

# Detroit Public Schools Office of the Auditor General



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## FINANCIAL RELATED AUDIT OF WEST SIDE ACADEMY ALTERNATIVE EDUCATION School Year 2008-09

**REPORT NO: 09-187**

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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

**DETROIT PUBLIC SCHOOLS  
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**BACKGROUND**

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For School Year 2008 – 2009, 582 students were enrolled at West Side Academy Alternative Education High School, which has grade levels ninth through twelfth. Ms. Andrea Ford-Ayler was the Principal during this time period and has been serving in this capacity since 2002. The bookkeeping duties have always been performed by a third-party accountant. Since January 2009, Ms. Melzina Cannon has been the third-party bookkeeper for West Side Academy.

West Side Academy maintains one commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, school fundraisers, athletic events, senior class activities (dues, prom, yearbook), community donations (Farmers Insurance, Clean Safe and Drug Free Schools). 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. Performed research as necessary.

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**SCOPE & METHODOLOGY (continued)**

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- 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.

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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)**

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$35,283

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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. Specifically,

- The following non-compliance issues were noted.
  - Pre-numbered duplicate receipt forms are not issued for funds received.
  - Multiple cash receipts books were used simultaneously during the period
  - Supporting documentation for expenditures was not maintained
  - Bank reconciliations were not signed and dated by the Principal
  - Sales tax paid on expenditures
- Inaccurate or incomplete Deposit Slip Documentation.
- Expenditures were not in compliance with policy
- Petty cash fund maintained without appropriate financial records.
- Salary payments were made to several individuals.
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**Auditor's Note:**

The findings of this audit will be turned over to the Inspector General's Office for further investigation. Details 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 following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM):

- Pre-numbered duplicate receipt forms are not issued for funds received.
- Multiple cash receipts books were used simultaneously during the period
- Supporting documentation for expenditures was not maintained
- Bank reconciliations were not signed and dated by the Principal
- Sales tax paid on expenditures

**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 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 – Inaccurate/Incomplete Deposit Slip Documentation:**

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the banking process: The total of pre-numbered duplicate receipt forms did not always agree with the amounts recorded on deposit tickets.

**Cause**

The school officials and accountant did not comply with District policies and best practices.

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**AUDIT FINDINGS (continued)**

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**Effect**

Incomplete and inaccurate records prevent the ability to determine whether all receipts collected were deposited into the bank account.

**Recommendation**

The Principal should require all cash receipt numbers and amounts to be accurately noted on deposit slips in order to ensure that all funds received by the school are deposited into the school account.

**3. Finding – Expenditures not in compliance with policy:**

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function within the District. The audit disclosed expenditures that were outside the guidelines of the policy.

**Reimbursement for Mileage:** Teachers and administrative staff periodically attend events at various locations. Check request are issued to staff for the reimbursement of the total gasoline bill based on a receipt rather than on a mileage basis.

**Reimbursement for Lost Cell Phone:** A check request was approved and check issued to reimburse Mr. Norman Jacobs for a lost cell phone.

**Cause**

School officials did not comply with District policies. The mileage reimbursement process is not in compliance with the SAFM or IRS travel guidelines. The reimbursement for the loss of a personal watch is not within the SAFM guidelines.

**Effect**

These practices could lead to misuse and/or misappropriation of funds.

**Recommendation**

The Principal should ensure that all staff members responsible for financial transactions are trained on District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07.”

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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.

**5. Finding – Improper Salary Payments to Non-DPS Employees:**

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the payment of salaries to non-DPS employees. Prohibited expenditures include salaries paid to persons hired by the school as a contractor. A contractor must meet the criteria as stated by the Internal Revenue Services (IRS), which has ruled that most contractors are really employees based on IRS standards.

Any person earning \$600 or more per year must be given a 1099 form. As such, the SAFM states “all contracted services...should be paid through the Office of Accounting so the appropriate wage forms can be provided.” Several individual were being paid for services out of the school’s checking account.

**Cause**

Lack of knowledge resulting in non-compliance with IRS and District policies.

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**AUDIT FINDINGS (continued)**

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**Effect**

Lack of adherence with District policies has resulted in non-compliance with IRS rules. This could result in fines and/or penalties.

**Recommendation**

The Principal should ensure compliance with District and IRS policies regarding the payment of salaries. 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.

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**MANAGEMENT RESPONSE**

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**DETROIT PUBLIC SCHOOLS**  
West Side Academy High School  
1851 W. Grand Blvd.  
Detroit, MI 48208  
(313) 596-0776 – School  
Andrea F. Ayler, Principal



**To:** Odell W. Bailey, CIA Auditor General, Detroit Public Schools

**From:** Andrea F. Ayler, Principal, West Side Academy

**Date:** August 11, 2009

**Subject:** **Management Response -West Side Academy Alt. Education  
Financial Audit Report No. 09-187**

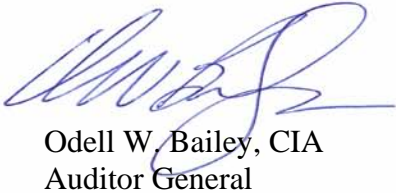
Please be advised this communication is in direct response to the above-mentioned subject **Internal Audit Report No. 09-187**. Management does concur with the findings as mentioned in the report, and thoroughly recognizes the associated effect that such findings may have on our school's overall financial health. As a result, we have acquired a recent copy of the **School Administrative Financial Manual**, and intend to adhere strictly to the rules and guidelines as stipulated within the District's Procedural Manual. This administration will make every effort to ensure that procedures at West Side Academy Alt. Ed. are in line with, and up to date with District policy and procedures to avoid similar findings in the future.

West Side Academy and its staff take very seriously our commitment to education, and clearly recognize the role that use of school funds and sound financial record keeping play. We will continue to strive to maintain adequate financial records which are in compliance with District Policy.

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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