

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF MURPHY ELEMENTARY - MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-145

REPORT DATE: June 30, 2009

**DETROIT PUBLIC SCHOOLS
MURPHY ELEMENTARY - MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-145**

BACKGROUND

For School Year 2008 – 2009, 417 students were enrolled at Murphy Elementary - Middle School, which has grade levels Kindergarten through Eighth. Mr. Corey Pitts was the Principal during this time period and has been serving in this capacity since August 2007. Prior to this assignment, he was the principal of Atkins.

Ms. Marietta Vasilije, Secretary, performs the bookkeeping duties for the school and has been doing so since August 2007.

Murphy Elementary - Middle School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, and special project funds (i.e., Generation with a Promise, Safe Routes to School, Title I & 31A). 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.

**DETROIT PUBLIC SCHOOLS
MURPHY ELEMENTARY - MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-145**

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>	\$241

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:
 - Check requisition forms were not used to request and obtain authorization for check issuance.
 - Supporting documentation did not exist for all expenditures.
 - Improper cash management process for fundraisers.
 - Bank reconciliations were not signed and dated by the Reviewer.
- Assets not adequately safeguarded.

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

**DETROIT PUBLIC SCHOOLS
MURPHY ELEMENTARY - MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-145**

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:

- Check requisition forms were not used to request and obtain authorization for check issuance.
- Supporting documentation did not exist for all expenditures.
- Improper cash management process for fundraisers. The Lifetouch photography vendor was permitted to count the cash and remit payment to the school without a school official being present during the count to verify the accuracy of the amount received.
- July 2008 through March 2009 bank reconciliations were not signed and dated by the Reviewer, evidencing a proper and timely review.

Cause

Lack of 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. In addition, the use of a signature stamp increases the risk of unauthorized payment of expenditures and/or misappropriated funds.

Recommendation

The Principal should discontinue the use of a signature stamp for check endorsements and 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.

**DETROIT PUBLIC SCHOOLS
MURPHY ELEMENTARY - MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-145**

AUDIT FINDINGS (continued)

2. Finding – Assets Not Adequately Safeguarded:

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

The vault/safe combination was not changed when the bookkeeping duties were transferred from one individual to the new secretary/bookkeeper. The individual previously responsible for the bookkeeping function continued to work at the school and therefore continued to have 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 take the necessary actions to ensure assets are properly safeguarded by requesting a change in the vault/safe.

**DETROIT PUBLIC SCHOOLS
MURPHY ELEMENTARY - MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-145**

MANAGEMENT RESPONSE

Murphy Elementary – Middle School will take the necessary steps to be in compliance with the existing District policies. As per recommendations the Principal will discontinue the use of a signature stamp and will make sure that all individuals involved in the cash management process are trained in accordance to District policies regarding cash management activities. The Principal will also take action to make sure the assets in the vault/safe are properly secured. The Principal will make sure that a new combination is in place for the vault/safe.

Sincerely:

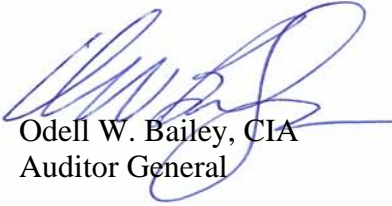
Randolph Gear

Principal of Murphy Elem – Middle School

**DETROIT PUBLIC SCHOOLS
MURPHY ELEMENTARY - MIDDLE SCHOOL
FINANCIAL RELATED AUDIT
REPORT NO. 09-145**

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