

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-186

REPORT DATE: June, 2009

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WEBSTER ELEMENARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 380 students enrolled at Webster Elementary School which has grade levels Pre-Kindergarten thru fifth. Ms. Salma Abou-Elkhair was the Principal and has been serving in this capacity since early 2007. Ms. Abou-Elkhair has also been performing the bookkeeping function since 2007 including the monthly bank reconciliation.

Webster Elementary School maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include vending machines, school fundraisers, community donations (United Way, Target, and Meijer) and district grants (Title 1, Head Start). The primary source of District Fund Revenues is the lunchroom collections.

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.
- 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 example, lunchroom deposits.

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SCOPE & METHODOLOGY (continued)

- 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>	\$ 5,858

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,

- Non-compliance with District cash management policy and/or ineffective practices:
 - Pre-numbered Duplicate Receipt Forms were not prepared and distributed
 - Receipts numbers were not recorded on the ledger
 - Check request forms were not completed by the requestor
 - Check request forms were not approved by the Principal
 - Payee or amount not documented on checks and/or check stubs before mailed/distributed
- 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 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 Receipt Forms are not prepared and distributed
- Receipts numbers are not recorded on the ledger
- Check Request Forms were not completed by the requestor, for example - Check No. 3200 for \$45.23 to M. Ross.
- Check Request Forms are not approved by the Principal
- Payee or amount not documented on checks and/or check stubs before mailed/distributed, for example - check numbers 3216 and 3219.

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.

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AUDIT FINDINGS (continued)

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

Proper separation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

Effect

The school account was 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

Management Responses provided by Ms. Salma Abou-Elkhair, Principal:

**RESPOND TO SCHOOL AUDIT REPORT
And
CORRECTIVE ACTION PLAN TO ADDRESS COMPLIANCE
For
WEBSTER ELEMENTARY SCHOOL**

In respond to the Financial Audit Report for Webster School and to ensure compliance the following action are being implemented:

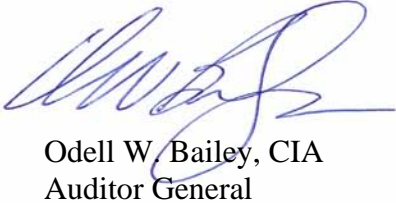
For finding:

- Pre-numbered Duplicate Receipt Forms are not prepared and distributed.
A Receipt book has been located and is being used for cash received.
- Receipts numbers are not recorded on the ledger.
To my understanding cash receipt numbers are to be recorded on the ledger. I will ensure that all receipt numbers are reported on the ledger.
- Check request forms are not completed by the requestor.
I am ensuring that all check request forms are being completed by the requestor.
- Check Request Forms are not approved by the principal.
I have been approving each Check Request Forms also; I will ensure that each Check Request Form has my signature on it to prove my approving it.
- Payee or amount not documented on checks and/or check stubs before mailed/distributed for example –check numbers 3216 and 3219.
*As I stated to the auditors for check number 3219, we needed some office supply and in order to use a school check it needs two signatures. I myself took the check with the secretary's signature on it and I signed my signature at Staples Store. I was not sure how much the amount will be for the materials needed. That is why the amount was not documented on check duplicate.
Check number: 3216 was written to Plymouth Orchards for a field trip for pre-kindergarten classes, I am not sure why it is not clear on duplicate.*
- Finding #2 Lack of Segregation of Duties.
I am the only administrator at Webster Elementary School. I will explore opportunities ways to comply with the standard of segregation of duties.

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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