

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF RONALD BROWN ACADEMY School Year 2008-09

REPORT NO: 09-019

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
RONALD BROWN ACADEMY
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BACKGROUND

For School Year 2008 – 2009, 1100 students were enrolled at Ronald Brown Academy, which has grade levels Pre-Kindergarten through Sixth. Ms. Nancy Ross was the Principal during this time period and has been serving in this capacity since August 2001.

Ms. Ross also performs the bookkeeping duties.

Ronald Brown Academy maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, community donations (Exxon, Mobile & Panasonic) and special project funds (i.e., Skillman Grant & Title I). 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.

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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 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>	\$87,589

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the following control weaknesses:

- Non-compliance with District cash management policy
 - Cash receipts were not always issued
 - When cash receipts were provided, they were not always issued sequentially.
 - Bank reconciliations were not prepared properly.
 - Checks were not always restrictively endorsed.
 - Checks were not always deposited in a timely manner.
 - Fundraiser documents were not used for fundraising events.
- Banking documents including the check endorsement stamp were not current.
- Lack of segregation of duties.

The detail of this finding and recommendation is included in the Findings Section of this report.

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AUDIT RESULTS IN BRIEF (continued)

Achievements

Ronald Brown Academy is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as a High Performing School. This indicates that they have met criteria such as: (1) Meeting or exceeding grade-level expectations in English, math and science; (2) Offering challenging curricula to all students; and (3) Demanding consistent attendance and punctuality from all students, etc.

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:

- Cash receipts were not always issued
- When cash receipts were provided, they were not always issued sequentially.
- Bank reconciliations were not prepared properly.
- Checks were not always restrictively endorsed.
- Checks were not always deposited in a timely manner.
- Fundraiser documents detailing the purpose of the fundraiser, authorization for activity and profit/loss statements were not completed.

Cause

Lack of adherence to existing District policies (i.e., SAFM.)

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 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 – Banking Documents Were Not Current:

To assure accountability over deposited funds and to limit any potential discrepancies over rightful claims of bank deposits, good business practices would require that bank documents and transactions associated with a given account are recorded in an account that can be identified by the owner's name.

The school's name was changed in 2001, however the bank account, applicable banking documents, as well as the check endorsement stamp remained in the school's previous name i.e., Stellwagen School Fund.

Cause

Lack of adherence to good business practices.

Effect

Using other than the proper name on banking documents and transactions increases the risk that deposits and other banking transactions could be misapplied.

Recommendation

The Principal should contact bank officials to get the name of the account updated to reflect the current school name and to obtain the proper name on the endorsement stamp.

3. Finding – Lack of Segregation of Duties:

The "School Administrative Financial Manual 2006 -07" (SAFM) governs the cash management function including adequate segregation of duties.

We noted the Principal performed the bookkeeping duties of receiving funds, maintaining cash receipts and disbursement ledgers, preparing funds for deposit, authorizing expenditures, writing checks and reconciling the bank account.

Cause

Lack of adherence to District policy requiring a segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

Effect

The school account was more susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by another staff member.

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MANAGEMENT RESPONSE

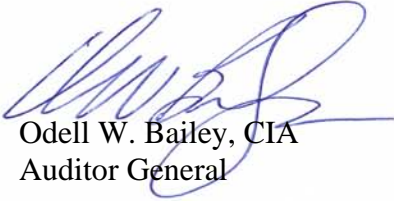
Management responses were provided by Ms. Nancy Ross, Principal:

1. Checks not restrictively endorsed: This was an oversight. I will have the cosigners double check the checks.
2. Fund Raiser Forms: This job will be delegated to ensure that it gets done. We will establish a checklist to make sure that everything that needs to be done, gets done.
3. Check Deposits: I am putting into place a policy where either my Assistant Principals or myself will get all checks into the bank within 48 business hours. I will notify my Clerical staff of the check, so they can remind me to get it into the bank.
4. Banking Documents: I don't write that many checks so that set of checks from 2001 just ran out in May '09. After the audit, I ordered new checks which say Ronald Brown and have been using them since May. We will be ordering a stamp that says Ronald Brown as well. I also redid the name change paperwork and the statements come in the name of Ronald Brown.
5. Bank Reconciliations; Cash Receipts; Lack of Segregation of Duties: I am immediately putting into place an assignment of duties in regards to the account. I always felt that I had to do everything, so that it was done properly. This is no reflection on anyone, this is a personality trait. For a long while I was short of clerical help so, I needed them to ensure our enrollment and attendance efforts were always correct, so I took care of the accounting. My Assistant Principals will do the reconciliations starting the new fiscal year. From now on, my Assistant Principals and Clericals will maintain the receipts and getting monies into the bank on time. We will establish a check and balance system for each other, making sure that everything gets done on time.

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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