

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-003

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
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BACKGROUND

For School Year 2008 – 2009, approximately 557 students were enrolled at Bagley Elementary School, which has grade levels Kindergarten through Sixth. Ms. Debra Winston was the Principal during this time period and has been serving in this capacity since January 2009. Prior to this Ms. Peggy Williams served as the Principal.

Ms. Anessa Benson-Jackson, Secretary, performs the bookkeeping duties and has been doing so since 2008.

Bagley Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities, vending machine revenue, donations (Target) and special project funds (i.e., Skillman Grant, Title I & 31A). 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>	\$14,054

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:

- Pre-numbered duplicate copy receipts were not always issued when cash/checks were received.
- Check request forms were not always used to request authorization of disbursements, prior to check issuance.
- Supporting documentation did not always exist for cash disbursements.
- There were instances where checks were issued with only one signature.
- Bank reconciliations were not completed for the July 2008 through February 2009 period.
- Cash was improperly safeguarded since the Principal was the only individual with access to the safe deposit used to store cash.

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

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AUDIT RESULTS IN BRIEF (continued)

Achievement:

Bagley Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as a *High Performing School*. This indicates that they have met criteria such as: (1) Meeting or exceeding grade-level expectations in English, math and science; (2) Offering challenging curricula to all students; and (3) Demanding consistent attendance and punctuality from all students, etc.

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 copy receipt books were not used during the receipt process.
- Check request forms were not always used to request authorization for check disbursements.
- There were instances where check disbursements did not have adequate supporting documentation.
- Checks were not always issued with dual signatures
- Bank reconciliations were not completed for the July 2008 through February 2009 period.
- Cash was improperly safeguarded since the Principal was the only individual with access to the safe deposit where funds were maintained prior to being deposited to the school bank account.

Cause

Lack of adherence to existing District policies due to the fact that school officials stated they were unaware of the District's SAFM.

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds.

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AUDIT FINDINGS (continued)

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, 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.

MANAGEMENT RESPONSE

Management responses prepared by Ms. Debra Winston, Principal.

Bagley Elementary School
Deborah L. Winston, Principal
Findings-School Administrative Financial Manual Non-Compliance

Findings	Response
Pre-numbered duplicate copy receipt books were not used during the receipt process.	This is accurate and a pre-numbered duplicate receipt book has been identified and will be used during all future receipt processes.
Check request forms were not always used to request authorization for check disbursements.	Since becoming principal at Bagley on January 5, 2009, check request forms have always been used to request authorization for check disbursements. This process will continue to be used.
There were instances where check disbursements did not have adequate supporting documentation.	At least one incident was identified where a check disbursement did not have adequate supporting documentation. All future check disbursements will have the supporting documentation attached.
Checks were not always issued with dual signatures.	Since becoming principal at Bagley on January 5, 2009, all checks that were issued had dual signatures. This process will continue.
Bank reconciliations were not completed for the July 2008 through February 2009 period.	This is accurate and the bank reconciliations have been brought up to date. The secretary will now maintain up-to-date bank reconciliations.

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<p>Cash was improperly safeguarded since the principal was the only individual with access to the safe deposit used to store cash.</p>	<p>The school secretary and I both have combinations to the safe, but it is accurate that the outer door to one of the safes is accessible only by the principal. The engineer, however, can also access the outer door as long as the bottom lock is the only lock that is secured. If the top lock as well as the bottom lock is secured, he is not able to open the outer door.</p> <p>I will ensure that the engineer has a top key as well.</p>
<p>Cause</p>	
<p>Lack of adherence to existing District policies due to the fact that school officials stated they were unaware of the District's SAFM.</p>	<p>The principal has downloaded the School Administrative Financial Manual for reference and will ensure that the secretary has a copy as well.</p>

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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

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General