

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-086

REPORT DATE: June 30, 2009

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BACKGROUND

Currently, there are 285 students enrolled at Gardner Elementary School which has grade levels Pre-Kindergarten through Fifth. Ms. Karen Doneghy was the Principal during this time period and has been serving in this capacity since 2005.

Ms. Barbara Johnson, Secretary, performed the bookkeeping duties and has done so since 2007.

Gardner Elementary School maintains one commercial checking account with Chase Bank. Primary sources of General School Funds include school fundraisers, field trip remittances, shirt sales and district grants (Skillman, Head Start, Title 1). The primary source of District Fund Revenues is the lunchroom collections.

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>	\$21,540

AUDIT RESULTS IN BRIEF

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

- Non-compliance with the School Administrative Financial Manual
 - Receipts numbers are not referenced when posting to the ledger
 - Bank reconciliations are not signed by the preparer or approver
- Misappropriation of Assets
- Assets not adequately safeguarded
- Petty Cash Fund Maintained without Appropriate Financial Records

Achievements

Gardner 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 percent increase in two subject areas; and (3) Sufficient parental and community partnerships, etc.

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 “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District.

The following non-compliance issues were noted:

- Receipts numbers were not used as a referenced number when posting the transactions to the ledger
- Bank reconciliations are not initialed by the preparer or signed by the Principal as the approver

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, the Principal should ensure that all individuals involved in the cash management process are aware of where current District policies are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

2. Finding – Misappropriation of Assets:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management process and states that the Principal has a fiduciary responsibility to ensure that cash is properly safeguarded and utilized for intended purposes.

A journal entry recording the receipt of \$1000, dated February 06, 2009, was recorded in the ledger; however, supporting documentation of a duplicate receipt was not located. In addition, after review of the subsequent bank statements, the funds were yet to be deposited.

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AUDIT FINDINGS (continued)

Cause

Non-compliance with the SAFM and lack of oversight.

Effect

Failure to document cash receipts along with not depositing funds into the school banking account is a serious violation, which represents a misappropriation of assets that not only violates District policy, but represents a possible criminal offense.

Recommendation

The Principal should ensure that all receipts and expenditures from the school checking account be transacted with proper authorization and properly documented.

3. Finding – Assets Not Adequately Safeguarded:

The “School Administrative Financial Manual 2006-07” (SAFM) governs safeguarding of cash receipts.

Petty cash funds are maintained in a safe that remains open during the day.

Cause

Failure to comply with SAFM and best practices regarding proper safeguarding of assets.

Effect

Lack of adherence to District policies and best practices could result in financial losses due to theft.

Recommendation

The Principal should take the necessary actions to ensure assets are properly safeguarded by requiring the prompt return of all district property including keys to facilities, safes, etc.

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AUDIT FINDINGS (continued)

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

The “School Administrative Financial Manual 2006-07” (SAFM) governs the maintenance of petty cash funds including required documentation:

The following documentation was not maintained:

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

Cause

School officials did not comply with District policies.

Effect

The school funds are more susceptible to fraudulent transactions when there is insufficient recordkeeping and supporting documentation.

Recommendation

The Principal should ensure that all appropriate records related to petty cash activity are maintained in compliance with District policy.

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MANAGEMENT RESPONSE

Management Response provided by Ms. Karen Doneghy, Principal:

The audit report received August 10, 2009, has been read and I am already moving in the direction of corrective actions. We consulted with Ms. Shirley Crumpler from Central Accounting Office on several occasions for guidance, which she provided. Recently, we were made aware of the School Administrative Financial Manual 2006-07 and have located it on the intranet. We will be reading and referring to the manual from now on. I appreciate the information generated and the thoroughness of this report.

In short, I concur with the findings in each of the four areas listed and appreciate the opportunity to correct the control weaknesses and become compliant with School Administrative Financial Manual 2006 -07” (SAFM).

These are the corrective actions that will address each finding:

1. The Principal will follow the auditor’s recommendation and 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”
2. The Principal will follow the recommendations of the auditor’s report and ensure that all receipts and expenditures from the school checking account be transacted with proper authorization and properly documented. Also, instead of waiting for the armored truck pick up at the end of the month, the principal will make sure all checks are deposited within 48 hrs.
3. The Principal will follow the recommendations of the auditor and take the necessary actions to ensure assets are properly safeguarded by requiring the prompt return of all district property including keys to facilities, safes, etc. The principal’s office and the safe housed in the principal’s office will remain locked whenever the principal leaves the office.
4. The Principal will follow the recommendations of the auditor and ensure that all appropriate records related to petty cash activity are maintained in compliance with District policy, i.e. approval for reimbursements from petty cash and supporting documentation for expenditures from the fund.

In closing, as the principal of Gardner Elementary, I will abide by all recommendations given in this report and will ensure that the staff and I comply with all district fiscal regulations and policies.

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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