

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-097

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 - 2009 school year, approximately 280 students were enrolled at Hanstein Elementary School, which has grade levels Pre-Kindergarten through Fifth. Ms. Bernadine Carroll was the Principal during this time period and has been serving in this capacity since 2006. Previously she served as Assistant Principal of Guyton from 2000 – 2001, was Acting Principal of Whitney Young and Assistant Principal of Newberry from 1993 – 1998.

Ms. Regina Sayles, Clerical Series III, performs the bookkeeping duties and has done so since 2004.

Hanstein Elementary School maintains one commercial checking account at Chase Bank. Primary sources of General School Funds are from student activities. 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 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)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$11,168

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.
 - One instance where a stale dated check was outstanding for over a year.
 - Bank reconciliations were not prepared.
- Authorization of blank checks.

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.

The following non-compliance issues were noted:

- A stale dated check was noted as outstanding for over a year (i.e., check #5550 dated 07-27-06 for \$1,335.83)
- Bank reconciliations were not prepared for the July 2008 through March 2009 period.

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.

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 – Authorization of Blank Checks:

The “School Administrative Financial Manual 2006-07” (SAFM) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

The school issued and maintained checks that were signed by one or more authorized signers, in advance of receiving check requests.

Cause

Lack of adherence to District policy regarding check issuance.

Effect

Checks can be cashed by unauthorized individuals and/or for unauthorized amounts.

Recommendation

The Principal should ensure that all checks are signed only after the payee and amount are documented on the face of the check.

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MANAGEMENT RESPONSE

Management response provided by Ms. Bernadine Carroll, Principal:

Odell W. Bailey
Auditor General
Detroit Public Schools
July 31, 2009

Mr. Bailey:

The staff of Hanstein Elementary and I wish to thank you and your staff for the professional manner and courtesy with which the initial audit of the banking and financial records and subsequent reconciliation audits for the months of April, May and June were conducted.

I have always exercised due diligence in my stewardship over all financial and budgetary matters at Hanstein. We have in place a documented system of checks and balances for all cash collection and requests for disbursement. The training and direction provided by the District at the time I was appointed principal did not include The "School Administrative Financial Manual 2006-07" (SAFM). To date, I have been unable to locate the document, but will make the attainment of said document a priority before going forward. Training for the bookkeeper and myself will occur at that time. Until then, I have implemented all of your corrective actions.

AUDIT FINDING

1. Finding - School Administrative Financial Manual Non-Compliance:

Finding #1a. The check in question was written prior to my tenure as principal. The payee was Food Service Department, Detroit Public Schools, for lunch receipts April, May, and June for school year 2003-2004. The check was a replacement for check # 5243, originally issued on 07/12/2004. The bookkeeper followed the former principal's direction to reissue the check after consultation with the district's Central Accounting Office. Neither check was ever been presented for payment. I will 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, I will 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 (continued)

Finding #1b. Bank reconciliations were prepared and monitored for the July 2008 through March 2009 period. The **format** used by the bookkeeper to reconcile the cash accounts, was not in compliance at the time of the initial audit. However, the elementary ledger format used was acceptable at the time she took over her duties from the former bookkeeper in 2004. Corrective steps were taken so that April, May, and June reconciliations were monitored and in compliance during the two subsequent visits by the auditors

2. Finding – Authorization of Blank Checks:

Finding #2. In each instance noted, the checks in question were used off site for necessary and often critical purchases. The logistics of said purchases made it impossible for both signers to be present at the point of purchase. Since my tenure as principal, there has only been one instance without two signers on a check issued by Hanstein Elementary School. Additionally, the amounts needed were not always known prior to purchase, due to a lack of information regarding prices for the goods being purchased. Rather, these were real world school shopping trips with lists of what to buy and how many were needed of particular goods and supplies. Copies of the checks with payees and signatures were always made prior to disbursement and recorded as though they were a request for cash. The checks always were carefully guarded and handled with due diligence as though they were cash, to prevent misappropriation or theft.

Understanding the grave implications of your findings, as principal, I will henceforth ensure that all checks are signed only after the payee and amount are documented on the face checks.

In closing, I wish to again thank you and your staff for your efforts on behalf of the Hanstein Family. With the exception of the locating of the SAFM and subsequent training, all of your recommendations have been implemented. I will continue to exercise due diligence, caution and restraint, as I carry out my financial responsibilities as Hanstein's principal.

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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