BACKGROUND

For School Year 2008 – 2009, 450 students were enrolled at McNair Elementary School, which has grade levels Pre-Kindergarten through Fifth Grade. Mr. John White was the Principal during this time period and has been serving in this capacity since 2005.

Ms. Elaine Horton, Head Secretary, performs the bookkeeping duties and has done so since 2005.

Mann Elementary maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities. Sources of District Fund Revenues include Food Services (i.e., lunchroom and Generation with Promise Grant).

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.
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)

<table>
<thead>
<tr>
<th>ACCOUNT TYPE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Checking Deposits</td>
<td>$4,955</td>
</tr>
</tbody>
</table>

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,

- The following non-compliance issues were noted:
  - Bank reconciliations were not prepared and forwarded monthly to Central Accounting.
  - Fundraisers have not been prior approved by the District
  - Profit and Loss statements are not completed for fundraisers
  - No formal check request/approval form
  - No documentation for a disbursements
  - Lack of safeguarding of assets
  - Total receipted funds were not deposited
- Unauthorized Cash Disbursements
- Petty cash fund maintained without appropriate supporting documentation

The detail of these findings and recommendations are included in the Findings Section of this report.
Achievement:
Mann Elementary is a recipient of the Skillman Foundation Good Schools Grant with a designation as a High Performing School. This indicates that they have met criteria such as: (1) Meeting or exceeding grade-level expectations in English, math and science; (2) Offering challenging curricula to all students; and (3) Demanding consistent attendance and punctuality from all students, etc.

Audits 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.

Non-compliance with District cash management policy and/or ineffective practices:
- Bank reconciliations were not prepared and forwarded to Central Accounting.
- Fundraisers have not been prior approved by the District
- Profit and Loss statements are not completed for fundraisers
- No formal check request/approval form
- No documentation for a disbursements
- Total receipted funds were not deposited in one case where a down payment for transportation was paid out of cash receipts instead of all funds being deposited and a check being disbursed for payment.

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 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 – Unauthorized Cash Disbursements:**

The “School Administrative Financial Manual 2006-07:” (SAFM) governs the cash management process and states that the Principal has a fiduciary responsibility to ensure that cash is properly safeguarded and utilized for intended purposes.

Based on our review of the bank statements, we noted cash withdrawals totaling $989. No documentation supporting the use of these funds was approved or maintained. In addition, per the SAFM, all expenditures should be made in the form of a check.

**Cause**
School officials stated they were unaware of the District’s SAFM.

**Effect**
Unauthorized cash withdrawals from the school banking account for non school-related activities is a serious violation, which represents a misappropriation of assets and a lack of adherence to District policy.

**Recommendation**
The Principal should determine via discussions with the Office of the General Counsel and appropriate banking personnel whether cash withdrawals (including ATM withdrawals) can be deemed prohibited account transactions.

3. **Finding – Petty Cash Fund Maintained without Appropriate Financial Records:**

The “School Administrative Financial Manual 2006-07:” (SAFM) governs the maintenance of petty cash funds including required documentation:

The following documentation was not maintained:
- Approval for establishing the fund, and
- Supporting documentation for expenditures from the fund.

**Cause**
School officials stated they were unaware of the District’s 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 appropriate records related to petty cash activity are maintained in compliance with District policy.
MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Assistant Superintendent

DATE: July 11, 2009

SUBJECT: McNair School Financial Related Audit

This communication is written as a response to the audit findings on McNair School. McNair School closed at the end of this academic year and Principal John White has not yet received a contract renewal.

The audit results in brief discovered that McNair Bank reconciliations were not prepared and forwarded to Central Accounting. Fundraisers had not received prior approval by the District. Profit and Loss statements were not completed for fundraisers. There was no evidence of formal check request/approval form and no documentation for disbursements. Total receipted funds were not deposited in one case where a down payment for transportation was paid out of cash receipts instead of all funds being deposited and a check being disbursed for payment.

Recommendations:

McNair School has been identified as a school closure and the students will be relocated. Principal John White has not received a contract renewal. In the event that Principal John White is reassigned to another Detroit Public School, the following actions are recommended respective to the findings outlined in the audit review.

Principal White 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 2006-2007. Also, 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.
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

Odell W. Bailey, CIA
Auditor General