

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-027

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 – 2009, approximately 278 students were enrolled at Carstens Elementary School, which has grade levels Kindergarten through Fifth. Ms. Theresa Mattison was the Principal during this time period and has been serving in this capacity for fourteen years. Previously, she was the principal at Hosmer Elementary for four years.

Mr. Birdie Clark, Secretary, shares the bookkeeping duties with Mr. Thomas Lewis. Ms. Clark is responsible for the cash receipt and cash disbursement process. She has had these responsibilities for 20 years.

Mr. Lewis, Administrator, is responsible for preparing the monthly bank reconciliations and has been doing so for three years.

Carstens Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities, community donations and special project funds (i.e., Skillman & Blue Cross). 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.

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SCOPE & METHODOLOGY (continued)

- 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.
- 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>	\$86,010

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
 - Pre-numbered duplicate copy cash receipt books were not used.
 - No documentation for check requests.
 - Checks were issued with only one signature.
 - Check omitted from both the school ledger and the bank reconciliation.
 - Missing financial documentation.
 - Stale dated check noted as outstanding on bank reconciliation.
- Internal Revenue 1099 data not being captured and forwarded to appropriate department.
The detail of this finding and recommendation is included in the Findings Section of this report.

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AUDIT RESULTS IN BRIEF (continued)

Achievement

Carstens Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as a High Performing School. This indicates that they have met criteria such as: (1) Meeting or exceeding grade-level expectations in English, math and science; (2) Offering challenging curricula to all students; and (3) Demanding consistent attendance and punctuality from all students, etc.

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:

- Pre-numbered duplicate copy cash receipt books not used (due to minimal cash receipt activity)
- No documentation to request and obtain authorization for check issuance.
- Three checks were issued without dual signatures
- One check was omitted from both the cash disbursement school ledger and the monthly bank reconciliation.
- Per the administrator responsible for the monthly bank reconciliations, missing financial documentation was due to a school break-in.
- A July 2008 stale dated check for \$49.75 remained outstanding on the bank reconciliation as of March 2009.

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.

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AUDIT FINDINGS (continued)

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.”

Finding – Inadequate Internal Revenue Service (IRS) 1099 Reporting:

While the Skillman grant authorized payment to a high school student for office services rendered, the financial information was not captured and forwarded to ensure a 1099 was issued in compliance with IRS rules. The amount paid was in excess of \$2,500.

Cause

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

Effect

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

Recommendation

In order to ensure compliance with both district policy and IRS rules, the Principal should contact the Office of Central Accounting to determine the proper method of capturing, monitoring, and reporting salary/ wages meeting the IRS 1099 criteria that is, amounts paid to individuals in excess of \$600.

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MANAGEMENT RESPONSE

Management responses were provided by Ms. Theresa Mattison, Principal:

Carstens appreciates this support towards compliance and fiscal accountability. We concur with the audit findings and have taken the following corrective actions:

Audit Finding: Pre-numbered duplicate copy cash receipt books were not used.

We previously used a deposit-ticket based checkbook system for such records. In order to comply with district policies, Carstens will be purchasing a pre-numbered duplicated receipt book.

Audit Finding: No documentation for check requests.

An authorization form for check issuance has been established and is being implemented.

Audit Finding: Three checks were issued with only one signature.

To eliminate the oversight of checks with only one signature, the principal will be the last to sign each check in order to ensure that there are dual signatures.

Audit Finding: One omitted check from both school ledger and the bank reconciliation.

The omitted check was voided.

Audit Finding: Missing financial documentation.

We can obtain duplicates of the two misplaced receipts (due to an office break-in). Extra security measures have been taken to deter future break-ins. Financial documents are now being kept in the most secure location possible.

Audit Finding: Stale dated check noted as outstanding on bank reconciliation.

At the request of the auditors, the stale dated check in the amount of \$49.75 has been cancelled.

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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