

Detroit Public Schools
Office of Auditor General



FINANCIAL RELATED AUDIT
OF
HALLY MAGNET MIDDLE SCHOOL
School Year 2008-09

REPORT NO: 09-094

REPORT DATE: June 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 446 students were enrolled at Hally Magnet Middle School, which has grade levels Sixth through Eighth Grade. Ms. Rita Davis was the Principal during this time period and has been serving in this capacity since 2005. Prior to this assignment, she was the Assistant Principal of Detroit School of the Arts for four years.

Ms. Denise McNeil, Lead Secretary, performs the bookkeeping duties and has done so since February 2009. Prior to this assignment she performed the bookkeeping duties at MacDowell Elementary for two years.

Hally Magnet Middle maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, fundraising activities and special project funds (i.e., Skillman Grant). 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 – March2009):

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$21,493

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy. Specifically,

- Expenditures were made from activity accounts with negative balances that is, funds were not available for expenditures.
- Lack of supporting documentation for expenditures.
- Sales tax was paid on expenditures.
- Financial documentation was not available for review. (i.e., pre-numbered duplicate receipt form books).

The detail of these findings and recommendations are included in the Findings Section of this report.

Achievements

Hally Magnet Middle 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.

In addition, Hally’s standardized test scores exceed those of the District and Hally has produced a Grand Award Winner at the Science and Engineering Fair of Metro Detroit for the past eight years.

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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:

- Expenditures were made from activity accounts with negative balances that is, funds were not available for expenditures.
- Lack of supporting documentation for expenditures.
- Sales tax was paid on expenditures.
- Financial documentation was not available for review. (i.e., pre-numbered duplicate receipt form books).

Cause

The school official stated that she was unaware of the requirement to use certain forms for cash receipts and check requests as outlined 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, 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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MANAGEMENT RESPONSE

**Hally Magnet Middle School
Rita S. Davis, Principal
2585 Grove
Detroit, Michigan 48221
(313) 494-3939**

June 24, 2009

Mr. Odell W. Bailey, CIA, CGFM
Auditor General
Detroit Public Schools
3011 W. Grand Blvd.
6th floor Fisher Bldg., Ste. 601 A
Detroit, Michigan 48302

Dear Mr. Bailey:

I am in receipt of the Financial Related Audit Report No. 09-094 for Hally Magnet Middle School. Within this report, four specific Audit Findings were cited. To provide explanation and proper course of action for each finding, please review the following:

Finding:

- *“Expenditures were made from activity accounts with negative balances that is, funds were not available for expenditures.”*

Response:

Although mitigating circumstances were present, I concur with this statement:

- Upon review of all ledgers for the audit period specified, this issue occurred in the month of February, 2009. During the transition of bookkeepers at Hally, postings became delayed. The line item in question was quickly restored and posted a positive balance by the next month's ledger. Currently, all policies and procedures as outlined in the DPS School Administrative Financial Manual are adhered to.

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MANAGEMENT RESPONSE (continued)

Finding:

“Lack of supporting documentation for expenditures.”

Response:

I concur with this statement.

- Although every effort was made to maintain a receipt for every item purchased, a copy of one receipt was missing. To remedy this, I am in the process of acquiring a copy of the canceled check from the bank for my records. It will show proper disbursement of funds. I will make sure that all receipts are submitted to me after purchases are made and they will be properly maintained.

Finding:

“Sales tax was paid on expenditures”.

Response:

I concur with this statement:

- Sales taxes were paid on a small number of low cost items. This was done in error, and will not happen again. All staff responsible for financial transactions will be trained on District policy for cash management activities. Tax exempt form will be used for all school expenditures.

Finding:

“Financial documentation was not available for review, (i.e. pre-numbered duplicate receipt form books.)

Response:

I concur with this statement:

- The receipt book maintained by former Bookkeeper, Ms. Yolanda Smith, could not be located after her transfer. I alerted Employee Relations of her transfer and requested through my Assistant Superintendent that Ms. Smith return to Hally to properly close out her bookkeeping responsibilities and turn over all documentation. The Assistant Superintendent made the request. However, Ms. Smith declined stating her new position was too demanding for her to return. I request assistance toward the resolution of this matter. Presently, a new receipt book is maintained according to the policies and procedures as outlined in the School Administrative Financial Manual 2006-07.

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MANAGEMENT RESPONSE (continued)

In conclusion, as the principal and lead administrator of Hally Magnet Middle School, I will follow all policies and procedures to ensure that the cash management system is effective in controlling the receipt, processing, deposit, disbursement and accounting of funds. Doing so will limit any risk of theft, misuse and/or misappropriation, and will ensure that all General School and District funds are properly accounted for, safeguarded and used as intended.

I will ensure that all staff members responsible for financial transactions are trained on District policy for cash management activities, as detailed in the "School Administrative Financial Manual 2006-2007".

Rita S. Davis
Principal
Hally Magnet Middle School.

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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