

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
JOHN R. KING ACADEMIC AND
PERFORMING ARTS ACADEMY
School Year 2008-09

REPORT NO: 09-121

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
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BACKGROUND

For School Year 2008 – 2009, approximately 476 students were enrolled at John R. King Academic and Performing Arts Academy which has grades Kindergarten through Fifth. Ms. Vivian Hughes-Norde was the Principal during this time period and has been serving in this capacity for twenty-five years.

Ms. Debra Croslin, Secretary, performs the bookkeeping duties and has been doing so for four years.

John R. King Academic and Performing Arts Academy maintained a commercial checking account with Chase Bank. Primary sources of General School Funds included fundraising activities, donations (Target), and special project funding (Peace Grant & Title I). 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>	\$17,577

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:

- Cash collected for fieldtrips was not deposited timely.
- Cash collected for fieldtrips was not posted to the school ledger timely
- Four stale dated checks dating back to 2005 remained as outstanding on the bank reconciliations.
- Bank reconciliations were not signed and dated by the Preparer and Reviewer.

The detail of findings and recommendations are included in the Audit 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:

- Cash collected for fieldtrips was not deposited timely i.e., was deposited to the checking account on the day of the trip in anticipation of having to provide refunds.
- Cash collected for fieldtrips was not posted to the school ledger timely i.e., was posted on the day of the trip.
- Four stale dated checks dating back to 2005 and totaling \$186.18, remained as outstanding on the bank reconciliations.
- Bank reconciliations were not signed and dated by the Preparer and Reviewer.

Cause

Lack of compliance with 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

TO: Mr. Odell W. Bailey, Auditor General

FROM: Vivian Hughes-Norde`, Principal, John R. King Academic and Performing Arts Academy

DATE: July 9, 2009

SUBJ: Corrective Actions for Audit Findings/ John R. King Academic & Performing Arts Acdy. Report # 09-121

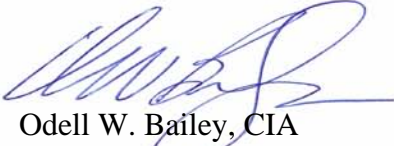
The following actions will be taken to control financial weakness/Non-Compliance:

1. In the future, all cash that is collected for field trips will be posted in the ledger and deposited in a timely manner.
2. The four stale dated checks dated back to 2005 and totaling \$186.18, will be voided and adjusted back into the checking account immediately.
3. Effective with the June 2009, all bank reconciliations statements forwarded to the Office of Accounting will be signed and dated by the Preparer and Reviewer and will be an ongoing process.
4. In the future when training is available, the person responsible for the duties of cash management will be sent to the training. Also, effective immediately, all persons responsible for cash management will be aware of where current District polices are stored on the intranet.

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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