

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF BARBOUR MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-004

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 376 students were enrolled at Barbour Middle School, which has grade levels Sixth through Eighth. Ms. Deborah Manciel was the Principal during this time period and has been serving in this capacity for two years.

Ms. Deborah Furman, Secretary, performs the bookkeeping duties and has been doing so for ten years.

Barbour Middle maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include community donations (DTE Energy Math grant) 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> | \$6,172 |

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, salary payments were made to non-Detroit Public Schools (DPS) staff.

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

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AUDIT FINDINGS

1. Finding – Improper Salary Payments to Non-DPS Employees:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the payment of salaries to non-DPS employees. Prohibited expenditures include salaries paid to persons hired by the school as a contractor. A contractor must meet the criteria as stated by the Internal Revenue Services (IRS), which has ruled that most contractors are really employees based on IRS standards.

Any person earning \$600 or more per year must be given a 1099 form. As such, the SAFM states “all contracted services...should be paid through the Office of Accounting so the appropriate wage forms can be provided.”

Two individuals were being paid for musical tutoring/teaching services out of the school checking account. The amounts paid were in excess of the IRS 1099 \$600 reporting limit.

Cause

Lack of knowledge resulting in non-compliance with IRS and District polices.

Effect

Lack of adherence with District polices has resulted in non-compliance with IRS rules. This could result in fines and/or penalties.

Recommendation

The Principal should ensure compliance with District and IRS policies regarding the payment of salaries. 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.

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MANAGEMENT RESPONSE

Management responses were provided by Deborah Manciel, Principal:

Administrator and secretary were not aware of the District and IRS policies regarding the payment of salaries reporting limit, and were never notified by Cash Management via review of reconciliation reports. In order to be in compliance with District policy and IRS rules, the following corrective action steps will/have been made by the principal:

Contact Ms. Shirley Crumpler in Cash Management for 1099 form.

Contacted both consultants who will meet with me Monday, July 27, 2009 at Henderson Academy to sign IRS documents

Once Form 1099 is signed I will submit original documentation to the Cash Management Department and forward copies to Dr. Daveda Col


bert and Dennis Johnson

My aim as the principal is not to cause any hardship on the District that may result in fines/penalties.

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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