

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF JERRY L. WHITE CENTER SCHOOL School Year 2008-09

REPORT NO: 09-114

RELEASE DATE: June, 2009

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BACKGROUND

For the 2008-2009 School Year, 300 students were enrolled at Jerry L. White Center School, which has grade levels ninth through twelfth. Ms. Cynthia Patton-Johnson was the Assistant Principal in charge of the school during this time period and has been serving in that capacity since July 2006.

Ms. Yvette Minter, Clerical III, performed bookkeeping duties and has done so since July 2005.

Jerry L. White maintains two commercial checking accounts one at Chase Bank and one at Michigan First Credit Union. Primary sources of General School Funds are student activities and fundraisers. 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 School and District Funds (July 2008 – March 2009)

ACCOU TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$170

Table 1.2: Cash Receipts in Unauthorized Bank Account (November 2008 – March 2009)

ACCOU TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$4,054

AUDIT RESULTS IN BRIEF

Based on our audit of the Jerry L. White cash management process, we noted the following control weaknesses:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipt forms were not issued for funds received.
 - Bank reconciliations were not prepared.
- Petty cash funds are not maintained properly.
- Unauthorized bank account maintained with no retention of financial records

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 following was noted during the test of compliance with the "School Administrative Financial Manual 2006 -07" (SAFM):

- Pre-numbered duplicate receipt forms were not issued for funds received.
- Bank reconciliations were not prepared.

Cause

School officials stated that they were unaware of the requirements to use certain forms included 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 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 – Petty Cash Fund Maintained without Appropriate Financial Records:

The "School Administrative Financial Manual 2006-07" (SAFM) governs the maintenance of petty cash funds including required documentation:

The school did not deposit most school funds into any bank account. Instead the funds for the Physical Education Department, Commercial Lunch Program and Vocational Classes were used as petty cash funds. In addition, records related to petty cash funds were insufficient.

The following documentation was not maintained:

- Approval for reimbursements from the fund.
- Ledger of disbursements and replenishments.
- Supporting documentation for expenditures from the fund.

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AUDIT FINDINGS (continued)

Cause

School officials stated that they were unaware of the District’s SAFM and the petty cash policy requirements.

Effect

The school funds are more susceptible to fraudulent transactions when there is insufficient recordkeeping and supporting documentation.

Recommendation

The Principal should ensure that all appropriate records related to petty cash activity are maintained in compliance with District policy and good business practices.

3. Finding – Unauthorized Bank Account Maintained with No Retention of Financial Records:

The Finance Division issued a “Procedures for Authorized Signers on School Checks” detailing the authorized financial institutions to maintain school bank accounts and the need to close unauthorized accounts, as indicated below:

“**Note:** All school checking accounts must be at either Comerica Bank or JPMorgan Chase Bank. If the school account is at another financial institution, please contact the Office of Accounting to make the necessary changes.”

The audit disclosed the school maintained an account at Michigan First Credit Union. In addition,

- The account was maintained in the name of a school staff member.
- Insufficient documentation was maintained i.e., the following required records were not retained:
 - Bank Statements
 - Bank Reconciliations.
 - Pre-numbered duplicate receipt forms.
 - Cash Receipts/Disbursements Ledgers.
 - Documentation of approval for expenditures.
 - Supporting documentation for expenditures.
 - Bank Deposit Tickets.

Cause

Lack of adherence to District policies and procedures.

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AUDIT FINDINGS (continued)

Effect

There is no assurance of accountability over the funds deposited into the account, making school funds more susceptible to inappropriate and/or misappropriation.

Recommendation

The Principal should contact the Office of Accounting to receive proper instructions on how to close the unauthorized account and ensure all school bank accounts are maintained at authorized financial institutions.

In addition, 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."

Lastly, 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: Jerry L. White Financial Related Audit

This communication is written as a response to the audit findings on Jerry L. White Special Education Center. The audit reported that Jerry L. White cash management process, it was noted that following control weaknesses, non-compliance with District cash management policy and/or ineffective practices. The audit results in brief discovered that Jerry L. White Center has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations.

The school did not deposit most school funds into any bank account. Instead the funds for the Physical Education Department, Commercial Lunch Program and Vocational Classes were used as petty cash funds. Records related to petty cash funds were insufficient and the following documentation was not maintained: Approval for reimbursements from the fund, ledger of disbursements and replenishments, supporting documentation for expenditures from the fund. The Finance Division issued a "Procedures for Authorized Signers on School Checks" detailing the authorized financial institutions to maintain school bank accounts and the need to close unauthorized accounts, as indicated below. All school checking accounts must be at either Comerica Bank or JPMorgan Chase Bank.

The audit disclosed the school maintained an account at Michigan First Credit Union and the account was maintained in the name of a school staff member. Insufficient documentation was maintained and the following required records were not retained: Bank Statements, Bank Reconciliations, Pre-numbered duplicate receipt forms, Cash Receipts/Disbursements Ledgers, Documentation of approval for expenditures, supporting documentation for expenditures, Bank Deposit Tickets. 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.

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MANAGEMENT RESPONSE (continued)

Recommendations:

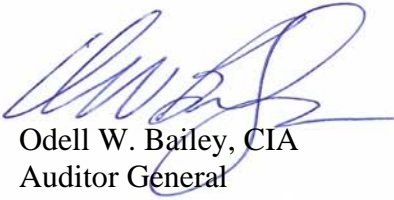
The Principal should contact the Office of Accounting to receive proper instructions on how to close the unauthorized account and ensure all school bank accounts are maintained at authorized financial institutions. The principal must ensure that all staff responsible for financial transactions, are trained 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.

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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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