

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-032

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, approximately 980 students were enrolled at Chadsey High School, which has grade levels Seventh through Twelfth. Mr. Anthony Jones was the Principal during this time period and has been serving in this capacity since August 2008. Mr. Jones has also held principal positions at Cody 9th, Murphy Middle and Winterhalter.

Ms. Tecora Sterrett, Secretary, performs the bookkeeping duties and has been doing so for twenty-seven years. Prior to this assignment, Ms. Sterrett was a bookkeeper for two years at Northeastern High School.

Chadsey High School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraisers, and special project funds (GM & Ford Robotics Grants & Title I). Sources of District Fund Revenues include Food Services (i.e., lunchroom and athletic game receipts).

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>	\$52,856

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:
 - Safeguarding and accounting of cash receipts did not always occur.
 - Supporting documentation was not always retained for check disbursements.
 - Checks received were not restrictively endorsed “for deposit only.”
 - Checks were not always voided properly.
 - School ledgers were not always updated timely to reflect banking activity.
 - The fundraising process included improper cash management practices.
 - Bank reconciliations were not signed and dated by the Preparer or Reviewer.
- Athletic game receipts were not forwarded to the District.

The detail of this finding and recommendation is 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 function within the District.

The following non-compliance issues were noted:

- The cash count performed during the audit disclosed the following:
 - One instance where a \$20 bill was located in the back of a receipt book. The Bookkeeper was unaware of this fact and therefore unaware of what the funds represented.
 - A \$20 discrepancy was noted between the actual cash total for Prom monies collected and the recorded total i.e., there was \$20 more in cash than the recorded amount.
 - The International Ethnic Festival monies had not been counted.
- There were instances where check issuances did not have adequate supporting documentation.
- Checks received were not restrictively endorsed “for deposit only.”
- There were two instances where checks were not voided properly. One check was noted as void on the school’s records but the check could not be located. There was another instance where the check was voided on the school’s records but the physical check did not have void written across the face of the check.
- A completion of the audit Cash Receipt Ledger Template, disclosed a negative balance of \$215.00 representing funds not deposited. The amount reflected a bank correction for monies deposited; however the school’s ledger had not been adjusted.
- Teacher Sponsors were required to use personal funds during the initial phase of the fundraiser and were reimbursed from sales via proceeds, as opposed to requesting checks for related expenses.
- Bank reconciliations were not signed and dated by the Preparer or Reviewer, evidencing timely preparation and proper management review.

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.

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AUDIT FINDINGS (continued)

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.

2. Finding – Athletic Game Receipts Were not Forwarded to the District:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District including specific procedures for district revenue: “The District uses a blue Revenue deposit ticket. The blue deposit tickets are used for collection of funds from fines, summer school, extended day, athletics and other revenue.” The SAFM also states that “the school acts as the agent, collecting monies for the School District... Funds deposited into this account are:

- a. Lunchroom receipts
- b. Fines
- c. Athletic/league game receipts
- d. Summer school tuition
- e. Evening school tuition...”

Athletic game receipts were not forwarded to the District revenue account. Although it is common practice to deposit athletic game receipts into the school checking account, this is not in compliance with policy.

Cause

Lack of adherence to District policies.

Effect

Lack of adherence to applicable policies and proper accounting practices could result in the District’s inability to fully access and utilize all available funds in an optimum manner. While the District realizes the expense portion of athletic financial transactions via the school’s submission of an AC-24 form with its relevant costs, it does not have the benefit of processing the revenue side of the financial transaction.

Recommendation

The Principal should ensure that all financial activity related to gate receipts (i.e., revenue and expenses) are processed in accordance with established policies and procedures.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Assistant Superintendent

DATE: July 13, 2009

SUBJECT: Chadsey High School Financial Related Audit

For School Year 2008 – 2009, Mr. Anthony Jones was the Principal during this time period and had been serving in that capacity since August 2008. Chadsey High School has been identified as a school closure and Mr. Anthony Jones has not received a notice for renewal.

The audit results in brief discovered that Chadsey High School has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. 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.

Finding – Inadequate Controls Over Athletic Receipts and Disbursements:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District. Proper safeguarding and accounting of cash receipts did not always occur. Supporting documentation was not always retained for check disbursements. Checks received were not restrictively endorsed “for deposit only.” Checks were not always voided properly. School ledgers were not always updated timely to reflect banking activity. The fundraising process included improper cash management practices. Bank reconciliations were not signed and dated by the Preparer or Reviewer. In addition, Athletic game receipts were not forwarded to the District.

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MANAGEMENT RESPONSE (continued)

Recommendation

Currently, Mr. Jones did not have his contract renewed by the district. In the event he receives a contract renewal, he shall ensure that all staff responsible for financial transactions, are trained according to the District policy for cash management activities, as detailed in the "School Administrative Financial Manual 2006-07.

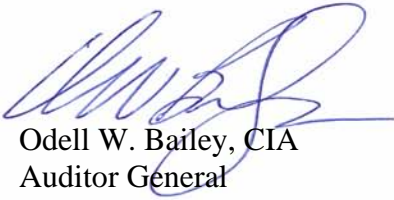
In addition, Mr. Jones shall ensure that all individuals involved in the cash management process are aware of where current District policies are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

To the extent that any future athletic events are held at the school, but no fees will be charged and thus no cash receipts will be generated, the principal should document through a memo at the time of the event that no cash receipts were generated. If such documentation exists for the school year in question, provide such documentation to the audit team for review.

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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