

# **Detroit Public Schools Office of the Auditor General**



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## **FINANCIAL RELATED AUDIT OF MALCOLM X ACADEMY SCHOOL School Year 2008-09**

**REPORT NO: 09-130**

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**REPORT DATE: June 30, 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**

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For School Year 2008 – 2009, 375 students were enrolled at Malcolm X Academy School which has grade levels Pre-Kindergarten through Eighth. Ms. Freda Dawson was the Principal during this time period and has been serving in this capacity since 1999. The bookkeeping duties have been performed since 1995 by Ms. Deidre Huges, Clerical II.

Malcolm X Academy School maintains one commercial checking account with Chase Bank. Primary sources of General School Funds include school fundraisers (recycling), student activities, community donations (Box Tops and Target) and district grants (Skillman, Jordan and Snack). The primary source of District Fund Revenues is the lunchroom collections.

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**AUDIT OBJECTIVES**

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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

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**SCOPE & METHODOLOGY**

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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. Perform research as necessary.
- 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.

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**SCOPE & METHODOLOGY (continued)**

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- 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.

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**FINANCIAL SUMMARY**

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**Table 1.1**      **Cash Receipts from General and District School Funds (July 2008 – March 2009):**

<b>ACCOUNT TYPE</b>	<b>AMOUNT</b>
<u>Commercial Checking Deposits</u>	\$ 25,739

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**AUDIT RESULTS IN BRIEF**

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Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy.

- Receipts were not recorded in a pre-numbered duplicate receipt book
- Receipt numbers were not recorded in the ledger
- Multiple receipt books were used
- Disbursements were not approved by the Principal or Assistant Principal
- The availability of funds was not verified before disbursement (Negative Balances)
- The payee and/or amount was not documented on the check or check stub prior to distribution
- Checks were not signed by two authorized signers
- Cash receipt numbers were not referenced on the bank deposit ticket
- Differences resulting from bank reconciliations not investigated and resolved
- Bank reconciliations were not signed by the preparer and/or reviewer
- Bank reconciliations were not prepared
- Supporting documentation for expenditures was not maintained.
- Sales register tapes were not generated for revenue producing activities.
- Petty cash fund maintained without appropriate financial records.

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**AUDIT RESULTS IN BRIEF (Continued)**

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It should be noted that Malcolm X 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) Showed overall improvements over the last two years; (2) Improved MEAP scores, with 10 percent increase in two subject areas; and (3) Having students who are performing at a satisfactory rate in English, math, and science.

The detail of these findings and recommendations are included in the Findings Section of this report.

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**AUDIT FINDINGS**

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**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:

- Receipts were not recorded in a pre-numbered duplicate receipt book
- Receipt numbers were not recorded in the ledger
- Multiple receipt books were used
- Disbursements were not approved by the Principal or Assistant Principal
- The availability of funds was not verified before disbursement (Negative Balances)
- The payee and/or amount was not documented on the check or check stub prior to distribution
- Supporting documentation for expenditures were not maintained
- Checks were not signed by two authorized signers
- Cash receipt numbers were not referenced on the bank deposit ticket
- Differences resulting from bank reconciliations not investigated and resolved
- Bank reconciliations were not signed by the preparer and/or reviewer
- Bank reconciliations were not prepared

**Cause**

The school official stated that she was unaware of the District's SAFM and therefore was not aware of the requirements. A bookkeeping service was previously used to perform these duties.

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**AUDIT FINDINGS (continued)**

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**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.

**2. Finding – Supporting documentation for expenditures were not maintained:**

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function within the District.

Number	Date	Description	Amount
4960	8/12/08	Hercules & Hercules	518.95
4987	10/29/08	Freda Dawson	101.63
4995	11/05/08	Mark Watson	200.00
5012	12/09/08	Roland Matthews	350.00

**Cause**

There was a failure to comply with existing District policies.

**Effect**

The lack of documentation supporting expenditures raises serious concerns about the legitimacy of the expenditure and whether it was used for purposes other than approved school activities.

**Recommendation**

The Principal should review the “School Administrative Financial Manual 2006-07” in order to fully and clearly understand the role of the Principal and the related financial responsibilities. In addition, all staff responsible for financial transactions should be trained on District policy for cash management activities.

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**AUDIT FINDINGS (continued)**

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**3. Finding – Expenditures should have been processed through PeopleSoft:**

The audit disclosed expenditures for the Principals cell phone paid out of the General School Fund at various times during the year. Those expenses should have been paid via the PeopleSoft system:

Number	Date	Description	Amount
4970	10/01/08	Verizon Wireless	452.16
4994	10/31/08	Verizon Wireless	248.07
5036	02/23/09	Verizon Wireless	500.00

**Cause**

There was a failure to comply with existing District policies.

**Effect**

General School funds will not be available for their intended purposes when they are used for expenses that should flow through the District's PeopleSoft system.

**Recommendation**

The Principal should ensure that all expenditures are properly approved and processed through the procurement system, as required.

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**AUDIT FINDINGS (continued)**

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**4. 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 following documentation was not maintained:

- Approval for reimbursements from the fund, and
- Supporting documentation for expenditures from the fund.

**Cause**

School officials did not comply with District policies. They stated they were aware of the District’s SAFM; however they had limited knowledge of the requirements to use certain forms for cash activities.

**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.

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**MANAGEMENT RESPONSE**

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Management Responses provided by Ms. Freda Dawson, Principal:

This is being written in response to the audit results based on the audit done at Malcolm X Academy for the 2008 – 2009 school year.

I am requesting training for both myself and Ms. Deidre Hughes, as soon as possible. On August 24, 2009, we downloaded a copy of the Detroit Public Schools “Administrative Financial Manual 2006-07”. The control weaknesses noted will be corrected immediately.

I, as principal will 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 staff responsible for financial transactions will meet at least twice a month to review transactions completed and correct any discrepancies.

We will be 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. I will acquire a cell phone through district in order for those expenses to be paid via the PeopleSoft System.

For petty cash fund as well as general school fund the following documentation will be maintained (requests and approvals for reimbursements from the funds along with all supporting documentation for expenditures from the funds). We did provide supporting documentation for noted checks, 4960, 4987, 4995 & 5012, that we do have copies of the paperwork.

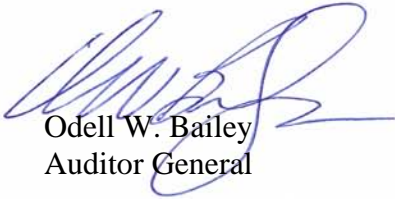
Our school Finance Committee will convene and establish all of their goals, objectives and policies in compliance with Detroit Public Schools “School Administrative Financial Manual 2006 – 2007.”

It is our desire at Malcolm X Academy that our staff and community will continue to work collaboratively with the district to identify creative and efficient management strategies to maximize our resources and to aggressively align our school funds with one core mission of educating our students and improving student achievement.

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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  
Auditor General