

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-125

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
LOGAN ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 590 students were enrolled at Logan Elementary School, which has grade levels Pre-Kindergarten through Fifth. Mr. Mauro Cruz was the Principal during this time period and has been serving in this capacity for three years. Mr. Cruz also performs the bookkeeping duties for the school.

Ms. Lisa Acevedo, Secretary performs the receipting process for the school while Ms. Nancy Balough, Teacher, serves as the second signer on the checking account.

Logan Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, community donations (Tamale House, Wal-Mart & Target) and special project funds (i.e., Skillman Grant & 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>	\$20,685

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, specifically improper use of a signature stamp to endorse checks.
- Improper segregation of duties.

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

Achievement:

Logan Elementary School 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 audit disclosed that a signature stamp was used to endorse checks when the principal was absent and a verbal approval was obtained.

Cause

Lack of adherence to existing District polices (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. In addition, the use of a signature stamp increases the risk of unauthorized payment of expenditures and/or misappropriated funds.

Recommendation

The Principal should discontinue the use of a signature stamp for check endorsements 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.”

Also, the principal should ensure that all individuals involved in the cash management process are aware of where current District polices 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 – 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 segregation 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.

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AUDIT FINDINGS (continued)

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.

MANAGEMENT RESPONSE

Management responses were provided by Mr. Mauro Cruz, Principal:

Odell W. Bailey

Detroit Public Schools Auditor General

From: Mauro Cruz

Principal of Logan Elementary

RE: FINANCIAL RELATED AUDIT OF LOGAN ELEMENTARY

Date: 7/29/09

I concur with the 2 findings;

1. School Administrative Financial manual Non-Compliance
2. Lack of Segregation of Duties

Corrective action plan

Finding #1:

1. Signature stamp will be discontinued
2. Reconciliations will be forwarded to the appropriate department
3. Review of current Intranet district policies
4. Training for responsible staff

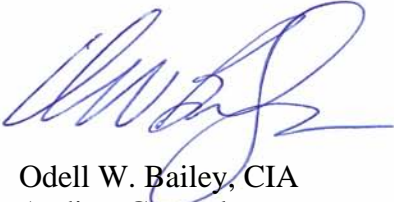
Finding #2:

1. Segregation of cash management duties to responsible staff

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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