

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-034

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 345 students were enrolled at Clark Elementary School, which has grade levels Kindergarten through Fifth. Ms. Cindy Lang was the Principal during this time period and has been serving in this capacity for four years. Previously, she was the principal at Hosmer Elementary for four years.

Ms. Octavia Brown, Secretary, shares the bookkeeping duties with Mr. William Butler. Ms. Brown receives cash, deposits cash, and processes check disbursements. She has had these responsibilities for sixteen years.

Mr. Butler, Administrator, is responsible for preparing the monthly bank reconciliations.

Clark Elementary School Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities, community donations and special project funds (i.e., Skillman). 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

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SCOPE & METHODOLOGY (continued)

- 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 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>	\$50,385

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
 - Pre-numbered duplicate copy cash receipt books were not used.
 - Check disbursements with no supporting documentation.
 - Check disbursement incorrectly noted in school ledger
 - Voided check not marked as void.
 - Check issued with only the secretary's signature.
 - Payment of an expense from fundraising sales proceeds
 - Bank reconciliation was not prepared

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

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AUDIT RESULTS IN BRIEF (continued)

Achievement

Clark Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Improving School. This indicates that they have met criteria such as: (1) Overall improvements over the last two years; (2) Improved MEAP scores with a 10% increase in two subject areas; and (3) Sufficient parental and community partnerships, 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 cash receipts were not issued when cash/ checks were received; rather un-numbered tally sheets were used.
- Three checks were issued without supporting documentation.
- One instance was noted where the payee detailed on the school ledger differed from the individual noted on the actual check.
- One voided check was not marked as void.
- One check was not issued with dual signatures; the check was only signed by the secretary.
- One expense payment was partially paid from fundraising cash proceeds, as opposed to issuance of a check.
- March 2009 bank reconciliation was 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.

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.”

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MANAGEMENT RESPONSE

Management responses were provided by Ms. Cindy Lang, Principal:

Per the findings identified in the auditors report, Clark School will follow the recommendations of the auditors and make sure that all staff members responsible for financial transactions are trained on District Policy for cash management activities, as detailed in the "School Administrative Financial Manual 2006-2007"


Clark School will take the following corrective actions as it relates to the findings:

- **Finding:** Pre-numbered duplicate copy cash receipts were not issued when cash/checks were received; rather un-numbered tally sheets were used.
Solution: Clark will issue cash receipts in a pre-numbered receipt book in accordance to the "School Administrative Financial Manual 2006-07"
- **Finding:** Three Checks were issued without supporting documentation.
Solution: Before a check is signed, the person requesting the check will sign a form understanding that supportive documentation must be submitted within 24 hours of receiving the check. The person's signing the check will be responsible for retrieving the receipt(s) or supporting documentation from the individual.
- **Finding:** One instance was noted where the payee detailed on the school ledger differed from the individual noted on the actual check.
Solution: When writing checks, we will immediately record the individuals' name or company name in the electronic general ledger simultaneously to ensure that both records are accurate. Additionally, we will enact a policy that no check can be signed unless it is verified that it has been recorded in the general ledger electronically and manually.
- **Finding:** One voided check was not marked as void.
Solution: All voided checks will be recorded with "VOID" on the front of the check and stapled to the check book at the time the check is voided.
- **Finding:** One check was not issued with dual signatures; the check was only signed by the secretary.
Solution: All checks will be signed by the principal and her designee. The principal will be the last person to sign. No Exceptions!
- **Finding:** One expense payment was partially paid from fundraising cash proceeds, s opposed to issuance of a check.
Solution: All cash from fundraising will be deposited into the school checking account in a timely manner. There will be no expenses taken from the cash. All expenses must be paid from the school checking account after the cash is deposited in a timely manner.
- **Finding:** March 2009 bank reconciliation was not prepared.
Solution: Clark School had not received the bank statements as of audit date. All bank reconciliations will be completed within 3 days of receiving the bank statements from Comerica.

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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