

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
LAW ACADEMY
School Year 2008-09

REPORT NO: 09-122

REPORT DATE: June, 2009

Fisher Building · 3011 West Grand Boulevard · Suite 601A · Detroit, Michigan 48202

Office: (313) 873-7685 · Fax: (313) 873-7028

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BACKGROUND

For School Year 2008 – 2009, approximately 950 students were enrolled at Law Academy which has grades Pre-Kindergarten through Eighth. Mr. Jeffery Nelson was the Principal during this time period and has been serving in this capacity since December 2008. Prior to that Dr, Frano Ivezaj was the principal of the school.

Ms. Grace Lewis, Secretary, performs the bookkeeping duties and has been doing so for two years.

Law Academy maintained a commercial checking account with Comerica Bank. Primary sources of General School Funds included student activities, fundraising activities, donations (Target), and special project funding (Skillman, Title I, National Wildlife Federation). 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> | \$44,803 |

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:

- Pre-numbered duplicate copy check receipts were not used.
- Check request forms were not used.
- The August 2008 bank reconciliation was not prepared.
- 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.

Achievements

Law Academy is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Improving School. This indicates that they have met criteria such as: (1) Demonstrating the ability to assist students in obtaining satisfactory ACT and SAT scores; (2) Offering college prep curricula to most students; and (3) Having strong graduation and grade-level-retention rates, etc.

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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:

- Pre-numbered duplicate copy check receipts were not used when cash was collected.
- Check request forms were not used to obtain authorization for check disbursements.
- The August 2008 bank reconciliation was not prepared.
- Bank reconciliations were not signed and dated by the Preparer and Reviewer, evidencing timely preparation and review.

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 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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MANAGEMENT RESPONSE

Management response provided by Mr. Jeffery Nelson, Principal

- The August 2008 bank reconciliation was not prepared.

Per our conversation regarding the August 2008 audit findings; I do agree and will continue to operate with the suggested changes for the coming school year.

- Bank reconciliations were not signed and dated by the Preparer and Reviewer, evidencing timely preparation and review.

I will sign all monthly statements after they are reviewed.

- Check request forms were not used to obtain authorization for check disbursements.

We will create a check request document that I will authorize for any individual for which a check is dispersed.

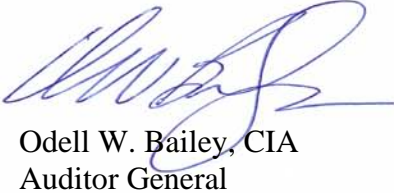
- Pre-numbered duplicate copy check receipts were not used when cash was collected.

We have purchased pre-numbered duplicate copy check receipts which we will use whenever cash is collected from any school event.

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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