

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-098

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 355 students were enrolled at Harding Elementary, which has grade levels Pre-Kindergarten through Fifth Grade. Ms. Sharon Harvell was the Principal during this time period and has been serving in this capacity since 2006. In addition to her duties as Principal, Ms. Harvell performs the bookkeeping duties since serving as Principal.

Harding Elementary maintains two commercial checking accounts with Chase Bank. The second account had no activity. Primary sources of General School Funds include student activities, special project funds (i.e., Skillman 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.

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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>	\$2,090

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,

- Lack of segregation of duties since the Principal performed all the responsibilities of bookkeeping.
- Non-compliance with District cash management policy and/or ineffective practices
 - A check request form is not used to approve disbursements
 - Stale-dated checks were listed as outstanding
 - Deposits were not consistently made in a timely manner.
 - Cash receipt and cash disbursement ledgers were not forwarded to the Office of Central Accounting.
 - All bank reconciliations were not prepared.
 - Supporting documentation was not maintained:
Cash Receipts
 - Cash Disbursements

- Lack of Safeguarding of Assets

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

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AUDIT RESULTS IN BRIEF (continued)

Achievement

Harding Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Aspiring School. This indicates that they have met criteria such as: (1) Improved MEAP scores with a 5 percent increase over the prior year; (2) Have an average performance in English, math and Science; and (3) Sufficient parental and community partnerships, etc.

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.

Cause

Lack of 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

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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AUDIT FINDINGS (continued)

2. Finding - School Administrative Financial Manual Non-Compliance:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management process.

The following non-compliance issues were noted:

- A check request form is not used to approve disbursements.
- Three stale-dated checks (denominations of \$100, \$100, and \$123) were listed as outstanding for more than one year.
- While the Principal has the deposits in her possession, deposits were not made in a timely manner.
- Cash receipt and cash disbursement ledgers were not forwarded to the Office of Central Accounting.
- Our period of review began July 2008; however, we noted bank reconciliations were not prepared since December 2007.
- Supporting documentation for cash receipts and disbursements were not available for review.
 - Pre-numbered Duplicate Receipt Forms were not used to record cash receipts.
 - Supporting documentation for expenditures was not available for review. A combined total of 32 items valued at \$11,794 could not be substantiated.

Cause

School officials stated they were unaware of the District’s SAFM and therefore were not aware of certain forms and requirements for cash receipt activity.

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 polices are stored on the intranet.

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AUDIT FINDINGS (continued)

3. Finding – Assets Not Adequately Safeguarded:

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

- Funds from the lunchroom are not safeguarded due to being kept in a box inside the office.
- The Principal also acting as the bookkeeper removes financial data and assets, including the financial ledgers, checkbook, and cash received from the school. During our review, we noted the Principal had \$1,496 in her possession that had been taken offsite.

Cause

School official stated the combination to the safe is unknown and would cost \$1500 to redo the combination on the safe.

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 immediately depositing received funds. In addition, the Principal should inquire whether a safe from a closed school can be transferred for their use.

SUBSEQUENT EVENT

On Monday, July 13, 2009, Internal Audit received a phone call from the Inspector General informing us that Ms. Diane Fleming, Regional Superintendent for Harding Elementary School reported that the former principal returned the books and records to the school and also made a deposit of funds. This was in response to a bank reconciliation effort underway by the Accounting division.

Dennis Johnson, Audit Manager for the Office of the Auditor General contacted the new principal, Ms. Deborah Manciel, to obtain more information. Ms. Manciel explained that on July 2, 2009 “auditors” from the CFO’s office were on site to perform bank reconciliations. However the former Principal had the books and records in her possession. Note: this is the same situation Internal Audit experienced during the audit of Cash Receipts and Disbursements in May 2009.

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SUBSEQUENT EVENT (continued)

Ms. Fleming contacted the former Principal and instructed her to deliver the books and records to the school. The Principal delivered them July 13, 2009 and indicated that she needed to make a deposit of funds that were in her possession. Although she would not let Ms. Manciel count the cash and checks to be deposited, she returned a bank deposit slip in the amount of **\$1,628.68**.

Auditor's Note: Removing documentation related to school fund activities from school premises is an unacceptable practice that increases the risk that such information could be lost or stolen. However, to remove school banking information, return it and remove it again along with monies generated from school related activities raises serious concerns about the intent of such actions. Moreover, given that a new principal has been assigned to this school the former principal has no rights to the custody of school funds or school records.

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MANAGEMENT RESPONSE

TO: Mr. Odell W. Bailey, Auditor General

FROM: DeSheil L. Echols, Principal, Harding Elementary School

DATE: September 2, 2009

RE: **Harding Elementary School Audit Finding 2008-2009, Report #09-098**

On July 1, 2009, I assumed the principalship at Harding School. I have read the audit findings for Harding Elementary School and I will make the following changes to ensure Harding is in compliance with the district's, "Schools Administrative Financial Manual 2006-2007":

1. **Finding – Lack of Segregation of Duties:**

I will segregate cash management duties such that, the receiving and recording of financial transactions including bank reconciliations are performed by Delmarie Smith-Carr, Level III Clerical, at Harding Elementary School. Mrs. Smith-Carr and I will review the "Schools Administrative Financial Manual" and contact Office of Central Accounting to receive training to ensure the cash management system is in accordance with the "Schools Administrative Financial Manual 2006-2007." Mrs. Delmarie Smith-Carr and I know where District policies are stored on the intranet.

I will authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records and forwarding them to the Office of Central Accounting.

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MANAGEMENT RESPONSE (continued)

2. **Finding - School Administrative Financial Manual Non-Compliance:**

I will authorize and monitor cash management functions so that:

- A check request form is used to approve disbursements.
- There are not any stale dated checks for more than one year
- Deposits are made in a timely order
- Cash receipt and cash disbursement ledgers are forwarded to the Office of Central Accounting
- Monthly bank reconciliations are prepared and forwarded to the Office of Central Accounting
- Pre-numbered Duplicate Receipt Forms are used to record cash receipts.
- Adequate documentation is maintained for all expenditures. Expenditures will be supported by original invoices, bills, statements, and purchase documents.

3. **Finding – Assets Not Adequately Safeguarded:**

Currently, the safe is not located in a safe, secured, locked area and the combination is unknown. I have contacted Mark Schrupps and Harding's facility supervisor, Joe Firn has contacted Linda Middlebrooks to request a safe from a closed school be transferred to Harding School. The new safe will be located in a safe, secured, locked area with a steel door across from the main office. I have requested the locks to the steel door be changed and I will be the only person with the keys.

I will ensure assets are properly safeguarded by:

- Depositing receipted funds in a timely manner
- Locking all funds from the lunchroom inside the safe
- Locking all financial data and assets, including the financial ledgers, checkbook and cash receipted from the school in the safe

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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