

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-152

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 300 students were enrolled at Oakman (Orthopedic) Elementary School which has grades Pre-Kindergarten through Fifth. Ms. Cheryl Price was the Principal during this time period and has been serving in this capacity for sixteen years.

Ms. Phillips, Secretary, performs the bookkeeping duties and has been doing so starting this year.

Oakman Elementary School maintained one commercial checking account at Chase Bank. Primary sources of General School Funds included student activities, fundraising activities, and special project funding (Skillman, Title I, & Compact). 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>	\$21,674

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with the District cash management policy and appropriate segregation of duties:

- The following compliance exceptions were noted:
 - Bank reconciliations were not always prepared
 - Bank reconciliations were not signed by the Preparer and Reviewer, evidencing timely preparation and proper management review.
- The following fundraising exceptions were noted:
 - The cash collection process did not provide an adequate segregation of duties.
 - Profit and Loss documentation was not available for review.

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

Achievements

Oakman Elementary is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as an Improving School. This indicates that they have met criteria such as: (1) Overall improvements over the last two years; (2) Improved MEAP scores with a 10 percent increase in two subject areas; and (3) Sufficient parental and community partnerships, etc.

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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 function within the District.

The following non-compliance issues were noted:

- Bank reconciliations were not prepared for December 2008 through March 2009
- Bank reconciliations were not signed by the Preparer and Reviewer, evidencing timely preparation and proper management review.

Cause

The school officials stated they were unaware of the District's SAFM and therefore did not comply with all policies.

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 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 – Lack of Segregation of Duties and Required Documentation:

The "School Administrative Financial Manual 2006-07" (SAFM) governs the cash management function including adequate segregation of duties.

The audit disclosed receipts related to fundraising events were forwarded directly to the Principal, as opposed to being processed by the Secretary/Bookkeeper.

In addition, Profit and Loss documentation was not available for review.

Cause

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

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AUDIT FINDINGS (continued)

Effect

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

Recommendation

The Principal should be consistent in segregating cash management duties i.e., the Secretary/Bookkeeper should process all cash receipts. This will allow the Principal to provide an effective authorization and monitoring control process.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Odell W. Bailey, Auditor General
FROM: Cheryl Price, Principal, Oakman Elementary/Orthopedic School
SUBJECT: Response to Financial Audit for 2008-2009 School Year
DATE: July 22, 2009

1. Financial Manual

In the future, when accounting services are not available, I will complete the reconciliations in a timely manner and will monitor closely the necessary signatures.

2. Segregation of Duties/Required Documentation

The following procedures are in place:

1. *A staff person obtains the Principal's signature on a Fundraiser Form approving the Fundraising Activity*
2. *During the duration of the Fundraiser all proceeds are turned in to the Secretary on a daily basis*
3. *Each time the Secretary receives cash a signed receipt is provided*
4. *The staff person completes and submits the "Profit and Loss" side of the Fundraiser Form*
5. *A request is made for a check on an AC-4 form and the requester must obtain the Principal's signature prior to the Secretary preparing a check*

Please note that two (2) fundraising activities were still in progress during the audit, therefore, completion of the Profit and Loss information would not occur until the conclusion of the fundraisers.

Thank you for the opportunity to respond to the audit findings. I am confident the above procedures will ensure an efficient and effective cash management system for our school.

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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.

Odell W. Bailey, CIA
Auditor General