

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF TAFT MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-177

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
TAFT MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-177**

BACKGROUND

For School Year 2008 – 2009, 424 students were enrolled at Taft Middle School, which has grade levels Sixth through Eighth Grade. Ms. Naomi Lewis was the Principal during this time period and has been serving in this capacity since 2003.

Ms. Linda Gilmore is the Membership Secretary, performs the bookkeeping duties since 1996.

Taft Middle maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, special project funds (i.e., Skillman Grant). 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
- 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.

**DETROIT PUBLIC SCHOOLS
TAFT MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-177**

SCOPE & METHODOLOGY (continued)

- 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>	\$21,151

AUDIT RESULTS IN BRIEF

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

- Non-compliance with District cash management policy and/or ineffective practices
 - Multiple pre-numbered duplicate cash receipt books were used.
 - Receipt numbers were not reference on the ledger and deposits
 - Deposits were not consistently made in a timely manner.
 - Bank reconciliations were not properly prepared.
- Lack of Safeguarding of Assets

Achievement:

Taft Middle School was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an Aspiring School. This indicates that they met criteria such as: (1) Close to becoming a High Performing, or Improving school; (2) Improved MEAP scores, with a 5% increase over the previous year; (3) Average performance in English, math, and science.

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

**DETROIT PUBLIC SCHOOLS
TAFT MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-177**

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:

- Multiple pre-numbered duplicate cash receipt books were used.
- Receipt numbers were not reference on the ledger and deposits
- Deposits were not consistently made in a timely manner.
- Bank reconciliations were not properly prepared.

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, 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.

2. Finding – Assets Not Adequately Safeguarded:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs safeguarding of cash receipts.

Blank checks are not properly safeguarded. The checkbook and check stock are kept in a wooden cabinet a top the safe.

Cause

Failure to comply with SAFM and best practices regarding proper safeguarding of assets.

**DETROIT PUBLIC SCHOOLS
TAFT MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-177**

AUDIT FINDINGS (continued)

Effect

Lack of adherence to District policies and best practices could result in financial losses due to theft.

Recommendation

The Principal should take the necessary actions to ensure assets are properly safeguarded.

MANAGEMENT RESPONSE

Management response provided by Ms. Naomi Lewis, Principal.

Finding 1

The principal and all other staff who will be responsible for financial transactions will be inserviced for the management of cash as required by the district. We will request a copy of the 2006-2007 (SAFM) so that we can be in compliance. All receipt books that will be used will be numbered and referenced in the ledger in a consistent manner. Deposits will be made weekly so that large sums of money are not left in the vault at anytime. We will ask for assistance in completing the Bank reconciliation in the manner consistent with the District.

Finding 2

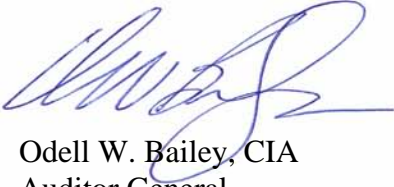
The checkbook and check stock are removed from the wooden cabinet and placed in the inner vault. All assets that come in daily will be placed in the vault immediately to ensure that we do not have losses due to theft.

Steps are in the process of being instituted to ensure compliance and control of funds. All weaknesses have been addressed so that the cash management system is in control of receipts, processing, deposits and disbursement of funds.

**DETROIT PUBLIC SCHOOLS
TAFT MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-177**

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