

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



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## **FINANCIAL-RELATED AUDIT OF THIRKELL ELEMENTARY SCHOOL School Year 2008-09**

**REPORT NO: 09-178**

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**REPORT DATE: June 30, 2009**

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**BACKGROUND**

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For School Year 2008 – 2009, 515 students were enrolled at Thirkell Elementary School, which has grade levels Pre-Kindergarten through Fifth. Dr. Clara Smith was the Principal during this time period and has been serving in this capacity for eight years.

Dr. Smith also was responsible for the bank reconciliations while Ms. Eddy Jeter, Secretary, performed all other bookkeeping duties.

Thirkell Elementary School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, vending machine revenue, and special project funds (i.e., Skillman Grant, GM Character Grant, Beyond Basics & Title I). 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:

- 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.

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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 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.

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**SCOPE & METHODOLOGY (continued)**

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- 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.

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**FINANCIAL SUMMARY**

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**Table 1.1: Cash Receipts from General and District School Funds (July 2008 – March 2009)**

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$34,490

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**AUDIT RESULTS IN BRIEF**

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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 copy cash receipts were not issued when cash/checks were received.
  - Cash was not verified at the time of receipt.
  - Supporting documentation did not exist for all cash receipts.
  - Check request forms were not used to authorize check issuance.
  - Bank reconciliations were not prepared properly.
  - Bank reconciliation were not signed and dated by the Principal
  - Voided checks were not always properly voided and recorded.
- Funds were not adequately safeguarded.
- District revenue was not forwarded to the district.
- Local School Community Organization (LSCO) fundraising proceeds were co-mingled with school activity funds.

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

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**AUDIT RESULTS IN BRIEF (continued)**

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Achievements

It should be noted that Thirkell Elementary is a recipient of the Skillman Foundation Good Schools Grant with a designation as a ***High Performing School***. This indicates that they have met criteria such as: (1) Meeting or exceeding grade-level expectations in English, math and science; (2) Offering challenging curricula to all students; and (3) Demanding consistent attendance and punctuality from all students, etc.

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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 copy cash receipts were not issued when cash/checks were received.
- Cash was not verified at the time of receipt.
- Supporting documentation did not exist for all cash receipts.
- Check request forms were not used to authorize check issuance.
- Bank reconciliations were not prepared properly. A true reconciliation was not performed i.e., the bank statement was not reconciled to the school’s records. Rather, the beginning and ending bank balances were noted on the monthly cash receipt/disbursement ledger. In addition, the beginning balances on the school ledgers did not always have documentation to support the accuracy of the totals.
- Bank reconciliation were not signed and dated by the Principal
- Voided checks were not always properly voided and recorded.

**Cause**

Lack of knowledge and adherence to existing District policies (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.

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**AUDIT FINDINGS (continued)**

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**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.

A non-DPS employee was responsible for transporting cash to the bank for weekly deposit.

**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 immediately discontinue the use of the volunteer service and take the necessary actions to ensure assets are properly safeguarded by considering the use of the district armored car service to transport deposits to the bank.

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**AUDIT FINDINGS (continued)**

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**3. Finding – Lunchroom Receipts Not Forwarded to the District:**

The “School Administrative Financial Manual 2006-07” (SAFM) governs the cash management function within the District including specific procedures for district revenue: “The District uses a blue Revenue deposit ticket. The blue deposit tickets are used for collection of funds from fines, summer school, extended day, athletics and other revenue.” The SAFM also states that “the school acts as the agent, collecting monies for the School District... Funds deposited into this account are:

- a. Lunchroom receipts
- b. Fines
- c. Athletic/league game receipts
- d. Summer school tuition
- e. Evening school tuition...”

The SAFM also states “school food service personnel must deliver to the School Administrator a sealed deposit bag containing receipts from the sale of food and a completed Food Service deposit ticket daily.”

Lunchroom receipts were not forwarded to the District revenue account. Rather, they were deposited into the school checking account. In addition, the lunchroom receipts were not delivered to the bookkeeper in a sealed deposit bag.

**Cause**

Lack of adherence to District policies.

**Effect**

Lack of adherence to applicable policies could result in the District’s inability to fully access and utilize all available funds in an optimum manner.

**Recommendation**

The Principal should comply with the SAFM by utilizing applicable deposit tickets and bags. Also, consider using the district armored car service to ensure that lunchroom receipts are processed to the District revenue account.

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**AUDIT FINDINGS (continued)**

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**4. Finding – Co-Mingling of School Funds and Community Funds:**

The “School Administrative Financial Manual 2006-07” (SAFM) governs fundraising activities conducted by parent or other school support groups including the requirement to establish a separate bank account.

The LSCO conducted fundraising activities, which were not monitored by the school and had a process that consisted of depositing proceeds directly into the school checking account.

**Cause**

Failure to adhere to the SAFM and good business practices resulted in the deposit of community funds into the school’s bank account.

**Effect**

Co-mingling community and school funds reduces accountability and accurate identification of funds, which can result in improper disbursements, possible banking errors and the appearance of impropriety.

**Recommendation**

The principal should review and adhere to related SAFM procedures and sound business practices. This includes the requirement to have the LSCO establish their own bank account utilizing their employer identification number (EIN), proper authorized signers for the account (i.e., appropriate organization officers), retention of applicable financial documentation, etc.

**5. 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 Principal prepared the monthly bank reconciliations with no other individual reviewing the reconcilements for accuracy, appropriateness and timeliness.

**Cause**

Lack of adherence to District policy requiring a separation of duties related to recordkeeping, custody, authorization and reconciliation of funds.

**Effect**

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

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**AUDIT FINDINGS** (continued)

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**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.

The Principal should then monitor the cash management function including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.



**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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**MANAGEMENT RESPONSE**

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Thirkell Elementary School  
7724 – 14<sup>th</sup> Street  
Detroit, Michigan 48206  
(313) 596-0990  
Dr. Clara A. Smith  
Principal

**Management Response**

The principal and clerical level 3 will review the “School Administrative Financial Manuel 2006-2007 (SAFM) to ensure that we are in compliance with all financial functions within the District. My monthly bank statements and ledger sheets were submitted every month to Accounting.

Your recommendation to use a pre-numbered receipt will be put into place for the 2009-2010 school year. I will make certain that check request forms are used in order to authorize check issuance. These check request forms will be properly filled out and signed by the requestor as well as by the principal.

I will seek training for correct preparation for my ledger reconciliation for each month. It is truly my desire to be knowledgeable with cash management and accounting operations.

As a result of your findings, only Mrs. Jeter or myself will be responsible for making all deposits. I will discontinue using a retired teacher from Thirkell from taking deposits to the bank. I will ask for armor car pick up for all deposits.


I will comply with the SAFM by utilizing applicable deposit tickets and bags. I will request armored car service for lunch receipts to ensure that they are processed to the District’s revenue account.

Further, the LSCO if any fund raising is done for the 2009-2010 school year will establish their own bank account utilizing their employer identification number, and proper authorized signers for the account.

**DETROIT PUBLIC SCHOOLS  
THIRKELL ELEMENTARY SCHOOL  
FINANCIAL RELATED AUDIT  
REPORT NO. 09-178**

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