

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
JOYCE ELEMENTARY
School Year 2008-09

REPORT NO: 09-116

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 350 students were enrolled at Joyce Elementary, which has grade levels Kindergarten through Fifth. Ms. Diane Goins was the Principal during this time period and has been serving in this capacity since July 2008.

Ms. Pauline Smith, Secretary, performs the bookkeeping duties and has been doing so since October 2008.

Joyce Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraising activities and special project funds (i.e., Skillman, Compact & Title I). 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>	\$22,427

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
 - No documentation for check request.
 - Bank reconciliations were not prepared accurately for July 2008 through September 2008 and March 2009.
 - Bank reconciliations were not signed by a Preparer providing accountability.
 - Bank reconciliations were not reviewed by the Principal

The detail of this finding and recommendation is included in the Findings Section of this report.

Achievement:

Detroit School of Arts was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an *Aspiring School*. This indicates that they met criteria such as: (1) Close to becoming a High Performing, or Improving school; (2) Improved MEAP scores, with a 5 percent increase over the previous year; (3) Average performance in English, math, and science.

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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:

- No documentation to request and obtain authorization for check issuance.
- Bank reconciliations were not prepared accurately for July 2008 through September 2008 and March 2009.
- Bank reconciliations were not signed and dated by the Preparer providing accountability and evidence of timely preparation.
- Bank reconciliations were not reviewed by the Principal.

Cause

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

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.

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MANAGEMENT RESPONSE

The staff at Joyce Elementary was not familiar with the School Administrative Financial Manual dated 2006-2007. As a result of the audit 2008-09 of Joyce Elementary school we have received a copy of these materials.

Additionally, as an outcome of the audit the staff corrected or will adhere to the Districts policies for best practices in the following areas as corrective action:

- Use a check request form and require an authorization signature for check issuances. This procedure was instated at Joyce after the audit.

- Ensure the bank reconciliations are reviewed, dated and signed by the preparer to provide accountability.

_ The principal will initial monthly bank reconciliations after reviewing these items; whereas, there was no prior written designation to validate their approval.

- The March - May 2009 bank reconciliations were corrected to District standards by auditors. Their example along with the Financial Manual will serve as the guide to ensure that all individuals involved in the cash management process are aware of and adhere to the accounting process.

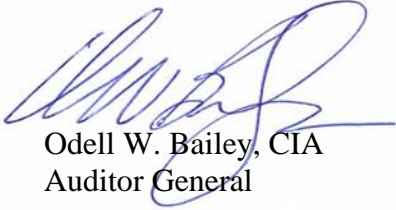
A further written response will be prepared upon your request.

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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.

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Odell W. Bailey, CIA
Auditor General