

# Detroit Public Schools Office of the Auditor General



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## FINANCIAL RELATED AUDIT OF EDMONSON ELEMENTARY SCHOOL School Year 2008-09

**REPORT NO: 09-073**

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**RELEASE DATE: June, 2009**

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**BACKGROUND**

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For the 2008-2009 School Year, approximately 315 students were enrolled at Edmonson Elementary School, which has grade levels Pre-Kindergarten through fifth. Mr. Clarence Hayes was the Principal during this time period and has been serving in that capacity since 2007.

Mr. Hayes performed the bookkeeping duties and has been doing so since May 2007. Ms. Stephanie Reed, Instructional Specialist, has also participated in the bookkeeping duties since February 2009.

Edmonson Elementary School maintains one commercial checking account at Comerica Bank. Primary sources of General School Funds are from student activities (i.e., field trips), fundraising activities, Early Childhood (i.e., Pre-school and Head Start) and special project funds (i.e., Target). Sources of District Fund Revenues include Food Services (i.e., lunchroom).

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**AUDIT OBJECTIVES**

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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

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**SCOPE & METHODOLOGY**

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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.

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**SCOPE & METHODOLOGY (continued)**

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- 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 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.

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**FINANCIAL SUMMARY**

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**Table 1.1: Cash Receipts from General School and District Funds (July 2008 – March 2009)**

ACCOU TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$3,784

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**AUDIT RESULTS IN BRIEF**

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Based on our audit of the Edmonson Elementary School cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy and/or ineffective practices.
  - Pre-numbered duplicate cash receipt books were not used.
  - Checks were not signed by a second authorized signer.
  - Bank reconciliations were not signed by the reviewer.
- An electronic fund transfer was improperly made from the school account.
- 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**

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**1. Finding - School Administrative Financial Manual Non-Compliance:**

The following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM):

- Pre-numbered duplicate cash receipt books were not used.
- Checks were not signed by a second authorized signer.
- Bank reconciliations were not signed by the reviewer.

**Cause**

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests included in the District’s SAFM.

**Effect**

Lack of adherence to District policies related to cash receipts and disbursements results in non-standardize procedures that can vary with each school, which can result in processing inefficiencies. In addition, failure to request and approve cash disbursements can result in inappropriate or unauthorized purchases.

**Recommendation**

The Principal should ensure that all staff participating in financial transactions is familiar with and 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 polices are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

**2. Finding – An electronic fund transfer was improperly made from the school account:**

Funds were electronically transferred from the school account. In addition, no appropriate supporting documentation was available for the expenditure. Additionally, a check, which was also written for the expenditure was not properly voided.

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**AUDIT FINDINGS (continued)**

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**Cause**

The Principal independently initiated a “Direct Debit Authorization Form” with a vendor which authorized the withdrawal of \$2,614 from the school account. On the “Authorization” section of the form under “Business Name” only the Principal’s name is listed, with the address, telephone and fax number of the school. No supporting documentation was available for this expenditure. A copy of a check, which was also written to the vendor and was signed by two authorized signers, indicated the expenditure was for a “Marque sign/informational sign.” Since the check was not properly voided, it too could have been cashed.

**Effect**

School funds are susceptible to misuse and misappropriation when policies related to payment methods and adequately voiding checks are not followed, in accordance with the “School Accounting Financial Manual 2006 – 2007” (SAFM).

**Recommendation**

The Principal should ensure the District’s Finance Department sanctions electronic withdrawals from school bank accounts or any other matters not specifically covered in the SAFM. In addition, the Principal should ensure that all checks are properly voided to prevent them from being cashed against the school account inappropriately.

**3. 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.

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**

Lack of segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

**Effect**

The school account was susceptible to inaccuracies and/or misappropriation of funds.

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**AUDIT FINDINGS (continued)**

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**Recommendation**

The Principal should ensure the segregation of 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**

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Management Responses provided by Clarence Hayes, Principal:

1.
  - ❖ Cash receipts book and ledger were started the day following the audit and reflected all cash receipts and expenditures for 2008-2009.
  - ❖ Checks sometimes have had to be paid when secretary was absent or out of the building. The additional signers on the accounts have been added and/or changed.
  - ❖ Bank reconciliations were reviewed previously by Mr. Clarence Hayes, Principal, but have all been signed and dated as of May, 2009.
  - ❖ Review of the "School Administrative Financial Manual 2006-2007" has taken place by all affected personnel.
2.
  - ❖ Invoice was accidentally placed in location other than with bank statements. A copy of the invoice is now stapled to the banking paperwork.
  - ❖ The check not being voided was an oversight and has been rectified.
  - ❖ Understanding of electronic withdrawals according to the manual has been made clearer.
3.
  - ❖ I, Mr. Clarence Hayes, Principal, started at Edmonson for the 2007-2008 school year. I received assistance with my financial paperwork by Stephanie Reed. She was employed at another DPS school and offered assistance after her work day was complete. She has continued to assist me, Mr. Hayes, once she was transferred to Edmonson February 2, 2009. I, Mr. Clarence Hayes, review all financial paperwork that is completed.

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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