

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF BARBARA JORDAN ELEMENTARY SCHOOL

School Year 2008-2009

REPORT NO: 09-115

REPORT DATE: June 30, 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, 650 students were enrolled at Barbara Jordan Elementary School, which has grade levels Pre-Kindergarten through Eighth. Ms. Marcia Morrow was the Principal during this time period and has been serving in this capacity for two years. Prior to this assignment she was the principal for Monnier Elementary School.

Ms. Jennifer Wallington, Head Secretary, performs the bookkeeping duties while Ms. LaDawn Douglas, Clerical Series Level II, serves as the second signer on the checking account.

Barbara Jordan Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, and special project funds. 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.

SCOPE & METHODOLOGY (continued)

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- 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>	\$6,921

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:
 - Lack of supporting documentation for all cash receipts.
 - Cash receipts were not adequately safeguarded in the school safe and vault.
 - Lack of supporting documentation for all check requests.
 - Receipts indicate that sales tax paid was on some expenditures.
 - Reconciling items not cleared timely.
 - Inadequate review of bank reconciliations
 - All bank reconciliations were not prepared.
- Untimely cash deposits.
- Improper endorsement of checks.

The detail of this finding and recommendation is included in the Findings Section of this report.

AUDIT FINDINGS

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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:

- Lack of supporting documentation for all cash receipts.
- Cash receipts were not adequately safeguarded in the school safe and vault.
- Lack of supporting documentation for all check requests.
- Receipts indicate that sales tax paid was on some expenditures.
- Reconciling items not cleared timely.
- Inadequate review of bank reconciliations
- All bank reconciliations were not prepared.

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. In addition, the use of a signature stamp increases the risk of unauthorized payment of expenditures and/or misappropriated funds.

Recommendation

The Principal should discontinue the use of a signature stamp for check endorsements and 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.

AUDIT FINDINGS (continued)

2. Finding – Untimely Deposits:

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The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the timely deposit of cash receipts.

There was a lack of adherence to District guidelines, regarding timely deposits. There was one instance where \$70 was collected in November 2008 and had not been deposited into the school checking account by May 2009.

Cause

Lack of adherence to District policies and best practices.

Effect

Untimely deposits of cash receipts can increase the risk of loss and theft. It also limits available resources for management purposes. Lastly, management decisions may be negatively impacted by untimely and/or inaccurate financial data.

Recommendation

Deposits should be made regularly (i.e., daily or bi-weekly) to ensure deposited funds are available to cover disbursements and are adequately safeguarded from loss or theft.

3. Finding – Authorization of Blank Checks:

The “School Administrative Financial Manual 2006-07” (SAFM) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

The school had a practice of maintaining several checks that were endorsed by the second signer, in advance of receiving check requests.

In addition, there was one instance where a check for a \$888, had been endorsed by both authorized signers when only the amount had been completed.

Cause

Lack of adherence to District policy regarding check issuance.

Effect

Checks can be cashed by unauthorized individuals and/or for unauthorized amounts.

Recommendation

The Principal should ensure that all checks are signed only after the payee and amount are documented on the face of the check.

MANAGEMENT RESPONSE

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Please know that neither I nor my clerical staff has been trained in accounting and Bookkeeping. I would be honored if the district would provide proper training so that schools will be in compliance with all monetary transactions and requests.

Thanking you in advance for this report and appointed discrepancies,

Marcia Morrow
Marcia Morrow
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.

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Odell W. Bailey, CIA
Auditor General