

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-183

REPORT DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
VERNOR ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-183**

BACKGROUND

For School Year 2008 - 2009, 341 students enrolled at Vernor Elementary School which has grade levels Kindergarten through Sixth grade. Ms. Elizabeth Nevels was the Principal during this time period and has been serving in this capacity for ten years. The bookkeeping duties including the monthly account reconciliations have been performed for the past 15 years by Ms. Letizia Nelstein, Technical Education Teacher.

Vernor Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include vending machines, fundraising activities, field trips and school 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.

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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>	\$8,407

AUDIT RESULTS IN BRIEF

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 utilized
 - Differences resulting from bank reconciliations were not investigated and resolved
 - Bank Reconciliations were not signed by the preparer and/or reviewer
 - Checks written without two signatures
 - Disbursements were not approved by the Principal or Assistant Principal

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

The following non-compliance issues were noted:

- Pre-numbered duplicate receipts are not utilized. – We noted that receipts were not issued between July 2008 to December 2008
- Differences resulting from bank reconciliations were not investigated and resolved. – For several bank account reconciliations the reconciling amount for deposit in transit did not agree to the amount on the corresponding receipt. Deposit in transit remained outstanding for several months on the bank reconciliations.
- Bank Reconciliations were not signed by the preparer and/or reviewer
- Checks written without two signatures. – We noted check numbers 1374 and 1375 were pre-signed and approved with only one signature
- Disbursements were not approved by the Principal or Assistant Principal

Cause

There was a lack of adherence to existing District policies per the 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, ensure the Principal 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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MANAGEMENT RESPONSE

Management responses provided by Ms. Elizabeth Nevels, Principal

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RESPONSES TO AUDIT FINDINGS - JULY 30, 2009

- 1.0 Pre-numbered duplicate receipts are not utilized - Auditors noted that receipts were not issued between July 2008 to December 2008.**

The person who does the bookkeeping had a receipt book. This person does not work during the summer so there would not be receipts issued during July 2008 and August 2008 - there was no activity (where money collected). However, from the months of September 2008 and December 2008, receipts should have been written and disbursed. Receipt books with duplicates are ordered by the principal on a regular basis and provided to the person responsible for doing books.

- 2.0 Differences resulting from bank reconciliations were not investigated and resolved. For several bank account reconciliations the reconciling amount for deposit in transit did not agree to the amount on the corresponding receipt. Deposit in transit remained out standing for several months on the reconciliations.**

During the investigation, by the auditors, the principal was made aware of monies not deposited in a timely manner etc. Upon speaking to the auditors, the person who does the books was immediately relieved of any responsibilities that had anything to do with money. In addition, the staff was informed that no money was to be given to the person who had been doing the books. Staff was informed about the result of the audit, as well as new procedures that is now in effect. The principal, secretary, and mathematics teacher now receive monies, provide receipts, and prepare monies for the Armor Guard pick-up. Restatement of procedures was verbal regarding utilizing the schools "Check Request" forms. Further written details will be presented in the "Opening Notes" and discussed at the first staff meeting August 2008. The principal will continue to study the finance (SAFM) manual to learn and implement appropriate finance procedures.

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MANAGEMENT RESPONSE

3.0 Bank Reconciliations were not signed by the preparer and/or reviewer.

Principal was not aware that a signature needed to be on the reconciliation forms. A bookkeeper was hired to do the reconciliations, and the principal's signature will be evident as of the above date! Continued study of the SAFM will be made by the principal and every effort will be made to adhere to the district's financial policies.

4.0 Checks written without two signatures. Auditors noted check numbers 1372 and 1375 were pre-signed and approved with only one signature.

Principal will list a third person to be an alternate signer of checks. In addition, the principal will do check signing only in the confines of her office --- away from the distractions of the office counter.

5.0 Disbursements were not approved by the Principal or Assistant Principal.

Utilization of the "Check Request Form" procedure was restated to the staff immediately after the audit and has been put in writing for the "Opening Notes". In addition, nothing is to be given to the person who handled books, all finance documents/forms must be submitted to the office only. Careful attention will be made by the principal to assure that all disbursement requests are signed and placed into the binder for financial documents.

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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