

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-069

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 391 students were enrolled at Duffield Elementary School, which has grade levels Kindergarten through Eighth. Mr. Kenneth Jenkins was the Principal during this time period and has been serving in this capacity for three years.

Ms. Sandra Henderson, performs the bookkeeping duties for the school and has been doing so since August 2007.

Duffield Elementary School Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include fundraisers, vending machine revenue and special project funds (i.e., 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> | \$2,186 |

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
 - Bank reconciliations are not signed and dated by the Preparer and Reviewer.
 - Two instances were noted where unresolved differences remained on the bank reconciliations (1) \$160 deposit dated 2006; and (2) \$10 item..

The detail of this finding and recommendation is 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:

- Bank reconciliations are not signed and dated by the Preparer and Reviewer, evidencing timely preparation and management review.
- Two instances were noted where unresolved differences remained on the bank reconciliations for an extended period of time: (1) A \$160 deposit dated 2006; and (2) A \$10 check item.

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.

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 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.

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MANAGEMENT RESPONSE

1. Bank reconciliations will henceforth be signed and dated by the Preparer and Reviewer in a timely manner and ready for review upon request from the Auditor General's Office.

2. Stop-payment requests will be placed upon the two noted instances to resolve differences that remained on the bank reconciliations since December 2006 (Item 1. \$160.00 and Item 2. \$10.00) and

3. Principal will ensure that only designated individuals, who have been properly trained in the current District cash management policy process, will be involved in the cash management process on the school level. These individuals will fully understand/be aware of the cash management function within the District, as delineated and detailed in the School Administrative Financial Manual. Duffield School will be in-compliance to the District's Cash Management policy, in function and practice.

Thank you.
Principal Kenneth Jenkins

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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.

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Odell W. Bailey, CIA
Auditor General