

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-175

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
STEPHENS ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 284 students were enrolled at Stephens Elementary School, which has grade levels Kindergarten through Sixth Grade. Ms. Deborah Sinclair was the Principal during this time period and has been serving in this capacity since 2008.

Ms. Zelda Jones, Secretary, performs the bookkeeping duties and has done so since 1989. Stephens Elementary utilized an outside bookkeeper, Ms. Weatherspoon, to prepare the monthly bank reconciliations, until June 2008. Since that time, Ms. Jones has been responsible for creating the financial reports.

Stephens Elementary School maintains one commercial checking account with Chase Bank. Primary sources of General School Funds include student activities. 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>	\$3,699

AUDIT RESULTS IN BRIEF

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

Non-compliance with District cash management policy and/or ineffective practices

- Bank reconciliation were not completed for the period of review
- Fundraisers do not receive District approval
- A Profit and Loss statement was not completed for a fundraiser

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

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AUDIT FINDINGS

1. Finding – Proper Segregation of Duties Was Not Maintained:

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

Non-compliance with District cash management policy and/or ineffective practices:

- Bank reconciliation had not been completed for the period of July 2008 through March 2009.
- Fundraisers did not receive prior approval from the District
- Profit and Loss statements had not been completed for fundraisers.

Cause

School officials stated they were unaware of the District’s SAFM and therefore were not aware of requirements for cash receipt activity.

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, the Principal also should 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.

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Odell W. Bailey, CIA
Auditor General