

**Detroit Public Schools
Office of Auditor General**



**FINANCIAL RELATED AUDIT
OF
DREW MIDDLE SCHOOL
School Year 2008-09**

REPORT NO: 09-068

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 – 2008, approximately 344 students enrolled at Drew Middle School, which has grade levels Kindergarten through Eighth grade. Ms. Gerlma Johnson was the Principal during this time period and has been serving in that capacity since 2006. The bookkeeping duties are also performed by Ms. Johnson.

Drew Middle School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities (two picture days) and special project funding (e.g. CIS Grant, Title 1 and 31A). Sources of District revenue include Food Services (i.e. lunchroom), and Summer School.

AUDIT OBJECTIVES

The objectives of the audit were to ensure that:

- 1) The cash management system is effective in controlling the receipt, processing, deposit, disbursement and accounting of funds to limit the 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 receipts records and reviewing the check register for cash disbursements.
- 4) Completed a cash receipt ledger template: The ledger is 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 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>	\$2,963

AUDIT RESULTS IN BRIEF

Based on our audit of the Drew Middle School cash management process, we noted the following control weaknesses:

- Lack of Segregation of Duties

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

AUDIT FINDINGS

1. Finding – Lack of Segregation of Duties:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management function including adequate segregation of duties.

We noted the Principal performed the bookkeeping duties of receiving funds, maintaining cash receipts and disbursement ledgers, preparing funds for deposit, authorizing expenditures, writing checks and reconciling the bank account.

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AUDIT FINDINGS CONTINUED

Cause

Lack of segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

Effect

The school account was susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by another staff member.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

MANAGEMENT RESPONSE

As Principal of the Charles R. Drew Academy, I appreciate the feedback given by the office of the Auditor General. As such, I will comply with the recommendation to segregate cash management duties, with oversight and monitoring conducted by my office. I also would like to request a copy of the document identified as the "School Administrative Financial Manual 2006 -07", so that I am fully aware of all fiscal regulations and policies.

Gerlma A. S. Johnson

Principal, Charles R. Drew Academy

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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