students.

Profit and Loss Statements must be completed and maintained for future reference. Profit and Loss Statements document the success of activities held, allowing school and district administrative personnel the opportunity to make decisions regarding whether approving similar activities in the future are in the best interest of the students.

RECOMMENDATION(S)

We recommend that management ensure compliance with fundraising policies and procedures by establishing a system to monitor, review and approve fundraising expenses the completion of Profit and Loss Statements.

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Management Response

Management response provided by the Principal of Martin Luther King High School:

We will address the two findings listed by:

1. Finding #1 Corrected Action Partially Implemented for Cash not verified at time of receipt will be addressed by following the recommendations provided in the financial audit report. At the time of receipt of cash, remitter and bookkeeper will sign their names.
2. Finding #3 Fundraising cash will be deposited before reimbursements to create a legitimate ledger.

Thank you,

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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

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General