

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-112

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 540 students were enrolled at Jamieson Elementary School, which has grade levels Pre-Kindergarten through Sixth. Mr. David Harris was the Principal during this time period and has been serving in this capacity since 2004. Mr. Harris also performs the bookkeeping duties.

Ms. Doris Roscoe, Secretary, serves as the second signer on the school checking account.

Jamieson Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraisers, community donations (Target, Comer funds, etc.) 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>	\$8,536

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control the following weaknesses:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate copy receipt book was not used when there was an exchange of cash.
 - Checks received were not restrictively endorsed “for deposit only.”
 - Cash receipts were not adequately supported and recorded on the ledger.
 - Supporting documentation was not provided for all cash disbursements
 - Instances were noted where checks were noted as void on the register but there were no voided checks maintained in the files
- Lack of segregation of duties.

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) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

- Pre-numbered duplicate copy receipt book was not used when there was an exchange of cash.
- Checks received were not restrictively endorsed “for deposit only.”
- Cash receipts were not adequately supported and recorded on the ledger. For example, a deposit of \$4,351.50 was verbally indentified as funds received from a candy fundraiser; however no deposit slip was found nor was any other supporting documentation identified. Also, a \$25 check receipt was not included on the ledger, resulting in a \$25 reconciling item on the bank reconciliation
- Supporting documentation was not provided for all cash disbursements
- Instances where checks were noted as being voided on the register, but there were no voided checks maintained in the files

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.

2. Finding – Lack of Segregation of Duties:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management function including adequate segregation 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.

Cause

Lack of adherence to District policy requiring a segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

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AUDIT FINDINGS (continued)

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.

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MANAGEMENT RESPONSE

Response to Audit Findings for Jamieson Elementary School- David Harris, Principal

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

- Pre-numbered duplicate copy receipt book was not used when there was an exchange of cash.

Reply: Jamieson School will purchase a Pre-numbered receipt book and whenever there is a cash exchange a receipt will be created for the party involved. A duplicate copy will remain on file at the school main office.

- Checks received were not restrictively endorsed “for deposit only.”

Reply: Any check deposited will be endorsed “For Deposit Only”, no exceptions.

- Cash receipts were not adequately supported and recorded on the ledger. For example, a deposit of \$4,351.50 was verbally identified as funds received from a candy fundraiser; however no deposit slip was found nor was any other supporting documentation identified. Also, a \$25 check receipt was not included on the ledger, resulting in a \$25 reconciling item on the bank reconciliation

Reply: All deposits will be documented in the general ledger and on pre-numbered deposit slips. All deposit slips from the bank will be attached to the copy of the pre-numbered school deposit slips.

- Supporting documentation was not provided for all cash disbursements.

Reply: All cash disbursements will have supporting documentation, no exceptions.

- Instances where checks were noted as being voided on the register, but there were no voided checks maintained in the files.

Reply: All voided checks will be stapled to the back of the check stub in the school check book.

4. Finding – Lack of Segregation 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.

Reply: There will be a separation of duties including using the school secretary to take over some of the bookkeeping responsibilities.

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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.

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Odell W. Bailey, CIA
Auditor General