

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-012

REPORT DATE: June, 2009

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BACKGROUND

For the 2008-2009 school year, approximately 240 students were enrolled at Birney Elementary School, which has grade levels Pre-Kindergarten through sixth. Ms. Shelagh Williams was the Principal during this time period and has been serving in this capacity since February 16, 2009. Previously, she held Principal positions at various schools throughout the District over the past five and a half years.

Ms. Williams also performs the bookkeeping duties and has done so since she became Principal.

Birney Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include fundraising activities by the Local School Community Organization (LSCO), corporate donation programs (e.g., Target and Exxon) and special project funding (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.

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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 School and District Funds (July 2008 – March 2009)

ACCOUT TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$26,175

AUDIT RESULTS IN BRIEF

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

- Pre-numbered duplicate receipt books were not used.
- Multiple receipt books were used simultaneously.
- Availability of funds was not verified before disbursements were made.
- Supporting documentation for expenditures was not maintained.
- Sales tax was paid on purchases.
- Petty Cash Fund was not properly maintained.
- Proper segregation of duties did not exist.

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

Achievement:

Birney Elementary was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an Improving School. This indicates that they met criteria such as: (1) Overall improvement over the sat two years; (2) Improved MEAP scores, with 10% increase in two subject areas; (3) Students who are performing at a satisfactory rate in English, math, and science.

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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 process.

The following non-compliance issues were noted:

- Pre-numbered duplicate receipt books were not used.
- Multiple receipt books were used simultaneously.
- Availability of funds was not verified before disbursements were made that is, disbursements were made from accounts causing or increasing a negative balance condition.
- Supporting documentation for expenditures was not maintained.
- Sales tax was paid on purchases.

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 activity and check requests.

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 – Petty Cash Fund Improperly Maintained:

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.

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AUDIT FINDINGS (continued)

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.

3. Finding – Proper Segregation of Duties Does not Exist:

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.

Cause

Proper separation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

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.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor
FROM: Derrick R. Coleman, Regional Superintendent
DATE: July 23, 2009
SUBJECT: Birney Elementary School Financial Related Audit

This communication is written as a response to the audit findings on Birney Elementary School. Birney has been identified as a school closure and Principal Shelagh Williams received a notice of non renewal for economic necessity and reorganization. The audit findings suggested there were control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. According to the audit findings here was non-compliance with District cash management policy and/or ineffective practices. Pre-numbered duplicate receipt books were not used and multiple receipt books were used simultaneously. The availability of funds was not verified before disbursements were made and supporting documentation for expenditures was not maintained. Sales tax was paid on purchases, while the petty cash fund was not properly maintained. It was also noted that the proper segregation of duties did not exist.

Birney Elementary School is a recipient of the Skillman Foundation Good Schools Grant with a designation as an Improving School. This indicates that they met criteria such as: (1) Overall improvement over the sat two years; (2) Improved MEAP scores, with 10% increase in two subject areas; (3) Students who are performing at a satisfactory rate in English, math, and science.

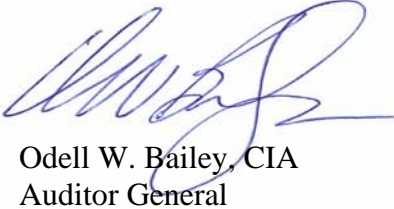
Recommendations:

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. As a result of the aforementioned accounting practices, the school account was more susceptible to inaccuracies and/or misappropriation of funds. In the event that Principal Shelagh Williams receives a contract renewal, the following recommendations are applicable: The principal must segregate cash management duties and ensure that financial transactions are being performed by another staff member. Principal Williams should authorize and monitor cash management functions including a review of monthly back reconciliations and provide evidence by signing and dating applicable financial records. The principal must 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 2006-2007. Principal Williams shall 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.

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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