

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF WINTERHALTER ELEMENTARY SCHOOL

School Year 2008-09

REPORT NO: 09-192

REPORT DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
WINTERHALTER ELEMENTARY SCHOOL
FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, 502 students were enrolled at Winterhalter Elementary School, which has grade levels Kindergarten through Eighth. Mr. Randolph Gear was the Principal during this time period and has been serving in this capacity for six years.

Ms. Patricia Burden, Secretary performs the bookkeeping duties for the school and has been doing so since December 2008.

Winterhalter Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include student activities, fundraisers, vending machine revenue, and special project funds (i.e., Skillman Grant & 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.

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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>	\$10,471

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:
 - Cash Receipts:
 - Pre-numbered duplicate copy cash receipt books were not used.
 - No supporting documentation was maintained for cash receipts
 - Sealed lunchroom receipt deposit bags were opened.
 - Cash Disbursements:
 - Several blank checks were maintained with authorized endorsement signatures.
 - No supporting documentation was maintained for cash disbursements.
 - Banking:
 - Bank reconciliations for the July 2008 – March 2009 period were not prepared.
 - No financial documents were forwarded to Central Accounting.
 - The bank statements for the July 2008 through October 2008 period were not maintained onsite.
 - There were instances where there was no documentation or inadequate documentation for bank deposits.

- Funds were not adequately safeguarded.

The detail of this finding and recommendation is included in the Findings Section of this report.

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AUDIT RESULTS IN BRIEF (continued)

Achievement:

Winterhalter Elementary School was a recipient of the *Skillman Foundation Good Schools Grant* in 2008, with a designation as an Aspiring School. This indicates that they met criteria such as: (1) Close to becoming a High Performing, or Improving school; (2) Improved MEAP scores, with a 5 percent increase over the previous year; (3) Average performance in English, math, and science.

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 following non-compliance issues were noted:

- Cash Receipts:
 - Pre-numbered duplicate copy cash receipts were not issued when cash was received.
 - No supporting documentation was maintained for cash receipts
 - Sealed lunchroom receipt deposit bags were opened and recounted by the Bookkeeper.
- Cash Disbursements:
 - Several blank checks were maintained, which had been signed by both authorized signers in advance of check requests.
 - No supporting documentation was maintained for cash disbursements.
- Banking:
 - Bank reconciliations for the July 2008 through March 2009 period were not prepared, nor were any other financial related documents forwarded to Central Accounting.
 - The bank statements for the July 2008 through October 2008 period were not maintained onsite, rather they were in the possession of the former Assistant Principal who had been assigned to another school.
 - There were instances where there was no documentation or inadequate documentation for bank deposits.

Cause

Lack of knowledge and adherence to existing District policies (i.e., SAFM.)

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AUDIT FINDINGS (continued)

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 – Assets Not Adequately Safeguarded:

The “School Administrative Financial Manual 2006-07” (SAFM) governs the safeguarding of cash receipts.

The combination to the vault/safe was not changed after a current employee who was previously responsible for the bookkeeping duties still had access to the vault/safe.

Cause

Failure to comply with SAFM and best practices regarding proper safeguarding of assets.

Effect

Lack of adherence to District policies and best practices could result in financial losses due to theft.

Recommendation

The Principal should request a change in the combination in order to provide adequate protection for the school’s assets and personnel.

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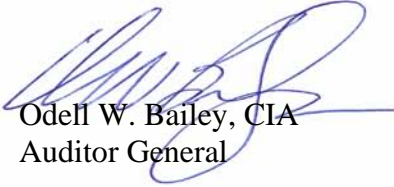
MANAGEMENT RESPONSE

This school has been closed, as such a management response was not necessary.

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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