

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF DETROIT OPEN ELEMENTARY SCHOOL

School Year 2008-09

REPORT NO: 09-061

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 - 2009, 230 students were enrolled at Detroit Open Elementary School which has grade levels Pre-Kindergarten through Eighth. Mr. Phillip Van Hooks was the Principal during this time period and has been serving in this capacity since September 15, 2008.

Ms. Betsy Martin, Secretary II, performs the bookkeeping duties and has been doing so for 22 years. Ms. Mary Cavett, Secretary II, performs the cash management duties (i.e., writing checks, collecting receipts and making deposits) and has been doing so since 2006.

Detroit Open Elementary School maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include school fundraisers, field trips and grants (Skillman). The primary source of District Fund Revenues is the lunchroom collections.

AUDIT OBJECTIVES

The objectives of the audit were to ensure that the:

- 1) 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 ledgers did not exist, transaction activities were derived by totaling cash receipts 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. Research was performed 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 example, 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)

CATEGORY	AMOUNT
<u>Commercial Checking Deposits</u>	\$ 15,419

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate receipts were not used to document cash receipts.
 - Check request forms were not used to document the Principal’s approval of expenditures.
 - Checks received were not stamped with the school’s bank account number and “for deposit only” prior to deposit.
 - Bank reconciliations were not signed by the Principal to indicate review and approval.
- Petty Cash Fund Maintained without Appropriate Financial Records

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

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AUDIT RESULTS IN BRIEF

Achievement

Detroit Open 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.

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 receipts were not used to document cash receipts.
- Check request forms were not used to document the Principal’s approval of expenditures.
- Checks received were not stamped with the school’s bank account number and “for deposit only” prior to deposit.
- Bank reconciliations were not signed by the Principal to indicate review and approval.

Cause

School officials stated they were unaware of the District’s SAFM and therefore were not aware of certain forms and requirements for cash receipt activity.

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 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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AUDIT FINDINGS (continued)

2. Finding – Petty Cash Fund Maintained without Appropriate Financial Records:

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.

Cause

A petty cash fund was established with cash receipts from a school fundraiser, which were not deposited into the school checking account. 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 and the fund is replenished in compliance with District policy.

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MANAGEMENT RESPONSE

This school has been closed, as such a management response was not necessary.

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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.

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General