

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF SOUTHWESTERN HIGH SCHOOL School Year 2008-09

REPORT NO: 09-172

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
SOUTHWESTERN HIGH SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 647 students were enrolled at Southwestern High School, which has grade levels Ninth through Twelfth. Mr. Garnet Green was the Principal during this time period and has been serving in this capacity for two years. Prior assignments include Redford High, Cleveland Middle, Hampton Middle.

Ms. Laura Moore, Secretary, performs the bookkeeping duties for the school and has been doing so for 34 years.

Southwestern High School maintains a checking account and a savings account with Comerica Bank, Primary sources of General School Funds include student activities, fundraisers, donations (i.e., Arvin Meritor, Target, Alumni Association), vending machine revenue, and special project funds (i.e., School Improvement Grant & Title I). Sources of District Fund Revenues include Food Services (i.e., lunchroom), and athletic gate receipts.

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>	\$76,746

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the following compliance related exceptions:

- Cash Receipts:
 - Proceeds from fundraisers were not always deposited into the bank.
 - Supporting documentation was not always retained for fundraiser cash receipts.
- Cash Disbursements:
Supporting documentation was not always retained for expenditures related to fundraising events.
- Bank Reconciliations:
 - Funds were disbursed from negative balance school activity accounts.
 - Trial balances did not accurately reflect all cash receipts.
 - Bank reconciling items were outstanding for an extended period of time.
 - The principal did not sign and date reconciliations, evidencing timely and proper management review.
 - Checks were not always voided properly.

The detail of this finding and recommendation is included in the 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.

Non-compliance was noted regarding the following:

- Cash Receipts:
 - Proceeds from Prom ticket sales, approximately \$800 had not been deposited into the bank in anticipation of having to refund cash because of low ticket sales.
 - Supporting documentation was not retained for all fundraiser cash receipts (i.e., yearbook advertisements).
- Cash Disbursements:

Proceeds from Prom ticket sales, approximately \$800 had not been deposited into the bank in adequate supporting documentation was not always retained for expenditures related to fundraising events (i.e., prom ticket and year book related expenses).
- Bank Reconciliations:
 - A review of the trial balances disclosed that disbursements were made from several school activity accounts with negative.
 - In February 2009 there was a receipt of funds from the District in the amount of \$11,250 for the athletic fund; however the trial balances did not reflect proper allocation of the receipt i.e. athletic activity accounts continued to have negative balances.
 - There were bank reconciling items outstanding for an extended period of time some dating back to June 2007.
 - The principal did not sign and dated the reconciliations, evidencing timely and proper management review.
 - A voided check was not properly voided; it did not have void written across the face of the check and still appeared as an outstanding check on the school’s ledger (i.e., check #19900 dated November 2008).

Cause

Lack of knowledge and adherence to existing District polices (i.e., SAFM.)

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds.

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AUDIT FINDINGS (continued)

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

Management response provided by Mr. Garnet Green, Principal (new principal).

I was not the principal of Southwestern High School for the year which was audited, but I was very interested in the findings. After discussion with the staff who was available since I arrived at the school, I do agree that a lot of the procedures regarding the handling of the finances at the school site were not appropriate. Lack of training appears to be the main reason.

My priority is to provide opportunities for training to several administrators and clerical staff who will be responsible for the cash management and other financial transactions at the school. I will personally seek to be trained so I can be knowledgeable in controlling the receipt, processing, deposit, disbursement and accounting of funds. I will personally make sure that proceeds from fundraisers and any other activity will be deposited in a timely manner and all the appropriate documentation and receipts will be retained.

Also, no funds will be disbursed from negative balance accounts and all reconciliations will be done in a timely manner. I will contact the Central Accounting Office for assistance in the accounting process.

Sincerely,

Stefana Romanov,

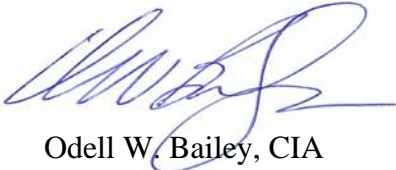
Principal, Southwestern High School

August 17, 2009

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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.

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General