

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-006

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 312 students were enrolled at Barton Elementary School, which has grade levels Pre-Kindergarten through Fifth. Dr. Freddie Neal was the Principal during this time period and has been serving in this capacity for 15 years.

Ms. Carolyn Thurman, Secretary, shares the bookkeeping duties with Ms. Jerri White, the former third party bookkeeper who now volunteers her services. Ms. Thurman receives cash, deposits cash, and processes check disbursements. She has these responsibilities for two years.

Ms. White is responsible for entering cash receipt and cash disbursement data into the school ledgers maintained in excel. She also prepares the monthly bank reconciliations.

Barton Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include fundraising activities, community donations (Wal-mart & Target) and special project funds (i.e., Skillman Grant). There are no sources of District Fund Revenues.

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.

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SCOPE & METHODOLOGY (continued)

- 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.
- 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>	\$14,586

AUDIT RESULTS IN BRIEF

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

- Stale-dated checks were listed as outstanding on the bank reconciliation,
- Instances were noted where cash receipt/ disbursement ledgers were not accurately maintained,
- March 2009 bank reconciliation was not completed,
- School vault combination was not changed when former bookkeeper responsibilities changes.

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

Achievement:

Barton Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Aspiring School. This indicates that they have met criteria such as: (1) Improved MEAP scores with a 5 percent increase over the prior year; (2) Have an average performance in English, math and Science; and (3) Sufficient parental and community partnerships, etc.

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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:

- As of March 2009, three stale-dated checks (April and May, 2008) remained listed as outstanding checks on the bank reconciliation.
- All school activity accounts were not accurately maintained in the school ledger. For example, related accounts were not properly debited/ credited when a transaction was posted. Also, a Skillman grant from a previous year was not closed out on the school’s books.
- The March 2009 bank reconciliation was not completed.
- Cash was not always adequately safeguarded since the vault combination had not been changed when a current staff member who was previously responsible for bookkeeping duties still had the combination to the vault. Per the current Bookkeeper, there was one instance where they were unable to account for a nominal dollar amount.

Cause

Lack of knowledge of and 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”

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.

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MANAGEMENT RESPONSE

Management response provided by Ms. Wendy Shirley, Principal (new principal for FY 2009/2010):

2. 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:

- As of March 2009, three stale-dated checks (April and May, 2008) remained listed as outstanding checks on the bank reconciliation.
- **Ensure that the books of record are posted to date. Verify that the reconciled bank statement and the school's records for the previous month are in agreement.**
- **Review and sign Trial Balance/General Ledger and Reconciled Cash Account Balance documents to indicate that the documents have been reviewed and are accurate:**
 - All school activity accounts were not accurately maintained in the school ledger. For example, related accounts were not properly debited/ credited when a transaction was posted. Also, a Skillman grant from a previous year was not closed out on the school's books.
Barton will maintain a complete, permanent and uniform system of financial records for financial activities conducted by Barton.
The general ledger for Barton will have a column heading for every activity, i.e., Preschool, Grants, Social Committee and a "Totals" column. The "Totals" column will include all receipts and expenditures.
 - The March 2009 bank reconciliation was not completed.
Monthly bank reconciliations will be completed within two days upon receipt of monthly banking statements.

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MANAGEMENT RESPONSE (continued)

- Cash was not always adequately safeguarded since the vault combination had not been changed when a current staff member who was previously responsible for bookkeeping duties still had the combination to the vault. Per the current Bookkeeper, there was one instance where they were unable to account for a nominal dollar amount.

As the incoming principal of Barton Elementary, a request will be made for the vault combination to be changed.

Cash, checks and money orders received will be:

- Documented at the time of receipt.
- Receipted through a school purchased pre-numbered duplicate receipt book. Multiple receipt booklets **WILL NOT BE USED** to record transactions.
- Receipts will be used to document all cash, checks and money orders received for deposit to General School Funds or Checking accounts.
- The receipt number will be used as a reference number when recording or posting the receipt transaction to a ledger.
- The pre-numbered receipts will be used in sequential order to ensure proper internal controls over all cash receipt transactions.

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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