

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF DETROIT DAY SCHOOL FOR THE DEAF School Year 2008-09

REPORT NO: 09-057

REPORT DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
DETROIT DAY SCHOOL FOR THE DEAF
FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, 36 students were enrolled at Detroit Day School for the Deaf, which has grade levels Pre-School through Ninth. In addition, there is a newly implemented Successful Transition Experience Preparation (STEP) program, which includes students age 16 – 20. Ms. Jan Goike was the Assistant Principal in charge of the building during this time period and has been serving in this capacity for three years. Ms. Candace L. Apple is the new Principal.

Ms. Goike also performed the bookkeeping duties for the school.

Detroit Day School for the Deaf maintains a commercial checking account and a savings account with Chase Bank. Primary sources of General School Funds include student activities, fundraisers, vending machine revenue, donations (Target, IBM Computershare, and Farmer Reibe) and special project funds (i.e., Act 18, 31A, MEMIC Insurance, Cornell University, Healthy Choice, Eppert Family, & Butterfly Garden). There are no sources of district fund revenue.

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>	\$36,578

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 regarding cash receipt referencing in the school ledger.
- Lack of segregation of duties. The principal performed all the bookkeeping duties, resulting in improper segregation of duties.
- Funds were not adequately safeguarded.

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 school did not comply with the requirement to reference cash receipt numbers in the school ledger.

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.

2. Finding – Assets Not Adequately Safeguarded:

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

A former bookkeeper remained on the account as an authorized signer.

Cause

Failure to comply with SAFM and best practices regarding proper safeguarding of assets.

Effect

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

Recommendation

The Principal should request the removal of the former bookkeeper as an authorized signer on the bank accounts.

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AUDIT FINDINGS (continued)

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 separation 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.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

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MANAGEMENT RESPONSE

Management response provided by Candace L. Apple, Principal (new principal).

The following is a response to the audit finding for Detroit Day School or the Day for school year 2008-2009.

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

- **Written Response:** The former principal, when passing on duties and information to me, made no mention of financial manual or financial guidelines to adhere to.
- **Corrective Action:** I will locate and utilize the financial manual (SAFM) from the DPS Intranet. My bookkeeper and I will participate in financial training when it becomes available.

Finding 2. **Assets Not Adequately Safeguarded:**

- **Written Response:** As the new principal. I was unaware that the former booker, of years past, was still on the books as an authorized signer.
- **Corrective Action:** I will/have request(ed) that the former bookkeeper be removed as an authorized signer.

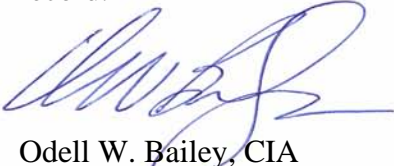
Finding 3. **Lack of Segregation of Duties:**

- **Written Response:** Stepping in as a new principal, I can see how non-compliance with policy and procedures can have a negative appearance on financial matters.
- **Corrective Action:** I will institute a check and balance system in the school. Establishing a delegation of duties for the bookkeeper. Also, I will oversee and monitor all cash transaction, including monthly bank reconciliations.

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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.

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Odell W. Bailey, CIA
Auditor General