

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-065

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 598 students were enrolled at Dixon Elementary School, which has grade levels Kindergarten through Eighth Grade. Dr. Ora Beard was the Principal during this time period and has been serving in this capacity since 2001. Prior to this assignment, she was an Assistant Principal for four years.

Ms. Karen Lillard, Head Secretary, performs the bookkeeping functions and has done so since 1987. Ms. Lillard performed the bookkeeping function at two other schools for a total of two years.

Dixon Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraising activities and special project funds (i.e., Skillman Grant). 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 – March2009):

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$29,048

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 and/or ineffective practices
 - Funds received were not recounted for verification upon receipt and immediately recorded on Pre-numbered duplicate receipt forms.
 - Pre-numbered duplicate receipt numbers were not referenced in the cash receipts ledger.
 - Lack of supporting documentation for expenditures.
 - Sales tax was paid on expenditures.
 - Bank Reconciliations were not signed by the Principal to indicate review.
- Inadequate petty cash fund documentation.
- Inappropriate use of grant and other restricted funds.
- Improper payment of salaries to non-Detroit Public Schools (DPS) staff.

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

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AUDIT RESULTS IN BRIEF

Achievement

Dixon 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 “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management function within the District.

The following non-compliance issues were noted:

- Funds received were not recounted for verification upon receipt and immediately recorded on Pre-numbered duplicate receipt forms.
- Pre-numbered duplicate receipt numbers were not referenced in the cash receipts ledger.
- Lack of supporting documentation for expenditures.
- Sales tax was paid on expenditures.

Cause

Lack of adherence to District policies. School officials stated that they were unaware of all the District’s policies.

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 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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AUDIT FINDINGS (continued)

2. Finding – Inadequate Petty Cash Fund Documentation:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management function within the District regarding petty cash funds.

Per a notation on a pre-numbered duplicate receipt form, a petty cash fund was established from funds received for a fieldtrip. Neither a ledger of expenditure, nor supporting documentation was available for review. In addition, the fund was not replenished after it was exhausted.

Cause

School officials did not comply with existing policies nor best practices related to petty cash funds.

Effect

Inadequate documentation of expenditures from petty cash funds does not allow for adequate monitoring of expenditures. In addition, it makes the funds more susceptible to misspending and misappropriation.

Recommendation

The Principal should ensure proper a log of and proper supporting documentation for expenditures is maintained for the petty cash account.

3. Finding – Inappropriate Use of Grant and Other Restricted Funds:

The Skillman foundation governs the Good Schools Grant. Per the Skillman foundation website: “The purpose of the Good Schools grant is to enhance and expand the school’s efforts in meeting the School Success Indicators. Grant monies may be spent on professional development and training; parent and community involvement; and equipment and materials for students.”

Our audit found that a Cheerleading Coach was paid from Skillman Grant funds. In addition, a nominal amount was paid from the “Student Council” activity account.

Cause

Funds received for the Skillman Grant and the school’s student council activity were expended for purposes other than intended.

Effect

Funds were not available for their intended purpose. In addition, inappropriate use of grant funds could potentially jeopardize receipt of future grant funding.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should monitor the cash disbursement process on an on-going basis to ensure that all restricted funds are used for their intended purposes.

4. Finding – Improper Salary Payments to Non-DPS Employees:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the payment of salaries to non-DPS employees. Prohibited expenditures include salaries paid to persons hired by the school as a contractor. A contractor must meet the criteria as stated by the Internal Revenue Services (IRS), which has ruled that most contractors are really employees based on IRS standards.

Any person earning \$600 or more per year must be given a 1099 form. As such, the SAFM states “all contracted services...should be paid through the Office of Accounting so the appropriate wage forms can be provided.”

The school hired and paid an individual to act as the “Cheerleading Coach.” Earnings were in excess of the \$600 IRS threshold (i.e., was paid \$3,822) and therefore a 1099 should have been provided.

Cause

Lack of knowledge resulting in non-compliance with IRS and District policies.

Effect

Lack of adherence with District policies has resulted in non-compliance with IRS rules. This could result in fines and/or penalties.

Recommendation

The Principal should ensure compliance with District policies regarding the payment of salaries. 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.

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MANAGEMENT RESPONSE

Dixon Elementary/Middle School
19500 Tireman
Detroit, Michigan 48228
(313) 582-1330
e-mail the principal: ora.beard@detroitk12.org

June 26, 2009

Mr. Bailey:

May I compliment you on your report of the audit of the Dixon School.

I understand that the process of budgeting for Detroit Public Schools was established by the (DPS) Schools Administrative Financial Manual in (2006). I have been a principal since 2001 and have never been in- serviced on how the books or ledgers or monies were to be distributed or accounted for. As board records indicate many of we principals have not been in-serviced on the SAFM manual. While I certainly have made and will continue to make a noble effort to meet the spirit and letter of the document, I would appreciate a chance to receive first hand instruction on the document. As the principal of Samuel Dixon School, I do understand the importance and severity of well kept documents, balancing checkbooks, correctly receiving monies and complete control of the school's cash management system. As stated in the findings for Dixon School, I have provided the following information and taken the proper steps to correct any and all compliance issues:

#1. School Administrative Financial Manual Non-Compliance:

- Audit Findings: Funds received were not recounted for verification upon receipts and immediately recorded on Pre-numbered duplicate receipt forms.
 - The school will immediately implement s system of check and balance by using one receipt book to record funds receive by anyone turning in cash monies to the school.

- Pre-numbered duplicate receipt numbers were not referenced in the cash receipts ledger.
 - The school will begin the new process of putting all receipt numbers on the ledger.

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MANAGEMENT RESPONSE

- Lack of supporting documents for expenditures
 - Receipts were available for all items purchased; we need more clarity on this issue. Any check that is written requires a check receipt specifies what the expenditure is. Checks that are from the social committee will require documentation justifying the check, i.e. obituary etc. We will also require the social committee to get their own account for the 2009-10 school year.

- Sales tax was paid on expenditures.
 - All receipts have been reviewed. A process is in place; all staff will be informed that reimbursement of any sales tax pertaining to any thing bought for children is prohibited. No sales tax will be reimbursed at any time.

#2: Inadequate Petty Cash Fund Documentation:

- \$100.00 in petty cash was spent on hardship cases for student who could not pay to go on field trips. The school did not receipt each individual student, which it should have. The monies were used for this purpose until they were spent. In the future if we experience any petty cash again we will make a receipt for each child with a name, grade, date of trip and field trip permission slip. The funds were not replenished because the principal does not like to have cash on hand.

#3: Inappropriate use of Grant and other Restricted Funds.

- Please see a copy of attachment from Skillman grant report. We wrote a grant to fund several after school activities which included the cheerleading camp. The coach was paid weekly from the Skillman grant. What was not generated was a 1099 which the principal did not have any knowledge of. In the future should this happen, a memo will be sent to accounting to handle the payment of any outside sources.

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MANAGEMENT RESPONSE

#4. Improper Salary Payments to Non-DPS Employees:

- Yes the School Administration Financial Manual governs the payments of salaries of non-DPS employees; again I must reiterate I had never seen this document before the auditors arrived. Each quarter a Skillman report had to be turned into the district and Skillman foundation regarding the expenditures of the grant. At no time did anyone say this was not correct or anything needed changing. I have called accounting to rectify the remaining payments of the school year for Ms. McCoy's payments and asked that a 1040 be generated for January, 2009 – May, 2009. for this fiscal year. I have also asked an adjustment to her 2008 1040 for wages not reported. Proper procedures will be adhered to according to district compliance and all grant monies.

As of today, June 26, 2009, the principal will ensure that all staff (including the principal) responsible for financial transactions, are trained on District policy for cash management activities, as detailed in the "School Administrative Financial Manual". It is essential that all schools be in compliance, Dixon School will make every effort to adhere to any and all compliance issues.

Educationally yours,

Ora L. Beard, Principal

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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