

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-107

REPORT DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
HOUGHTEN ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, approximately 240 students were enrolled at Houghten Elementary School, which has grade levels Pre-Kindergarten through Fifth Grade. Ms. Cecelia Muhammad is the Principal during this time period and has been serving in this capacity since 2007. Prior to this assignment, she was a “Floater Principal” for one year, and an Assistant Principal for two years.

Ms. Vivian Lyles, Secretary, performs the bookkeeping duties and has done so since 2007. Ms. Lyles performed the bookkeeping function at two other schools for a total of two years.

Houghten Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities and special project funds (i.e., Clean, Safe and Drug Free Schools Grant). 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>	\$2,202

AUDIT RESULTS IN BRIEF

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

- Pre-numbered receipt forms not referenced in ledgers.
- Funds not accurately posted to the Cash Receipts Ledger.
- Lack of supporting documentation for expenditures.
- Sales tax paid on expenditures.
- Bank Reconciliations not signed by the Principal to indicate review

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:

- Pre-numbered receipt forms were not referenced in ledgers.
- Funds received were not accurately posted to the Cash Receipts Ledger.
- Lack of supporting documentation for expenditures.
- Sales tax was paid on expenditures.
- Bank Reconciliations were not signed by the Principal to indicate review.

Cause

The school official stated that she 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, 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

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