

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-028

REPORT DATE: June, 2009

**DETROIT PUBLIC SCHOOLS
CARVER ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-028**

BACKGROUND

For School Year 2008 – 2009, approximately 367 students were enrolled at Carver Elementary School, which has grade levels Pre-Kindergarten through Fifth Grade. Mr. Ronald Peart was the Principal during this time period and has been serving in this capacity since 2004, with 35 years experience working for DPS. Since coming to Carver Elementary five years ago, Mr. Peart has performed the bookkeeping duties in addition to his duties as principal.

Carver Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include special project funds (i.e., Skillman Good Schools Grant and Target Gift Program). 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>	\$13,417

AUDIT RESULTS IN BRIEF

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

- Multiple duplicated pre-numbered cash receipts books
- Lack of Segregation of Duties

The detail of these findings and recommendations are 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.

Multiple duplicated pre-numbered cash receipts books in the cash receipts process.

Cause

The school official stated that he was unaware of the District’s SAFM and therefore was not aware of the requirement to use certain forms for cash receipts 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, the Principal should 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 – Proper Segregation of Duties Was Not Maintained:

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. As such, there were no checks and balances.

Cause

Lack of segregation 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.

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AUDIT FINDINGS (continued)

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

Management Response provided by Mr. Ronald Peart, Principal.

**GEORGE WASHINGTON CARVER PreK – 8 LEARNING COMMUNITY
FINANCIAL RELATED AUDIT RESPONSE
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June 29, 2009

DISPOSITION: Concur With Findings

1. Finding No. 1 – Multiple duplicated pre-numbered cash receipts books in the cash receipts process.

Corrective Action – Usage of one cash receipt book.

2. Finding No. 2. – Proper Segregation of Duties Was Not Maintained.

Corrective Action - Have clerical staff trained in District policy for proper assigning of responsibilities as it relates to school based accounting. Segregate the responsibilities among principal and clerical staff.

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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
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