

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF KEIDAN SPECIAL EDUCATION CENTER

School Year 2008-09

REPORT NO: 09-117

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 - 2009, 221 students enrolled at Keidan Special Education Center which has grade levels Pre-Kindergarten through eighth. Ms. Joyce Boyd was the Principal and has been serving in this capacity for the past year. The bookkeeping duties have been performed for the past year by Ms. Trenita Burks, Head Secretary.

Keidan Special Education Center maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, community donations, and district grants (Skillman, Head Start, and Macul). The primary source of District Fund Revenues is the lunchroom collections. Note:

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 example, 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 – May 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$10,423

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,

- Receipts are not recorded in a pre-numbered duplicate receipt book
- Cash receipt numbers were not posted in the cash receipts ledger
- Bank reconciliations were not being forwarded to Central Accounting
- Sales taxes were paid by employees for school related expenditures

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)

The following non-compliance issues were noted:

- Receipts are not recorded in a pre-numbered duplicate receipt book
- Cash receipt numbers were not posted in the cash receipts ledger
- Bank reconciliations were not being forwarded to Central Accounting
- Sales taxes were paid by employees for school related expenditures

Cause

School officials stated they were unaware of the District’s SAFM and therefore were not aware of certain forms and requirements for cash receipt activity.

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.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Regional Superintendent

DATE: July 23, 2009

SUBJECT: Keidan Special Education Center Financial Related Audit

This communication is written as a response to the audit findings on Keidan Special Education Center.

The audit results in brief discovered that Keidan Special Education Center has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. Receipts are not recorded in a pre-numbered duplicate receipt book, cash receipt numbers were not posted in a cash receipts ledger, bank reconciliations were not being forwarded to Central Accounting, and sales taxes were paid by employees for school related expenditures. 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.

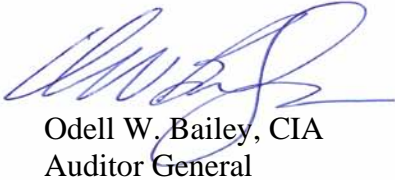
Recommendations:

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 2006-2007. The principal shall 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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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