

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF ERMA HENDERSON LOWER SCHOOL

School Year 2008-09

REPORT NO: 09-102

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
ERMA HENDERSON LOWER SCHOOL
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BACKGROUND

For School Year 2008 – 2009, approximately 260 students were enrolled at Henderson Lower School, which has grade levels Kindergarten through Fourth. Ms. Marian Jennings-Jones was the Principal during this time period and has been serving in this capacity since August 2006.

Ms. Jamie McLemor, Secretary, performs the bookkeeping duties and has been doing so since December 2001.

Henderson Lower School Elementary 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., Title I & Safe and Drug free). 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>	\$1,875

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
 - Blank checks were endorsed, prior to check requests.
 - Void checks were improperly voided.
 - Receipt numbers were not referenced in the school ledger.
 - Receipts were not always issued sequentially.
 - Multiple receipt books were utilized.
 - Check forms were not used to request check issuance
 - Documentation was not retained to support check disbursements.
 - One bank reconciliation was not prepared.
 - Bank reconciliations were not signed and dated by a Preparer or Reviewer.
 - Fundraising documentation was not completed.
 - One fundraising event permitted the vendor to be paid from the sales proceeds, as opposed to issuing a check.

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:

- Blank checks were endorsed, prior to check requests. The school practice was to maintain approximately three endorsed checks in case the second signer was absent.
- Void checks were improperly voided i.e., did not have void written across the face of the check.
- Receipt numbers were not referenced in the school ledger.
- Receipts were not always issued sequentially.
- Multiple receipt books were utilized.
- Check forms were not used to request authorization of check requests.
- Documentation was not retained to support check disbursements.
- The March 2009 bank reconciliation was not prepared.
- Bank reconciliations were not signed and dated by a Preparer or Reviewer, evidencing timely preparation and proper management review.
- Fundraising documentation was not completed i.e., purpose of the fundraiser, authorization for activity and profit/loss statements.
- The school picture fundraising event permitted the vendor to be paid from the sales proceeds, as opposed to issuing a check.

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. For example, endorsing checks prior to issuance is a practice that can lead to unauthorized disbursements, particularly in an environment where no documentation was needed to request a check be issued.

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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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Regional Superintendent

DATE: July 23, 2009

SUBJECT: Erma Henderson-Lower School Financial Related Audit

This communication is written as a response to the audit findings on Erma Henderson-Lower School. Erma Henderson-Lower School is closing and merging with Erma Henderson Upper to create the Erma Henderson School. Principal, Marian Jennings-Jones has received a notice of non renewal. The audit findings suggested that there was non-compliance with District cash management policy; blank checks were endorsed prior to check requests. Void checks were improperly voided and receipt numbers were not referenced in the school ledger. Receipts were not always issued sequentially and multiple receipt books were utilized. Check forms were not used to request check issuance and documentation was not retained to support check disbursements. One bank reconciliation was not prepared and bank reconciliations were not signed and dated by a Preparer or Reviewer. Fundraising documentation was not completed and one fundraising event permitted the vendor to be paid from the sales proceeds, as opposed to issuing a check.

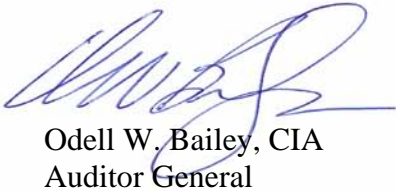
Recommendations:

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. For example, endorsing checks prior to issuance is a practice that can lead to unauthorized disbursements, particularly in an environment where no documentation was needed to request a check be issued. In the event the principal is rehired, the principal must 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 2006-2007. The principal 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.

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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