

Detroit Public Schools
Office of the Auditor General



**FINANCIAL RELATED AUDIT
OF
RUTHERFORD ELEMENTARY
SCHOOL**

School Year 2008-09

REPORT NO: 09-166

REPORT DATE: June, 2009

**DETROIT PUBLIC SCHOOLS
RUTHERFORD ELEMENTARY
FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, approximately 441 students were enrolled at Rutherford Elementary School which has grades Pre-Kindergarten through fifth. Ms. Miriam Brooks Adams was the Principal during this time period and has been serving in this capacity for five years. Prior to this assignment, she was an Assistant Principal at Angel Primary.

Mrs. LaKeisha Littlejohn performs the bookkeeping duties for Rutherford Elementary School and has been doing so since January 2009.

Rutherford Elementary School maintained a commercial checking account with Chase Bank. Primary sources of General School Funds included fundraising activities, donations (Target) and special project funding (Skillman Fund, Exxon Grant, Blue Cross Blue Shield and 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.

**DETROIT PUBLIC SCHOOLS
RUTHERFORD ELEMENTARY
FINANCIAL RELATED AUDIT
REPORT NO. 09-166**

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>	\$38,275

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,

- The AC-4 form was not used to authorize check requests.
- Pre-numbered duplicate cash receipt books were not used.

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

Achievements

Rutherford 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.

**DETROIT PUBLIC SCHOOLS
RUTHERFORD ELEMENTARY
FINANCIAL RELATED AUDIT
REPORT NO. 09-166**

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:

- The AC-4 form was not used to authorize check requests.
- Pre-numbered duplicate cash receipt books were not used.

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.

**DETROIT PUBLIC SCHOOLS
RUTHERFORD ELEMENTARY
FINANCIAL RELATED AUDIT
REPORT NO. 09-166**

MANAGEMENT RESPONSE

Management response provided by Miriam B. Adams, Principal

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June 24, 2009

Dear Mr. Bailey,

This is being written in response to the audit results based on the audit done at Rutherford Academy for the 2008 -2009 school year. In response to the finding that the AC-4 Form was not used to authorize check requests, I concur. A form was created in house that was used to request checks. To correct this compliance weakness, the AC-4 Form will be used for all checks requested and written.

In response to the finding that pre-numbered duplicate cash receipt books were not used for monies collected, I concur. A pre-numbered duplicate cash receipt book was used beginning January 2009 and thereafter. All monies collected from fund raiser activities, grants, etc. will under the guidance of the Principal be issued a pre-numbered duplicate cash receipt.

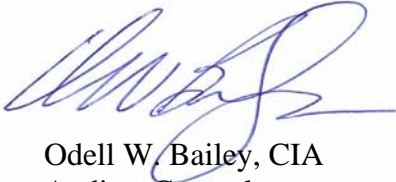
In addition to the above mentioned corrections, the staff involved in the cash management process will be aware of and adhere to the current District Policies as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting the accounting process. The staff handling cash will be limited to only those trained on district policy for cash management.

It is the desire of the administrator and staff of Clara W. Rutherford Academy to have a cash management system that 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 to ensure that the General School funds and District funds are properly accounted for, safeguarded and used as intended.

**DETROIT PUBLIC SCHOOLS
RUTHERFORD ELEMENTARY
FINANCIAL RELATED AUDIT
REPORT NO. 09-166**

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