

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-160

REPORT DATE: June, 2009

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**DETROIT PUBLIC SCHOOLS
PULASKI ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-160**

BACKGROUND

For School Year 2008 – 2009, 650 students were enrolled at Pulaski Elementary, which has grade levels Kindergarten through Eighth Grade. Dr. Ethel Jones was the Principal during this time period and has been serving in this capacity since 2002. Mr. Ted Jones, Dr. Jones husband, performs the bookkeeping duties since 2002.

Pulaski Elementary maintains two commercial checking accounts with Chase Bank. The second account had no activity. Primary sources of General School Funds include student activities, special project funds (i.e., Skillman Good Schools, DTE Energy and EXXON Grants). 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.

**DETROIT PUBLIC SCHOOLS
PULASKI ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-160**

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>	\$20,378

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,

- Non-compliance with District cash management policy and/or ineffective practices
 - Receipt numbers were not reference on the ledger or deposit slips
 - Receipted checks are not restrictedly endorsed “For Deposit Only”
 - Deposits were not consistently made in a timely manner.
 - Bank statements were not forwarded to the Office of Central Accounting.
 - All bank reconciliations were not prepared.
 - Supporting documentation was not maintained
- Electronic withdrawals, payments and purchases with an ATM card.
- Lack of Segregation of Duties

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

**DETROIT PUBLIC SCHOOLS
PULASKI ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-160**

AUDIT RESULTS IN BRIEF (continued)

Achievements

Pulaski Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Improving School. This indicates that they have met criteria such as: (1) Overall improvements over the last two years; (2) Improved MEAP scores with a 10% increase in two subject areas; and (3) Sufficient parental and community partnerships, etc.

AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

The “School Administrative Financial Manual 2006 -07” (SAFM) governs the cash management process.

The following non-compliance issues were noted:

- Pre-numbered duplicate receipts were not reference on the ledger or deposit slips
- Receipted checks are not restrictedly endorsed “For Deposit Only”
- Deposits were not consistently made in a timely manner.
- Bank statements were not forwarded to the Office of Central Accounting.
- All bank reconciliations were not prepared.
- Supporting documentation was not maintained for the period of September 2008 through December 2008 for the activities of the Social Committee.

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, 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.

**DETROIT PUBLIC SCHOOLS
PULASKI ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-160**

AUDIT FINDINGS (continued)

2. Finding – Misappropriation of Assets through 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.

The Social Committee for Pulaski Elementary School has an account where no checks are available for the purchase of goods and services. A Visa® Check Card was ordered and all payments and purchase are made using the check card. However, no supporting documentation was made available for activity for the months of September through December, 2008. During that period, \$915 of transactions occurred that were not supported. Included in this amount were four ATM cash withdrawals for a total of \$530.

Effect

Unauthorized cash withdrawals from the school banking account without documentation to support school-related activities is a serious violation, which represents a possible misappropriation of assets and a lack of adherence to District policy.

Recommendation

Cash with draws including ATM with draws from school accounts should be prohibited. Any transaction that requires cash should be restricted to petty cash activities.

3. 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 bookkeeper is the husband of the Principal.

Cause

Proper separation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist because of the relationship between the authorizer and bookkeeper.

Effect

The school account was more susceptible to inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should segregate cash management duties between a bookkeeper and another staff member.

**DETROIT PUBLIC SCHOOLS
PULASKI ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-160**

MANAGEMENT RESPONSE


Management response provided by Dr. Ethel Jones, Principal.

The School Administrative Financial Manual has been obtained and will be reviewed and distributed. All staff responsible for financial transactions will be trained and will adhere to District financial policies and procedures.

**DETROIT PUBLIC SCHOOLS
PULASKI ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-160**

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