

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF MARK TWAIN ELEMENTARY SCHOOL

School Year 2008-09

REPORT NO: 09-132

RELEASE DATE: June 30, 2009

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BACKGROUND

For the 2008-2009 School Year, approximately 280 students were enrolled at Mark Twain Elementary School, which has grade levels Kindergarten through Eighth. Ms. Margaret Scales was the Principal during this time period and has been serving in that capacity since 1998.

Ms. Scales also performed the bookkeeping duties and has been doing so since July 2008.

Mark Twain Elementary School maintains two commercial checking one at National City Bank and one at Chase Bank, which was opened in March 2009. Primary sources of General School Funds are from student activities (i.e., field trips), fundraising activities, and local grants e.g., Blue Cross Blue Shield and Marathon Petroleum Company LLC). 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 School and District Funds (July 2008 – March 2009)

ACCOUT TYPE	AMOUNT
<u>Commercial Checking Account Deposits (National City)</u>	\$29,055
<u>Commercial Checking Account Deposits (Chase)</u>	\$16,535
	\$45,590

AUDIT RESULTS IN BRIEF

Based on our audit of the Mark Twain School and Academy School cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy and/or ineffective practices.
 - Pre-numbered Duplicate Receipt forms were not issued in sequential order.
 - No Ledger of cash receipts and disbursements is maintained.
 - Bank reconciliations were not prepared.
- Cash receipts were not deposited in a timely manner.
- Proper Segregation of duties was not maintained.

The detail of these findings and recommendations are included in the Findings Section of this report.

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AUDIT RESULTS IN BRIEF (continued)

Achievements

Mark Twain Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Improving School. This indicates that they have met criteria such as: (1) Overall improvements over the last two years; (2) Improved MEAP scores with a 10% increase in two subject areas; and (3) Sufficient parental and community partnerships, etc.

AUDIT FINDINGS

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

The following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM):

- Pre-numbered Duplicate Receipt forms were not issued in sequential order.
- No Ledger of cash receipts and disbursements is maintained.
- Bank reconciliations were not prepared.

Cause

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests included in the District’s SAFM.

Effect

Lack of adherence to District policies related to cash receipts and disbursements results in non-standardize procedures that can vary with each school, which can result in processing inefficiencies. In addition, failure to request and approve cash disbursements can result in inappropriate or unauthorized purchases.

Recommendation

The Principal should ensure that all staff participating in financial transactions is familiar with and 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 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 – Checks were not deposited in a timely manner

The following checks were received and deposited by the school as indicated. In regards to the untimely deposit of cash receipts, two checks were held by the schools as follows:

Payee	Amount	Check Date	Estimated Receipt Date	Deposit Date	Approx. Days Outstanding
Blue Cross Blue Shield	\$15,000	12/15/08	12/19/08	03/06/09	77
Marathon Petroleum Company LLC	1,500	12/23/08	01/05/09	03/06/09	60
Total	\$16,500	Average Days Outstanding			69

Cause

Donations received by the schools, were not deposited in a timely manner.

Effect

Untimely deposits pose the risk that checks may not be negotiable after an extended period of time and they reduce the amount of interest that could have been earned if deposits were timely. In addition, checks that are not deposited in a timely manner are susceptible loss.

Recommendation

The Principal should ensure that that all checks and cash received by the school are deposited in a timely manner, in compliance with the “School Administrative Financial Manual 2006-07.”

3. 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

The Principal performs the bookkeeping duties. Therefore, proper segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

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AUDIT FINDINGS (continued)

Effect

The school account was susceptible to inaccuracies and/or misappropriation of funds. Given the amount of funds available in the school's two accounts, the risk of loss due to theft is heightened when one person controls the receipt, recording, and disbursement of these 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 ensure monthly submissions of bank reconciliations are signed.

MANAGEMENT RESPONSE

Management Responses provided by Margaret Scales, Principal:

Management responses were provided by Ms. Margaret Scales, Principal:

July 7, 2009

Mr. Odell W. Bailey
Auditor General
Detroit Public Schools
3011 W. Grand Blvd.
Detroit, MI 48202

Dear Mr. Bailey,

This written response is to the Financial Audit findings on Mark Twain School & Academy.

1. Finding – School Administrative Financial Manual Non-compliance

- Pre-numbered Duplicate Receipt Forms were not issued in sequential order

Corrective Action:

- Ensure that all checks and cash are documented in the pre-numbered duplicate receipt booklet in sequential order.

- No ledgers of cash receipts and disbursements is maintained/Bank reconciliations were not prepared for the 2008-2009 school year.

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MANAGEMENT RESPONSE

Explanation :

Consultant from Comprehensive Financial Management is currently updating my ledgers and reconciling my book statements for the 2008-2009 school-year. Clerical staff will be trained in District Policy to ensure that the receiving and recording of financial transactions including bank reconciliations are completed accurately on a monthly basis.

2. Finding – Checks were not deposited in a timely manner

- Donations received by the schools, were not deposited in a timely manner.

Corrective Action:

- Write the pre-numbered duplicate receipts for all cash and checks and deposit in bank account in a timely manner.

3. Finding – Lack of Segregation of Duties

- The Principal performs the bookkeeping duties Therefore, proper segregation of duties did not exist.

Corrective Action:

- Ensure that all staff directly responsible for financial transactions are trained on District Policy for cash management activities, as detailed in the “School Administrative Manual 2006-07”
- 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 in the accounting process.

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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



Odell W. Bailey, CIA
Auditor General