

Detroit Public Schools
Office of Auditor General



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

REPORT NO: 09-072

REPORT DATE: June 2009

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FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, approximately 311 students were enrolled at Edison Elementary School which has grades Pre-Kindergarten through fifth. Ms. Beverly Green was the Principal during this time period and has been serving in this capacity for 13 years.

Ms. Tankia Buchanan is the Secretary and is performing the bookkeeping duties for Edison Elementary School and has been doing so since 1997.

Edison Elementary School maintained a commercial checking account with Chase Bank. Primary sources of General School Funds included fundraising activities, donations and special project funding (Skillman Fund and Title I). 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 – March2009):

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$40,420

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,

- AC-4 form was not used to authorize check requests.
- Disbursements, which did not have adequate supporting documentation.
- Checks processed without dual control i.e., the checks were only signed by the Secretary.
- Monthly bank reconciliations were not signed and dated by the Preparer or the Reviewer.

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

Achievement

Edison 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.

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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:

- The AC-4 form was not used to authorize check requests.
- There were disbursements, which did not have adequate supporting documentation.
- There were three instances where check were processed without dual control i.e., the checks were only signed by the Secretary.
- Monthly bank reconciliations were not signed and dated by the Preparer or the Reviewer.

Cause

The school official stated that she was unaware of the District’s SAFM and therefore was not aware of the requirement to use certain forms for cash receipts and check requests.

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”

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

TO: Mr. Odell W. Bailey, Auditor General

FROM: Beverly R. Green, Principal, Thomas A. Edison Elementary School

DATE: June 24, 2009

SUBJ.: Corrective Actions for Audit Findings/Edison Elementary School,
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The following actions will be taken to control financial weaknesses:

1. We will contact the Accounting Department or Cash Management, to retrieve the AC-4 forms needed for check requests.
2. In the future, we will secure invoices and keep copies on file, from consultants who are funded by the Skillman Foundation Grant.
3. To eliminate disbursed checks with one signature, we will be sure to “flag” signature lines on checks to ensure that both parties have signed.
4. Effective April 2009, all bank reconciliation statements forwarded to the Office of Accounting have been signed and dated by the Preparer and Reviewer, and will continue to be an ongoing practice.

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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