

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-110

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
HUTCHINS ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 430 students were enrolled at Hutchins Elementary School, which has grade levels Kindergarten through Eighth. Ms. Virginia Clay was the Principal during this time period and has been serving in this capacity for ten years.

Ms. Brenda Smith, Secretary, performs the bookkeeping duties.

Hutchins Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraisers, community donations (Target & Michigan Fitness Foundation) and special project funds (Title I) Sources of District Fund Revenues include Food Services (i.e., lunchroom receipts).

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>	\$4,233

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, there were instances when blank checks were endorsed prior to the receipt of check requests.

The detail of this finding and recommendation is included in the Findings Section of this report.

AUDIT FINDINGS

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

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’s process was to have a few checks signed in advance of check requests when the secretary (i.e., the second signer) was scheduled to be off site. During the audit, it was noted that two blank checks had been signed.

Cause

Lack of adherence to District policy regarding check issuance.

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AUDIT FINDINGS (continued)

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.

MANAGEMENT RESPONSE

Management responses were provided by Ms. Cleo M. Moody (New Principal):

August 13, 2009

Dr. Virginia Clay has retired from Detroit Public Schools.

Based on the audit finding of:

- *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's process was to have a few checks signed in advance of check requests when the secretary (i.e., the second signer) was scheduled to be off site. During the audit, it was noted that two blank checks had been signed.

All checks will be signed only after the payee and amount are documented on the face of the check.

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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