

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF VAN ZILE ELEMENTARY SCHOOL School Year 2008-09

REPORT NO: 09-182

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 525 students were enrolled at Van Zile Elementary School, which has grade levels Pre-Kindergarten through Fourth. Ms. Marva Johnson was the Principal during this time period and has been serving in this capacity for five years.

Ms. Kimberly Green, Head Secretary, performs the bookkeeping duties for the school and has been doing so for four years.

Van Zile Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraisers, community donations (i.e., Chrysler & Target) and special project funds (i.e., Skillman & 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.

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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>	\$10,110

AUDIT RESULTS IN BRIEF

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

Non-compliance with District cash management policy:

- Pre-numbered duplicate copy receipts were not always issued.
- Checks received were not restrictively endorsed “for deposit only.”
- There was no re-verification of lunchroom receipts and no documentation evidencing the exchange of the receipts.
- Improper handling of cash receipts related to a cheerleading fundraiser was noted.
- Inadequate review of bank reconciliations performed by a third party.

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

Achievement:

Van Zile Elementary School was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an Aspiring School. This indicates that they met criteria such as: (1) Close to becoming a High Performing, or Improving school; (2) Improved MEAP scores, with a 5 percent increase over the previous year; (3) Average performance in English, math, and science.

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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:

- Pre-numbered duplicate copy receipts were not always issued.
- Checks received were not restrictively endorsed “for deposit only.”
- There was no re-verification of lunchroom receipts and no documentation evidencing the receipt of cash.
- Improper handling of cash receipts related to a cheerleading fundraiser was noted. The Teacher Sponsor pre-purchased uniforms on a personal credit card and used proceeds collected for reimbursement purposes. In addition, there was no documentation to support the profit/loss of the fundraising event. Also, the photography fundraiser process allowed a vendor representative to mail the school’s portion of the receipts without a school official verifying total funds received.
- Inadequate review of bank reconciliations performed by a third party. A third party bookkeeper was utilized and forwarded financial documents directly to the Office of Central Accounting, prior to the Principal’s review.
- The principal did not sign and date the school’s bank reconciliation copies, evidencing a proper management review.

Cause

Lack of adherence to existing District polices (i.e., SAFM.)

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. In addition, the use of a signature stamp increases the risk of unauthorized payment of expenditures and/or misappropriated funds.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should discontinue the use of a signature stamp for check endorsements and 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 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

TO: Odell W. Bailey, Auditor General, Detroit Public Schools

FROM: Marva J. Johnson, Principal, Van Zile Elementary School, Detroit Public Schools

DATE: Thursday, July 30, 2009

RE.: RESPONSE TO AUDIT FINDINGS

As directed, listings of corrective actions to address identified non-compliance and control weaknesses are provided.

#1 Non-compliance issue: Pre-numbered duplicate copy receipts were not always issued.

Corrective Action: Upon receiving any monies Ms. Kimberly Green will complete and issue a pre-numbered receipt from the receipt book to the individual submitting the cash, check and/or money order. The carbon copy will be kept in the receipt book and secured in the school safe...

#2 Non-compliance issue: Checks received were not restrictively endorsed “for deposit only.”

Corrective Action: All checks will be stamped “for deposit only” with the account number written on the back of the check.

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#3 Non-compliance issue: There was no re-verification of lunchroom receipts and no documentation, evidencing the receipt of cash.

Corrective Action: Lunchroom personnel places the money collected from the lunch program in a clear sealed numbered deposit bag and submits it to the secretary. There is a tear-off receipt located on the bag which is also pre-numbered with the date and amount indicated. The tear-off portion is stapled to a duplicate of a paper receipt which is picked up by the Food Service Supervisor weekly. The second receipt is placed inside of the deposit bag.

Beginning the 2009-10 school year, receipts will be made in triplicate and Ms. Green will receive a copy signed by lunchroom personnel. The amount and date will continued to be recorded in the Total Armored Care Service Customer Receipt Book which will be kept in the school safe until picked up.

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MANAGEMENT RESPONSE

#4 Non-compliance issue: Improper handling of cash receipts related to a cheerleading fundraiser was noted. The Teacher Sponsor pre-purchased uniforms on a personal credit card and used proceeds collected for reimbursement purposes. In addition, there was not documentation to support the profit/loss of the fundraising event. Also, the photography fundraiser process allowed a vendor representative to mail the school's portion of the receipts without a school official verifying total funds receive.

Corrective Action: All proceeds collected from any fundraiser must be counted by the sponsor and the secretary for accuracy. The secretary will then write out a receipt for the sponsor and deposit proceeds into the school account. Reimbursements will be made for purchases only after a "Check Request Form" and purchase receipt has been submitted by the requester.

Contrary to the findings there was documentation to support the profit/loss of the cheerleading fundraising event. It was mistakenly not submitted at the time of audit, nor do I remember it being requested.

All funds received by a vendor via a fundraising event will be verified by school personnel. A statement indicating the amount of the funds raised will be provided by the vendor to be kept on file.

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#5 Non-compliance issue: Inadequate review of bank reconciliations performed by a third party. A third party bookkeeper was utilized and forwarded financial documents directly to the Office of Central Accounting, prior to the Principal's review.

Corrective Action: Upon completion of bank reconciliations, the third party bookkeeper will sit down with the principal to review the documentation.


#6 Non-compliance issue: The principal did not sign and date the school's bank reconciliation copies, evidencing a proper management review.

Corrective Action: The principal will sign and date the school's bank reconciliation copies, evidencing a proper management review.

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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