

Detroit Public Schools Office of the Auditor General



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

REPORT NO: 09-070

REPORT DATE: June 30, 2009

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**DETROIT PUBLIC SCHOOLS
DURFEE ELEMENTARY SCHOOL
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BACKGROUND

For School Year 2008 - 2009, 576 students enrolled at Durfee Elementary School which has grade levels Pre-Kindergarten through eighth. Ms. Jacqueline Ensley was the Principal and has been serving in this capacity for the past seven years. The bookkeeping duties have been performed for the past 15 years by Ms. Blanche Schaffer, Secretary II.

Durfee Elementary School maintains one commercial checking account with Comerica Bank. Primary sources of General School Funds include fundraisers, community donations, and district grants (Skillman, Head Start, and Macul). The primary source of District Fund Revenues is the lunchroom collections. Note:

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 example, 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 – May 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$10,075

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy. Specifically,

- Receipts are not recorded in a pre-numbered duplicate receipt book
- Cash receipts were not posted in the ledger
- Receipts were not deposited in a timely manner
- Disbursements were not approved by the Principal or Assistant Principal
- Checks were not approved by two authorized signers
- Supporting documentation for expenditures were not maintained
- Bank reconciliations were not signed by the preparer and/or reviewer

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

Achievement:

Durfee 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 prior year; (3) Have sufficient parental and community partnerships.

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AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

The following was noted during the test of compliance with the “School Administrative Financial Manual 2006 -07” (SAFM)

The following non-compliance issues were noted:

- Receipts were not recorded in a pre-numbered duplicate receipt book.
- Cash receipts were not posted in the cash receipts ledger:
Two cash receipts for \$74.80 and \$10,000.00 were received in March 2009. They were not recorded in the cash receipts ledger or deposited in the bank until May 2009.
- Disbursements were not approved by the Principal or Assistant Principal.
- Supporting documentation for expenditures were not maintained:

DATE	PAYEE	AMOUNT
9/24/08	R. Bell	25.00
9/24/08	DHT	326.00
2/18/09	MACUL	720.00

- There was no evidence of Bank reconciliations being reviewed and approved by the Principal.
- Bank reconciliations were not signed or dated by the preparer.

Cause

School officials did not comply with the District’s SAFM requirements for cash receipt and disbursement activities

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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 2006-2007.

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.

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MANAGEMENT RESPONSE

MEMORANDUM

TO: Mr. Odell Bailey, General Auditor

FROM: Derrick R. Coleman, Assistant Superintendent

DATE: July 11, 2009

SUBJECT: Durfee School Financial Related Audit

This communication is written as a response to the audit findings on Durfee School. Principal Jacqueline Ensley retired effective July 1, 2009.

The audit results in brief discovered that Durfee has control weaknesses related to cash receipts, cash disbursements, and bank reconciliations. Receipts are not recorded in a pre-numbered duplicate receipt book, cash receipts were not posted in the ledger, receipts were not deposited in a timely manner disbursements were not approved by the Principal or Assistant Principal, checks were not approved by two authorized signers, supporting documentation for expenditures were not maintained, bank reconciliations were not signed by the preparer and/or reviewer. The process of budgeting for Detroit Public Schools was established by the (DPS) Schools Administrative Financial Manual in (2006). Board records indicate that many principals have not been in-serviced on the SAFM manual.

In addition to the aforementioned findings, Receipts were not recorded in a pre-numbered duplicate receipt book. Cash receipts were not posted in the cash receipts ledger. Two cash receipts for \$74.80 and \$10,000.00 were received in March 2009. They were not recorded in the cash receipts ledger or deposited in the bank until May 2009. Disbursements were not approved by the Principal or Assistant Principal. Supporting documentation for expenditures was not maintained. There was no evidence of Bank reconciliations being reviewed and approved by the Principal. Bank reconciliations were not signed or dated by the preparer.

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MANAGEMENT RESPONSE (continued)

Recommendations:

Durfee School has been identified as a program consolidation and the school is merging with 2 other schools. Currently, a search is being conducted to find the next principal for the school. Upon selection, the following actions will be recommended to the new principal respective to the findings outlined in the audit review for Durfee School.

The newly hired 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 2006-2007. 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.

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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