

# **Detroit Public Schools Office of the Auditor General**



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## **FINANCIAL RELATED AUDIT OF STEWART ELEMENTARY SCHOOL**

**School Year 2008-09**

**REPORT NO: 09-176**

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**REPORT DATE: June 30, 2009**

**Fisher Building · 3011 West Grand Boulevard · Suite 601A · Detroit, Michigan 48202**

**Office: (313) 873-7685 · Fax: (313) 873-7028**

**DETROIT PUBLIC SCHOOLS  
STEWART ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-176**

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**BACKGROUND**

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For School Year 2008 – 2009, 700 students were enrolled at Stewart Elementary School, which has grade levels Kindergarten through Eighth. Ms. Mary Wright is the current Principal and has been serving in this capacity since 1999.

Ms. Rosylyn Richardson, Secretary, performs the bookkeeping duties and has done so since July 2008.

Stewart Academy maintains a commercial checking accounts; one with Comerica Bank. Primary sources of General School Funds include fundraising activities by the Local School and Community Organization (LSCO), donations (e.g., Target reward program), and special project funds. Sources of District Fund Revenues include Food Services (i.e., lunchroom).

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**AUDIT OBJECTIVES**

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The objectives of the audit were to ensure that the:

- 1) 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

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**SCOPE & METHODOLOGY**

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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 ledgers did not exist, transaction activities were derived by totaling cash receipts 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. Research was performed 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 example, lunchroom deposits.

**DETROIT PUBLIC SCHOOLS  
 STEWART ELEMENTARY SCHOOL  
 FINANCIAL RELATED AUDIT  
 REPORT NO. 09-176**

**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 Activity for Owen Academy at Pelham:**

CATEGORY	AMOUNT
<u>Commercial Checking Deposits</u>	\$ 11,369

**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 receipt forms were not prepared and distributed,
  - Disbursements were not approved by the Principal,
  - Availability of funds was not verified prior to disbursements,
  - Supporting documentation for expenditures was not maintained,
  - Ledger not properly maintained,
  - Sales tax paid on expenditures,
  - Stale dated checks were noted as outstanding on bank reconciliations, and
  - Bank reconciliations were not signed and dated by preparer or reviewer.
- Restricted funds were not identified in a separate activity account.
- Expenditures not in compliance with policy/intended purpose.
- Petty cash fund maintained without appropriate financial records.

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

**DETROIT PUBLIC SCHOOLS  
STEWART ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-176**

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**AUDIT FINDINGS**

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**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 following non-compliance issues were noted:

- Pre-numbered duplicate receipt forms were not prepared and distributed.
- Disbursements were not approved by the Principal
- Availability of funds was not verified prior to disbursements
- Supporting documentation for expenditures was not maintained
- Ledger not properly maintained
- Sales tax paid on expenditures
- Stale dated checks were noted as outstanding on bank reconciliations
- Bank reconciliations were not signed and dated by preparer or reviewer

**Cause**

School officials stated that they were unaware of the requirements to use certain forms for cash activity and check requests as required for in the District’s 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 - Restricted School Funds not Identified as a Separate Activity Account:**

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

Restricted funds deposited into the school checking account were not clearly identified, in the school ledger, as a separate activity account.

**DETROIT PUBLIC SCHOOLS  
STEWART ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-176**

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**AUDIT FINDINGS (continued)**

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**Cause**

Non-compliance with district policy (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 school cannot easily identify uses of restricted funds to prove they were used for their intended purpose(s).

**Recommendation**

The Principal should ensure restricted funds are clearly identified in separate activity accounts, as well as ensure expenditures charged to this activity account are in compliance with intended purposes of the funds.

In addition, 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."

Lastly, 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.

**DETROIT PUBLIC SCHOOLS  
STEWART ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-176**

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**AUDIT FINDINGS (continued)**

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**3. Finding – Expenditures Not in Compliance with District Policy/Intended Purpose:**

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

Cash receipts are identified as “General School Funds” (GSF) or District. GSF are monies collected and held on deposit in a school checking or savings account to be used for the specific educational benefit of students.

“School funds must be spent only to benefit those students currently in school who have contributed to those funds. Fundraising projects must benefit the student body and the school program that collects the money.”

**The audit disclosed school funds were being used for purposes other than for the direct benefit of students. Specifically, three DPS employees were paid a total of \$2,311.04 for services rendered March 20, 2008 through May 15, 2008. The amounts were to be repaid when Title I funds were paid by the District. If the funds were not paid by the District then the borrowers were not obligated to repay. In addition, there were payments for traffic violations and banking fees:**

Description	Amount
Promissory Notes:	\$2,311.04
Traffic Violation	30.00
Comerica Online Billing Fee	62.55
Total	<u>\$2,403.59</u>

**Cause**

Lack of adherence to existing District policies.

**Effect**

Failure to fulfill responsibilities as a trustee of school funds via the effective management, monitoring and reporting of school financial activity could negatively impact the school and specifically the District’s reputation, resulting in significant decreases in student enrollment and financial losses. In addition, circumventing the Human Resource and Payroll process can result in inaccurate IRS financial reporting, specifically an understated W-2.

**Recommendation**

The Principal should review the “School Administrative Financial Manual 2006-07” in order to fully and clearly understand the role of the Principal and the related financial responsibilities. In addition, all staff responsible for financial transactions should be trained on District policy for cash management activities.

**DETROIT PUBLIC SCHOOLS  
STEWART ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-176**

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**AUDIT FINDINGS (continued)**

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**4. 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 school did not deposit most school funds into any bank account. Instead the funds for the Physical Education Department, Commercial Lunch Program and Vocational Classes were used as petty cash funds. In addition, records related to petty cash funds were insufficient.

The following documentation was not maintained:

- Approval for reimbursements from the fund.
- Ledger of disbursements and replenishments.
- Supporting documentation for expenditures from the fund.

**Cause**

School officials stated that they were unaware of the District’s SAFM and the petty cash policy requirements.

**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 and good business practices.

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**MANAGEMENT RESPONSE**

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Response:

I agree with the findings of the audit. The errors that occurred were noted and discussed. We realized and concurred with the mistakes that were made. I apologize for all the incorrectness which transpired.

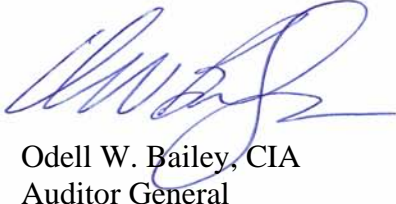
All the recommendations by the auditors will be put into operation immediately.

Mary E. Wright, Principal

**DETROIT PUBLIC SCHOOLS  
STEWART ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-176**

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