

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-148

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
NOBLE ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 – 2009, 450 students were enrolled at Noble Elementary School, which has grade levels Pre-Kindergarten through Eighth. Mr. James Ellison was the Principal during this time period and has been serving in this capacity for three years.

Ms. Sonja DeBose, Head Secretary, performs the bookkeeping duties for the school and has been doing so since November 2009.

Noble Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, and donations (i.e., Target) and special project funds (i.e., 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.
- 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>	\$1,497

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:
 - Pre-numbered duplicate copy cash receipts books were not used.
 - Adequate supporting documentation was not always maintained.
 - Sales tax was paid on expenditures.
 - Bank reconciliations were not prepared.
 - Unable to determine disposition of two checks
- Improper Accounting Practices.

The details of these finding and recommendation are included in the Findings Section of this report.

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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 school did not comply with the requirement to reference cash receipt numbers in the school ledger.

Cause

Lack of adherence to existing District policies (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.

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.

2. Finding – Improper Accounting Practices:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District. In addition, generally accepted accounting principles (GAAP) govern the recognition/posting of expense transactions in the appropriate accounting period.

Fiscal Year 2007/2008 Title I expenses were paid in Fiscal Year 2008/2009. In addition, sales tax was paid on the expenditures. Lastly, Title I related expenses were not being tracked on a separate line-item on the school’s financial records.

Cause

Lack of adherence to District policies and GAAP.

Effect

Lack of adherence to applicable policies and proper accounting practices could result in the District’s inability to fulfill its strategic financial goals.

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AUDIT FINDINGS (continued)

Recommendation

The Principal should ensure that all financial transactions are processed in the proper accounting period and are adequately documented in accordance with established policies, procedures and accounting principles.

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MANAGEMENT RESPONSE

Management response provided by Mr. James Ellison, Principal and Sonja R. DeBose, Head Secretary.

NOBLE ELEMENTARY/MIDDLE SCHOOL



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Mr. James Ellison, Principal

There are some changes that will be taking place beginning this month, September, 2009.

First of all, I, Sonja DeBose, have worked here at Noble Elementary School since November 18, 2009. In the audit, it reflected that I was the bookkeeper since 1996.

The changes in the financial accounting are as follows:

- ☞ Financial training when it becomes available
- ☞ Receipt books have been purchased
- ☞ Printing of the School Administrative Financial Manual
- ☞ Bank reconciliations will be done electronically
- ☞ Supporting documentation will be maintained with checks

With these changes, I am sure that the financial status of the school will change for the better.

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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