

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-111

REPORT DATE: June 30, 2009

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

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

**DETROIT PUBLIC SCHOOLS
HUTCHINSON ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 380 students were enrolled at Hutchinson Elementary School which has grade levels Pre-Kindergarten through Sixth. Mr. Stanley Johnson was the Principal during this time period and has been serving in that capacity since 2001. The bookkeeping duties performed at Hutchinson since Mr. Johnson became principal in 2001.

Hutchinson Elementary School maintains one commercial checking account with Chase Bank. Primary sources of General School Funds include vending machines, student activities, school fundraisers, community donations and district grants (Title 1). The primary sources of District Fund Revenues are the lunchroom collections and the summer school programs.

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 example, 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>	\$ 2,995

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy. Specifically,

- The checking account at Chase Bank, requires one signature for withdraws and two for writing checks
- There was not proper cash management process to properly account for cash receipts and disbursements that included the following basic controls:
 - Receipts were not recorded in a pre-numbered duplicate receipt book
 - Cash receipts were not accurately posted in the ledger
 - Cash receipts were not properly safeguarded
 - Disbursements were not approved by the Principal or Assistant Principal
- Bank reconciliations were not prepared

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

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AUDIT FINDINGS

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)

The following non-compliance issues were noted:

- The checking account at Chase Bank, requires one signature for withdraws and two for writing checks.

- There was not a proper cash management process to properly account for cash receipts and disbursements that included the following basic controls:
 - Receipts were not recorded in a pre-numbered duplicate receipt book
 - Cash receipts were not accurately posted in the ledger
 - Cash receipts were not properly safeguarded
 - Disbursements were not approved by the Principal or Assistant Principal

- Bank reconciliations were not prepared. Upon receipt of the bank statement, they were copied and sent to Central Accounting, who performed the bank reconciliation

Cause

The Principal stated he was unaware of the District’s SAFM and therefore was not aware of certain forms and requirements for properly accounting for cash receipts and disbursements. In addition, it was noted that the school had a bookkeeper on staff until 2001.

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. Moreover, the lack of documentation for cash receipts and disbursements raises serious concerns about the accuracy, completeness and legitimacy of expenditures and whether they were used for other than approved school activities.

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 2006-2007.

Also, 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

Management Responses provided by Mr. Stanley Johnson, Principal:

I agree with the suggested recommendations under the Audit Findings. Each auditor noted certain things we should begin to do and we are in compliance with their suggestions.

We have also received an example of a ledger from Ms. Shirley Crumpler to use as a guide.

Please be assured that all staff will be properly trained for financial transactions in the future.

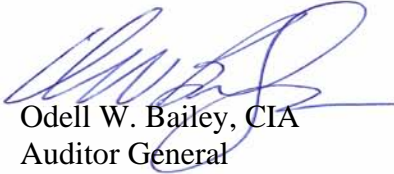
Sincerely,

Stan Johnson, Principal
Hutchinson Elementary School

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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