

Detroit Public Schools
Office of the Auditor General



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

REPORT NO: 09-104

REPORT DATE: June, 2009

**DETROIT PUBLIC SCHOOLS
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BACKGROUND

For School Year 2008 – 2009, approximately 446 students were enrolled at Holcomb Elementary School, which has grade levels Pre-Kindergarten through Fifth Grade. Ms. Kimberly Davis was the Principal during this time period and has been serving in this capacity since 2006. Prior to this assignment, she was the Assistant Principal at two schools within the District for a total of seven years.

Ms. Davis also performs the bookkeeping duties and has done so since 2006.

Holcomb Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities (i.e., fieldtrips), fundraising activities and 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.

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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>	\$18,335

AUDIT RESULTS IN BRIEF

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

- Non-compliance with District cash management policy
- Lack of Segregation of Duties

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

Achievement

Holcomb 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% increase over the prior year; (2) Have an average performance in English, math and Science; 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:

- Funds received were not always recorded in the Cash Receipts Ledger.
- Pre-numbered duplicate receipt forms were not issued in sequential order.
- Checks were signed and issued without indication of the payee and or amount.
- Sales tax paid on expenditures.

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 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 – Proper Segregation of Duties Was Not Maintained:

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.

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AUDIT FINDINGS (continued)

Effect

Lack of oversight controls (i.e., no checks and balances) the school account was under the full control of one person and therefore it was susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

District management working closely with the Principal should ensure that cash management duties are properly segregated such that, the receiving and recording of financial transactions including bank reconciliations are performed by more than one 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.

MANAGEMENT RESPONSE

Management responses were provided by Kimberly A. Davis, Principal:

Finding 1:

In the future I will use the recommendation that was provided by the Auditor.

Finding 2:

For the 2008-09 School Year, I tried to get an Accountant to assist with my financial records. Unfortunately, I never received a Purchase Order. In order to stay in compliance, I had to do the recordkeeping myself. In the future I will use the recommendation provided by the Auditor

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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