

Detroit Public Schools
Office of the Auditor General



FINANCIAL RELATED AUDIT
OF
SPAIN ELEMENTARY
School Year 2008-09

REPORT NO: 09-173

RELEASE DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
SPAIN ELEMENTARY SCHOOL
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BACKGROUND

Currently, there are approximately 775 students enrolled at Spain Elementary School, which has grade levels Kindergarten through Eighth. Mr. Ronald Alexander is the current Principal and has been serving in this capacity since 1996.

Mr. Alexander also performs the bookkeeping duties and has done so since 1996, as well.

Spain Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include fundraising activities, social committee donations, and student activities (i.e., boys and girls basketball, chess club). Sources of District Fund Revenues include Food Services (i.e., lunchroom).

AUDIT OBJECTIVES

The objective(s) of the audit were to ensure that the:

The objectives of the audit were to ensure that:

- 1) The cash management system is effective in controlling the receipt, processing, deposit, 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>	\$12,944

AUDIT RESULTS IN BRIEF

Based on our audit of the Spain Elementary cash management process, we noted control weaknesses related to cash receipts, cash disbursements, and bank reconciliations:

- Non-compliance with District cash management policy:
 - Pre-numbered duplicate cash receipt books were not used.
 - Check request forms were not used for check disbursement approvals, prior to expenditures.
 - Lack of supporting documentation for expenditures.
 - Sales tax was paid on expenditures.
- Electronic Fund Transfers and Direct Withdrawals from the account.
- Lack of Segregation of duties related to receiving, recording and depositing of funds.

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

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AUDIT FINDINGS

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

The following non-compliance issues were noted during the test of compliance with the “School Administrative Financial Manual 2006 -07:” (SAFM):

- Pre-numbered duplicate cash receipt books were not used.
- Check request forms were not used to approve check requests.
- Lack of supporting documentation for expenditures.
- Sales tax was paid on expenditures.

Cause

Lack of adherence to District policies. School officials stated that they were unaware of the District’s SAFM and therefore were not aware of specific requirements.

Effect

Noncompliance with 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 –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.

An electronic fund transfer for a \$200 and a \$240 direct withdrawal appeared on the August 2008 bank statement for the schools checking account. The funds were withdrawn with no evidence of the payee, purpose or proper approval.

Cause

Lack of effective oversight and non-compliance with SAFM.

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AUDIT FINDINGS (continued)

Effect

Failure to document cash disbursements along with unauthorized withdrawals from the school banking account is a significant violation of District policy. Non-compliance with this policy results in school funds being more susceptible to inappropriate use or even misappropriated funds.

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. In addition, the Principal should ensure that all expenditures from the school checking account be transacted with proper authorization and documentation.

3. Finding – Lack of Segregation of Duties

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

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

Failure to separate certain duties related to recordkeeping, custody, authorization and reconciliation of funds.

Effect

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

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.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Regional Superintendent

DATE: July 23, 2009

SUBJECT: Spain Elementary School Financial Related Audit

This communication is written as a response to the audit findings on Spain Elementary School. The audit findings suggested there were control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. In addition, there was non-compliance with District cash management policy and/or ineffective practices. Pre-numbered duplicate cash receipts were not used. AC-4 forms were not used for check disbursement approvals, prior to expenditures. There was a lack of supporting documentation for expenditures, and sales tax was paid on expenditures. There were electronic fund transfers and direct withdrawals from the account. Also, a lack of segregation of duties related to receiving, recording, and depositing funds.

Recommendations:

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds. As a result of the aforementioned accounting practices, the school account was more susceptible to inaccuracies and/or misappropriation of funds. Principal Ronald Alexander must segregate cash management duties and ensure that financial transactions are being performed by another staff member.

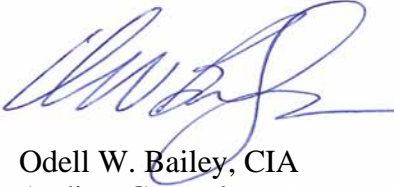
Corrective Action:

Principal Alexander should authorize and monitor cash management functions including a review of monthly bank reconciliations and provide evidence by signing and dating applicable financial records. The principal must 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". Principal Alexander shall 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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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