

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF MUNGER MIDDLE SCHOOL School Year 2008-09

REPORT NO: 09-144

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 350 students were enrolled at Munger Middle School, which has grade levels Kindergarten through Sixth. Ms. Wendy Shirley was the Principal during this time period and has been serving in this capacity since August 2008.

Ms. Shirley also performs the bookkeeping duties for the school.

Munger Middle School maintains a commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, vending machine revenue, community donations (i.e., Target) and special project funds (i.e., United Way, 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.

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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>	\$10,660

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 were not always issued sequentially.
 - Check requisition forms were not used to request and obtain authorization for check issuance.
 - Inaccurate accounting records.
 - Lack of supporting documentation for gift collection/donation.
 - One bank reconciliation was not prepared.
- Untimely cash deposits.
- Lack of segregation of duties.

The detail of this finding and recommendation is 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 function within the District.

The following non-compliance issues were noted:

- Cash receipts were not always issued sequentially.
- Check requisition forms were not used to request and obtain authorization for check issuance.
- Inaccurate accounting records.
- Lack of supporting documentation for gift collection/donation.
- One bank reconciliation was not prepared.

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.

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AUDIT FINDINGS (continued)

2. Finding – Untimely Deposits:

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

There was a lack of adherence to District guidelines, regarding timely deposits. As of May 6, 2009, cash receipts totaling \$3,060 had not been deposited into the school checking account: (1) \$360 collected by students in October-November 2008 for Flowers to be given to the teachers; (2) Check for \$2,400 for United Way attendance Grant money received on January 29, 2009 and (3) Other fundraising revenue of \$300 in checks received on April 7, 2009.

Cause

Lack of adherence to District policies and best practices could lead to theft.

Effect

Untimely deposits of cash receipts can increase the risk of loss and theft. It also limits available resources for management purposes. Lastly, management decisions may be negatively impacted by untimely and/or inaccurate financial data.

Recommendation

Deposits should be made regularly (i.e., daily or bi-weekly) to ensure deposits are made in a timely manner and funds are adequately safeguarded.

3. 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 performed the bookkeeping duties of receiving funds, maintaining cash receipts and disbursement ledgers, preparing funds for deposit, authorizing expenditures, writing checks and reconciling the bank account.

Cause

Lack of adherence to District policy requiring a segregation 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.

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AUDIT FINDINGS (continued)

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.

In addition, the Principal should authorize and monitor cash management functions including a review of monthly bank reconciliations, as evidenced by signing and dating applicable financial records.

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MANAGEMENT RESPONSE

Management responses were provided by Ms. Wendy Shirley, Principal:

The following non-compliance issues were noted:

- Cash receipts were not always issued sequentially.
Munger Elementary purchased a pre-numbered duplicated receipt book to maintain record of cash received.
- Check requisition forms were not used to request and obtain authorization for check issuance.
The principal will create a form for staff to use requesting funds. The form will include the following information: Requestor's Name (item requested/program/dept. using item); Payee (name/signature/date) Expenditure Detail (Expenditure Type; attached documentation type/check requested amount/purpose of expenditure)
- Inaccurate accounting records.
The bookkeeper will:
 - record all checks in journal/ledger in sequential order and date
 - checks will not be issued blank or unsigned
 - voided checks will be marked void
 - maintain forms (check request form, invoices, bills, receipts)
 - obtain principal's signature on monthly reports, verify availability of funds, account balances, posting checks in numerical sequence to the appropriate column of the general ledger
 - summarizing disbursement activity for each column in the general ledger
- Lack of supporting documentation for gift collection/donation.
Gifts and donations from outside entities and organizations will be spent in accordance with their bequest or intention.
RESPONSE TO: 1) \$360 collected by students in October-November 2008 for Flowers to be given to the teachers.
Munger Staff contributed \$30.00 in cash to the Munger Social Committee.
Ms. Shirley, principal provided the chairperson with a pre-numbered receipt book (144001 – 144015 was used to record cash received). The chairperson gave Ms. Shirley, principal \$420.00 cash and was given receipt number 144015 dated December 9, 2008. The money was placed in the school vault. On February 9, 2009 \$60.00/receipt #144016 was deducted for bereavement floral arrangement. The vault had a total of \$360.00 cash in the vault until a deposit was made on May 6, 2009.
- One bank reconciliation was not prepared.
Monthly bank reconciliations will be completed within two days upon receipt of monthly banking statements.

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MANAGEMENT RESPONSE (continued)

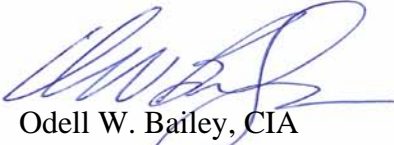
- Untimely cash deposits.
The principal will deposit cash by the end of the day. Cash not deposited will be locked in the school safe until the next day.

- Lack of segregation of duties.
The principal will delegate financial responsibilities (PeoplesSoft, collecting monies - fundraisers, lunch money, field trips etc; authorized check signers and depositing money based on the skill set of the employee.

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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