

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-049

REPORT DATE: June, 2009

Fisher Building · 3011 West Grand Boulevard · Suite 601A · Detroit, Michigan 48202

Office: (313) 873-7685 · Fax: (313) 873-7028

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BACKGROUND

For School Year 2008 – 2009, 410 students were enrolled at Crary Elementary School, which has grade levels Pre-Kindergarten through Fifth. Ms. Dannis White is the current Principal and has been serving in this capacity since 2004.

Ms. Malvina Gilmore-Baylis, Clerical III, performs the bookkeeping duties and has done so since 2007.

Crary Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, fundraising activities and local grants (e.g., Skillman). 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.
- 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.

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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>	\$19,379

AUDIT RESULTS IN BRIEF

Based on our audit of the 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 receipt forms were not issued for some cash receipts.
 - Multiple receipt books were used simultaneously during the period.
 - Check request forms were not maintained to document approval for some expenditures.
 - Supporting documentation for expenditures was not maintained.
 - Bank reconciliations were not prepared.
 - The ledger was not properly maintained.
- Improper Payments to District and Non-District employees.
- Inappropriate use of Grant and Other Restricted Funds.

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

Achievement:

Crary 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 percent increase in two subject areas; and (3) Sufficient parental and community partnerships, etc.

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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 were not issued for some cash receipts.
- Multiple receipt books were used simultaneously during the period.
- Check request forms were not maintained to document approval for some expenditures.
- Supporting documentation for expenditures was not maintained.
- Bank reconciliations were not prepared.
- The school ledger was not properly maintained, and was therefore inaccurate.

Cause

Lack of knowledge of and adherence to existing District policies (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.

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 – Improper Payments to District and Non-District employees:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the payment of salaries to non-DPS employees and states “all contracted services...should be paid through the Office of Accounting so the appropriate wage forms can be provided.”

The Internal Revenue Service (IRS) also has governance over worker earnings and requires the issuance of a 1099 form to any contractor who is not an employee earning \$600 or more per year.

Lastly, the Skillman foundation governs the Good Schools Grant and 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.”

The audit disclosed, six individuals were paid, with funds received from Skillman and Blue Cross Blue Shield, for services rendered. In addition, the financial information was not captured and forwarded to ensure a 1099 was issued for each individual, in compliance with Internal Revenue Service (IRS) rules.

Service	Skillman	Blue Cross Blue Shield	Total
Cheerleading & Dance Coach	\$2,049	\$ 668	\$2,717
Martial Arts Instructor (DPS employee)	382	468	850
Professional Development (DPS employee)	620	0	620
Martial Arts Instructor	360	440	800
Aerobics Instructor for Parents and Staff	0	900	900
Theater Instructor	1,260	0	1,260
Total	\$4,671	\$1,340	\$7,147

Cause

Circumventing procurement and contracting procedures for the hire of six individuals whose services were provided directly to the school without complying with District procedures. Also, lack of knowledge of District policy related to cash management activities 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.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should ensure the hiring of individuals to provide goods and services to the school are in compliance with all District policies and procedures.

In order to ensure compliance with both district policy and IRS rules, the Principal should contact the Office of Central Accounting to determine the proper method of capturing, monitoring, and reporting salary/ wages meeting the IRS 1099 criteria that is, amounts paid to individuals in excess of \$600. In addition, the Principal should contact the Detroit Public School Human Resources and/or Contracting and Procurement Departments

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

According to the Skillman 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.”

According to an article about the Blue Cross Blue Shield partnership, Crary’s funds were to be used to: “Implement nutrition programs and involve families to participate in physical activity through new and enhanced playground equipment.”

Payments totaling \$7,146 were posted to the Skillman Grant and Blue Cross Blue Shield Grant activity accounts of the ledger, for payments made to, a Cheerleading Coach, two Martial Arts Instructors, an Aerobics Teacher and a Theater Instructor. Of this amount, \$4,671 was from the Skillman Grant awarded to the school; the remaining \$2,475 was from the Blue Cross Blue Shield Grant. However, no documentation was presented which indicates the Skillman Foundation approved use of the funds for this purpose.

Cause

Non-compliance with grant guidelines and/or lack of documentation evidencing approval for the specific use of the funds.

Effect

Lack of assurance that grant funds were used properly, which could negatively impact the receipt of future funding.

Recommendation

The Principal should ensure that all restricted funds are used for their intended purposes and/or obtain documentation specifically authorizing the current and historic use of the funds.

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MANAGEMENT RESPONSE

Management response provided by Diane Goins, Principal (New Principal):

I am responding to this report as the newly assigned principal at Crary Elementary beginning July 1, 2009.

Finding 1

The principal and other staff members involved in financial management have secured copies of the School Administrative Financial Manual 2006 (SAFM). We will adhere to District policies for cash management activities as detailed in the SAFM.

Finding 2

All relationships for contract services to any vendor for over \$600 will be processed using through the Office of Accounting contract services process per the guidelines of the SAFM standards.

Finding 3

The principal will ensure that all restricted funds are used in accordance with the guidelines for their intended purpose. Documentation will be maintained according to the SAFM standards.

As the newly assigned principal, I am requesting training in the School Administrative Financial Manual 2006-07 to help ensure my understanding of school cash management processing for Detroit Public Schools.

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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