

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF DOUGLASS ACADEMY School Year 2008-09

REPORT NO: 09-067

REPORT DATE: June 30, 2009

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DOUGLASS ACADEMY
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BACKGROUND

For School Year 2008 – 2009, 300 students were enrolled at Douglass Academy, which has grade levels Ninth through Twelfth. Mr. Sean Vann was the Principal during this time period and has been serving in this capacity for the past five years. The bookkeeping duties have been performed for the past 2 years by Ms. Mary Jackson, Administrative Assistant. Ms. Jackson began completing the monthly account reconciliations in January 2009, taking these duties over from Mr. Vann.

Douglass Academy School maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include athletic events, fundraising activities, prom dues, fines, vending machines, and school store (DECA) and community donations. 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.
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 example, lunchroom deposits.

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SCOPE & METHODOLOGY (continued)

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 Account Deposits</u>	\$31,208

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:
 - Pre-numbered duplicate receipt forms were not prepared and distributed,
 - Bank deposits were not made consistently in a timely manner,
 - Disbursements were not approved by the Principal,
 - Supporting documentation for expenditures was not maintained,
 - Ledger not properly maintained,
 - Bank reconciliations were not dated by the preparer
- Inappropriate Expenditure from cash receipts for athletic events.

The detail of these findings and recommendations are 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.

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipt forms were not prepared and distributed,
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 - Supporting documentation for expenditures was not maintained,
 - Ledger not properly maintained,
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Cause

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests as required for in the District’s 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 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.

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AUDIT FINDINGS (continued)

2. Finding – Inappropriate Expenditure from Receipts for Athletic Events:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function within the District.

The school’s cash management practice was to pay football game expenses for two hired employees from ticket sales proceeds, rather than issuing a check. The remaining cash receipts were then deposited into the bank account.

Cause

There was non-compliance with district policy (i.e., SAFM), regarding cash receipts and expenditures.

Effect

Financial records were incomplete and football game receipts were susceptible to misuse and/or misappropriation.

Recommendation

The Principal should ensure that all:

Cash receipts (athletics and concessions sales) are submitted to the bookkeeper and documented on pre-numbered receipt forms,

Cash receipts and disbursements are accurately recorded in the school ledger, and

Expense payments are made with school checks (e.g. payments to officials, ticket takers, ticket sellers and the cost of concessions.

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MANAGEMENT RESPONSE

Management response provided by Sean D. Vann, Principal.

The Director of the Athletic Department authorized my Athletic Director and all Athletic Directors to pay time keeper, gate attendants, and ticket takers at scheduled games out of gate receipts.

In-addition there is also another noted irregularity. It was reported the school received a donation from Target on 3/01/09 but it was not deposited until 5/15/09. I'm not in agreement with this audit findings also. The donation from target was delivered into the school office at the end of the month.

Moreover, to be in compliance with SAFM as principal I will implement the following Recommendations:

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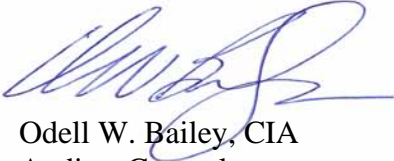
Cash receipts and disbursements are accurately recorded in the school ledger, and

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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