

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF HARMS ELEMENTARY School Year 2008-09

REPORT NO: 09-099

REPORT DATE: June, 2009

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HARMS ELEMENTARY
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BACKGROUND

For School Year 2008 – 2009, approximately 642 students were enrolled at Harms Elementary, which has grade levels Pre-Kindergarten through Fifth. Ms. Karen White was the Principal during this time period and has been serving in this capacity for four years. Ms. White also performs the bookkeeping duties for the school.

Ms. Linda Vanwoerkom, Teacher, serves as the second signer for check issuance.

Harms Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities and community donations (i.e., Wal-Mart & Target), vending machines, and special project funds (i.e., Title I). 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>	\$17,897

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 book was not used.
 - No documentation of check requests.
 - Checks were issued with only one signature.
 - Bank reconciliations were not prepared accurately for July 2008 through March 2009
- Lack of segregation of duties since the Principal performed all the responsibilities of bookkeeping.
- 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 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 receipts were not issued when cash/ checks were received.
- No documentation for check requests.
- Three checks totaling \$733.62 were issued with only the principal’s signature.
- Bank reconciliations were not prepared accurately for July 2008 through September 2008

Cause

Lack of adherence to existing District polices (i.e., SAFM.) and best practices.

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 be trained on District policy for cash management activities and ensure that any other staff members that become involved in the bookkeeping process are trained, 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 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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AUDIT FINDINGS (continued)

2. Finding – Lack of Segregation of Duties:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function including proper separation 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, resulting in an adequate segregation of duties. In addition, the lack of check request documentation coupled with one signature on checks signed by the principal when another school official has been designated to be the second signer on checks raises concern about the types of expenditures incurred with school funds.

Cause

Lack of adherence to District policy and basic internal controls requiring a separation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

Effect

The school account was more 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.

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

Payment for services rendered for one individual was not captured and forwarded to ensure a 1099 was issued in compliance with IRS rules. The amount paid exceeded the IRS \$600 threshold.

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.

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AUDIT FINDINGS (continued)

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.

MANAGEMENT RESPONSE

Management responses were provided by Ms. Karen White, Principal:

Response to Audit Findings: Principal of Harms

Finding 1 – School Administrative Financial Manual Non-Compliance

Written Response:

When assigned to the new position of principal, the district did not provide new hires with the “School Administrative Financial Manual.” All aspiring principals were required to participate in approximately 10 sessions of training. The staff development team during these day-long in-services did not refer to a manual, nor present information about financial compliance issues, book keeping, bank reconciliations, etc. When the “passing of the torch” occurred between the old principal and the new, no mention of a financial manual or financial guidelines were addressed. Only the one signature on the school’s bank account was changed. The ledger from the prior principal was given to the new principal and her existing model was the template the new principal mimicked. Recently, when the Office of Accounting indicated that bank reconciliations were incorrectly completed, the accounting staff gave the principal an example of a correctly completed ledger - a new template - but no one referred to the “School Administrative Financial Manual” nor provided step-by-step instructions. The principal has not taken any courses from the university/community college, attended a workshop or received training in the basic tenets of accounting. These breaches in accounting practices appear obvious to auditors, but are not apparent to a principal poorly trained in the financial area.

Corrective Action:

The principal will locate and then utilize the financial manual from the DPS Intranet. She will participate in financial training when it becomes available. A request to the Accounting Office will be made for a book keeper to come to the school to assist in establishing basic accounting practices. A cash receipt book is now being used by staff.

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MANAGEMENT RESPONSE (continued)

Finding 2 – Lack of Segregation of Duties

Written Response:

The DPS job descriptions of the clerical include bookkeeping/accounting duties. For over eight years, this school has not had the services of a DPS clerical and the principal has not been able to segregate financial duties to another staff person.

Corrective Action:

The services of a book keeper will be acquired with the guidance of the Accounting Office.

Finding 3 – Inadequate Internal Revenue Service (IRS) 1099 Reporting

Written Response:

The principal did not realize the threshold was \$600 as indicated in the auditor's statement: "Lack of knowledge resulting in non-compliance with IRS."

Corrective Action:

The principal will utilize the expertise of the Accounting Office when any questions surface concerning the payment of services. The correct IRS forms will be completed as directed by the Accounting Office.

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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 'O. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General