

# Detroit Public Schools Office of the Auditor General



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## FINANCIAL RELATED AUDIT OF HAMILTON ELEMENTARY SCHOOL School Year 2008-09

**REPORT NO: 09-095**

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**REPORT DATE: June 30, 2009**

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**DETROIT PUBLIC SCHOOLS  
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**BACKGROUND**

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For School Year 2008 – 2009, approximately 265 students were enrolled at Hamilton Elementary School, which has grade levels Kindergarten through Fifth. Ms. Tracy Johnson was the Principal during this time period and has been serving in that capacity since 2005.

Ms. Johnson also performs the bookkeeping duties and has done so since she has been assigned to the school.

Hamilton Elementary School maintains two commercial checking accounts at Comerica Bank. However, one of the accounts had no activity during the audit period. Primary sources of General School Funds include special project funds, (e.g., 21<sup>st</sup> Century After School Grant). Sources of District Fund Revenues include Food Services (i.e., lunchroom).

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**AUDIT OBJECTIVES**

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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.

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**SCOPE & METHODOLOGY**

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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)**

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- 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.

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**FINANCIAL SUMMARY**

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**Table 1.1: Cash Receipts from General and District School Funds (July 2008 – March 2009)**

<b>ACCOUNT TYPE</b>	<b>AMOUNT</b>
<u>Commercial Checking Deposits</u>	\$219

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**AUDIT RESULTS IN BRIEF**

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Based on our audit of the cash management process, we noted the following control weaknesses:

- Non-compliance with District cash management policy.
  - Check request forms were not used to indicate approval of expenditures by the Principal.
  - Checks were not signed by a second authorized signer.
  - Cash receipts and disbursement ledgers were not maintained.
  - Bank reconciliations were not prepared.
- Checks were not always prepared properly and adequately safeguarded.
- Authorization of blank checks.
- Lack of segregation of duties.

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

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**AUDIT FINDINGS**

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**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:

- Check request forms were not used to indicate approval of expenditures by the Principal.
- Checks were not signed by a second authorized signer.
- Cash receipts and disbursement ledgers were not maintained for the audit period.
- Bank reconciliations were not prepared for the July 2008 through March 2009 period.

**Cause**

Lack of adherence to existing District policies (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.”

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 – Checks Not Properly Prepared and Safeguarded:**

The “School Administrative Financial Manual 2006-07” (SAFM) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

The following exceptions were noted:

- Checks were not used in sequential order.
- Check stubs did not include documentation of; date, payee and/or amount.
- Check stubs were missing from the register,
- Unused checks were not adequately safeguarded.

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**AUDIT FINDINGS (continued)**

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**Cause**

Lack of knowledge and adherence to existing District policies (i.e., SAFM.)

**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 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.

**3. Finding – Authorization of Blank Checks:**

The "School Administrative Financial Manual 2006-07" (SAFM) requires checks to be fully completed and signed by two authorized signatories, prior to issuance.

The school issued and maintained checks that were signed by one or more authorized signers, in advance of receiving check requests.

**Cause**

Lack of adherence to District policy regarding check issuance.

**Effect**

Checks can be cashed by unauthorized individuals and/or for unauthorized amounts.

**Recommendation**

The Principal should ensure that all checks are signed only after the payee and amount are documented on the face of the check.

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**AUDIT FINDINGS (continued)**

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**4. 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.

**Cause**

Lack of adherence to District policy requiring a separation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

**Effect**

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

**Recommendation**

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.

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**MANAGEMENT RESPONSE**

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As principal, I will follow district policies when it relates to cash management activities, up-to-date ledgers, ensuring that I have a second signer on all checks, and submitting bank reconciliation statements each month.

As principal, I will ensure that checks are used in sequential order, the stubs are properly filled out, and we will make a copy of the completed check before it is given to the attended payee. All checks will be completely filled out before being signed, and after it is signed by both signers, we will make a copy of the check before it is given to the payee.

As principal, I will delegate financial transactions to another staff member, but will monitor all financial activities.

I take full responsibility for not keeping accurate bookkeeping. I was never trained on how to keep the books, nor was I aware of any district format, I did the best that I could.

I am now aware of submitting monthly bank reconciliation statements, and the retired principal has gone over with me the check request form, and making copies of the written check. She explained all of this information to me with Mr. Osh (he came on July 28<sup>th</sup>).

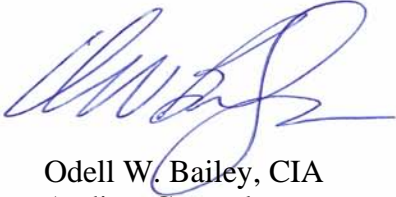
Educationally yours,

Tracy C. Johnson, Principal

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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 and title.

Odell W. Bailey, CIA  
Auditor General