

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-022

RELEASE DATE: June, 2009

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

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

**DETROIT PUBLIC SCHOOLS
BURT ELEMENTARY SCHOOL
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BACKGROUND

For the 2008-2009 School Year, approximately 286 students were enrolled at Burt Elementary School, which has grade levels Pre-Kindergarten through Sixth. Ms. Carol Garland was the Principal during this time period and has been serving in this capacity since July, 2006.

Ms. Garland also performed bookkeeping duties and has been doing so since July, 2006. Ms. Natash Miller, Clerical III, has received bookkeeping training through the District. However, she has not had the chance to utilize those skills at this school.

Burt Elementary School maintains one commercial checking account at Comerica Bank. Primary sources of General School Funds are from student activities (i.e., field trips) and fundraising activities. 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 School and District Funds (July 2008 – March 2009)

ACCOUT TYPE	AMOUNT
<u>Commercial Checking Account Deposits</u>	\$972

AUDIT RESULTS IN BRIEF

Based on our audit of the Burt Elementary School cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy and/or ineffective practices.
 - Pre-numbered duplicate cash receipt books were not used.
 - Check request forms were not signed to indicate authorization of expenditures.
 - A general ledger was not maintained.
 - Checks were not written in numerical sequence.
 - Checks were not signed by two authorized signers.
 - Bank reconciliations were not prepared.
- Petty cash fund maintained without appropriate financial records.

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):

- Pre-numbered duplicate cash receipt books were not used.
- Check request forms were not signed to indicate authorization of expenditures.
- A general ledger was not maintained.
- Checks were not written in sequential order.
- Checks were not signed by two authorized signers.
- Bank reconciliations were not prepared.

Cause

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests included in the District’s SAFM.

Effect

Lack of adherence to District policies related to cash receipts and disbursements results in non-standardize procedures that can vary with each school, which can result in processing inefficiencies. In addition, failure to request and approve cash disbursements can result in inappropriate or unauthorized purchases.

Recommendation

The Principal should ensure that all staff members participating in financial transactions are familiar with and 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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AUDIT FINDINGS (continued)

2. Finding – Petty Cash Fund Maintained without Appropriate Financial Records:

School officials indicated that some funds collected (e.g., field trip money) are not deposited into the checking account. Instead, they are maintained in the school for expenditures. However, the school does not maintain sufficient records related to petty cash funds maintained in the schools bookstore and main office. The school does not maintain documentation of:

- Approval for reimbursements from the fund, and
- Supporting documentation for expenditures from the fund.

Cause

School officials stated that they were not aware of the requirements to use certain forms for cash activity included in the District's SAFM.

Effect

The school funds are more susceptible to fraudulent transactions when sufficient recordkeeping and supporting documentation are not maintained.

Recommendation

The Principal should ensure that all appropriate records related to petty cash activity are maintained.

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MANAGEMENT RESPONSE

Management Responses provided by Carol Garland, Principal:

TO: Mr. Odell W. Bailey, Auditor General

FROM: Carol S. Garland, Thomas Burt Elementary School

DATE: July 6, 2009

SUBJECT: Corrective Actions for Audit Findings/Thomas Burt Elementary,
Report No: 09-022

I have read the audit report findings and will take corrective action as follows:

1. Use a pre-numbered duplicate cash receipt book.
2. We will sign check request forms to indicate authorization of expenditures.
3. A general ledger will be maintained.
4. Close attention will be paid so that checks will not be written out of order due to oversight.
5. Check will have two signatures.
6. Bank reconciliations will be prepared and forwarded to the Office of Accounting.
7. Appropriate financial records will be kept in accordance with the SAFM 2006-2007
8. All staff members participating in financial transactions will be trained for activities in accordance with the School Administrative Financial Manual 2006-2007.

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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



Odell W. Bailey, CIA
Auditor General