

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF FITZGERALD ELEMENTARY SCHOOL

School Year 2008-09

REPORT NO: 09-082

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
FITZGERALD ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-082**

BACKGROUND

For School Year 2008 – 2009, approximately 631 students were enrolled at Fitzgerald Elementary School, which has grade levels Pre-Kindergarten through Eighth Grade. Ms. LaChelle Williams was the Principal during this time period and has been serving in this capacity since 2008. In addition to her role as Principal, Ms. Williams also performed the bookkeeping duties for Fitzgerald Elementary.

Fitzgerald Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities, fundraisers and special project funds (i.e. Skillman Good Schools Grant. 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.
- 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.

**DETROIT PUBLIC SCHOOLS
FITZGERALD ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-082**

SCOPE & METHODOLOGY (continued)

- 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>	\$36,880

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the control weaknesses related to compliance with District cash management policy. Specifically,

- Non-compliance with District cash management policy and/or ineffective practices
 - Fundraisers have not been pre-approved by the District
 - Profit and Loss statements are not completed for fundraisers
 - Pre-numbered duplicated receipts are not utilized
 - Bank reconciliations were not prepared and forwarded to the Office of Central Accounting.
 - No formal check request approval form
- Lack of Segregation of Duties

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

Achievements

Fitzgerald 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

**DETROIT PUBLIC SCHOOLS
FITZGERALD ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-082**

AUDIT FINDINGS

1. Finding – Lack of Segregation of Duties :

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management function including adequate segregation of duties.

We noted the Principal performed the bookkeeping duties of receiving funds, maintaining cash receipts and disbursement ledgers, preparing funds for deposit, authorizing expenditures, writing checks and reconciling the bank account. As such, there were no checks in balances or independent verification of transactions.

Cause

Lack of proper segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

Effect

The school account was susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

District management working with the Principal should segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by another staff member.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records

2. 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:

- Fundraisers have not been prior approved by the District
- Profit and Loss statements are not completed for fundraisers
- Pre-numbered duplicated receipts are not utilized
- Bank reconciliations were not prepared and forwarded to the Office of Central Accounting.
- No formal check request approval form

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.

**DETROIT PUBLIC SCHOOLS
FITZGERALD ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-082**

AUDIT FINDINGS (continued)

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, after segregating cash management duties, ensure staff are trained on District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07” and know where District policies are stored on the intranet.

MANAGEMENT RESPONSE

Ella Fitzgerald Pre K – 8th Grade School
8145 Puritan
Detroit, Michigan 48238
(313) 494-3830
Fax (313) 494-3829

July 1, 2009

Dear Odell W. Bailey/Dennis Johnson;

Thank you for your financial report of Fitzgerald School. My response to the findings is as follows:

1. **Lack of Segregation of Duties-** I have gone through and successfully completed the Leadership Academy for Assistant Principals and Principals. We covered several important items in relationship to school leadership. Unfortunately, Bookkeeping and Banking was an important topic that was overlooked; it was not addressed in the academy. I was never trained or informed of the SAFM procedure.

I completely understand how the “lack of proper segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds “ can be “susceptible to inaccuracies and/or misappropriation of funds.” However, every dollar that was given to me by Skillman, the Early Childhood Department, the gift checks from Target and the balance left by the outgoing principal can be accounted for. There are receipts, checks and bank statements that show how every penny was spent.

I will make sure a member of the clerical staff or a bookkeeper will be responsible for our bookkeeping for the 2009 – 2010 school year and beyond.

**DETROIT PUBLIC SCHOOLS
FITZGERALD ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-082**

MANAGEMENT RESPONSE (continued)

2. **School Administrative Financial Manual Non-Compliance** – Again, I never heard of the SAFM until the date of my audit. One of the gentlemen who were in my building mentioned it to me. If I was aware, I would have followed the guidelines as set for in SAFM. I truly believe in following policies and procedures. I value my job and I do want to be in compliance.
- a. **I agree fundraisers were not approved.** We have receipts for how the money was spent. But of course we did not track how many lunches we bought for students. I see how that can be a problem.
 - i. We are currently fine tuning our 2009 – 2010 school calendar. I will make sure the appropriate documents are submitted so the district will know what our fundraisers are and our profit and loss.
 - b. It was necessary for the district to go to the home of the outgoing principal to retrieve the banking items for Fitzgerald. All I was given was a notebook/binder with checks in it. I did not receive “Pre-numbered duplicated receipts.” I’ve never seen one and did not know the school was required to have them. When I deposited money in the account, I used one of the deposit slips located in the bank. Now that I know, I will request some. I called our bank and inquired about them last week.
 - c. Bank reconciliations were not prepared and I was not asked to prepare them until March of 2009. I don’t know what to do if I have not been told or asked to do it. In fact, the form I was using to report my banking transactions on was accepted from July of 2008 until April of 2009. It was not until April of 2009 that I was told I was not submitting the correct form and that the form I was submitting would not be acceptable for the auditors. Of course I was upset and that added to my frustration on the day that the auditors showed up. Currently, Ms. Crumpler is working with me to show me the correct way to complete and submit the forms. (I did submit paperwork monthly; it was just the wrong format).
 - d. I have not seen a “formal check request form”. I will look on SAFM to see if I can locate one.

I do not like to make excuses. I believe in doing my job and doing it well. I will make sure I read SAFM and identify a member of my clerical staff to handle the bookkeeping for Fitzgerald. I will make sure we have the training necessary to be in compliance and do the job correctly.

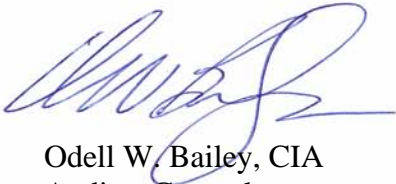
Again Thanks,

LaChelle Williams,
Principal

**DETROIT PUBLIC SCHOOLS
FITZGERALD ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-082**

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