

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
BECKHAM ELEMENTARY SCHOOL
School Year 2008-09

REPORT NO: 09-009

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 643 students were enrolled at Beckham Elementary School, which has grade levels Pre-Kindergarten through Fifth. Ms. Sandra Morgan was the Principal during this time period and has been serving in this capacity since August 2008.

Ms. Denise Williams, Secretary, performs the bookkeeping duties.

Beckham Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, community donations (Target) and special project funds (i.e., Skillman Grant, Safe Schools, Early Childhood). 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.

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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>	\$37,395

AUDIT RESULTS IN BRIEF

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

- Non-compliance with District cash management policy
 - A Parent Involvement school activity account was used improperly.
 - Several school activity accounts continued to have disbursements from negative balance accounts.
 - One instance was noted where reimbursement for DHT transportation did not have adequate supporting documentation.
 - Bank Reconciliations were not signed by the Preparer nor the Reviewer
- Two individuals were being paid for musical tutoring/teaching services out of the school checking account.

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.

The following non-compliance issues were noted:

- Per the Principal, she was not sure of the source of funding for a school activity account titled Parent Involvement. A review of July, 2008 financial records disclosed a balance of \$28,000 that was carried over from previous year(s). It was noted that the account was being used like a general school fund account with fundraising and donation receipts being posted to the account while several disbursements for miscellaneous school expenditures were made from the account.
- Several school activity accounts continued to have disbursements from negative balance accounts i.e., cash was not available to fund the activity.
- One instance was noted where reimbursement for DHT transportation was supported only by a hand-written note on a scrap of paper.
- Bank Reconciliations were not signed by the Preparer or the Reviewer, evidencing timely preparation and management review.

Cause

Lack of adherence to existing District policies (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.

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.”

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AUDIT FINDINGS (continued)

2. Finding – Unauthorized and Improper Salary Payments to Non-DPS Employees:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the payment of salaries to non-DPS employees. 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.”

Two individuals were being paid for musical tutoring/teaching services out of the school checking account. The amounts paid were in excess of the IRS 1099 reporting limits.

Cause

Circumventing procurement and contracting procedures for the hire of two individuals whose services were provided directly to the school without using District procedures and lack of knowledge of District policy related to cash management activities, resulting in non-compliance with IRS and District polices.

Effect

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

Recommendation

The Principal should ensure compliance with District 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 polices are stored on the intranet.

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MANAGEMENT RESPONSE

Management responses were provided by Diane P. Fleming, Regional Superintendent:

Response to Audit Findings: Principal of Beckham

Finding 1 – School Administrative Financial Manual Non-Compliance

Non -Compliance was noted as it relates to using Parent Involvement Money like General fund. From this day forward the newly assigned Principal will adhere to the School Administrative Financial Manual 2006-2007.

- Negative balances and funds will not continue.
- Requests for Disbursement of funds will have proper requests and signatures before a check is issued.
- Proper documentation including appropriate receipts must be in place for checks to be written.
- District Policy will be adhered to eliminate inconsistent practices, inefficiencies, inaccuracies and/or misappropriation of funds.
- All staff responsible for financial transactions will be trained on District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07.”

Finding 2 – Unauthorized and Improper Salary Payments to Non-DPS Employees:

Non compliance noted for paying tutors out of school checking account. The amounts paid were in excess of the IRS 1099 reporting limits.

From this day forward the newly assigned Principal will adhere to the School Administrative Financial Manual 2006-2007.

- The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the payment of salaries to non-DPS employees. 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.”
- All staff responsible for financial transactions will be trained on District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07.”

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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.

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Odell W. Bailey, CIA
Auditor General