

Detroit Public Schools
Office of the Auditor General



**FINANCIAL RELATED AUDIT
OF
MCFARLANE ELEMENTARY
SCHOOL**

School Year 2008-09

REPORT NO: 09-139

REPORT DATE: June, 2009

**DETROIT PUBLIC SCHOOLS
McFARLANE ELEMENTARY
FINANCIAL RELATED AUDIT
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BACKGROUND

For School Year 2008 – 2009, approximately 367 students were enrolled at McFarlane Elementary School, which has grade levels Pre-Kindergarten through Fifth Grade. Ms. Carolyn Freeman was the Principal and has been serving in this capacity since 2004. In addition to her role as Principal, Ms. Freeman is currently performing the bookkeeping duties for McFarlane Elementary and has been doing so since 2006.

McFarlane Elementary maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include fundraising activities, special project funding (for example, Skillman Grant and 21st Century enrichment Grant) and donations. 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, 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 – March2009)

| ACCOUNT TYPE | AMOUNT |
|-------------------------------------|---------------|
| <u>Commercial Checking Deposits</u> | \$5,433 |

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to a lack of Segregation of Duties. Specifically,

- Lack of segregation of duties

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

AUDIT FINDING

1. Finding – Proper Segregation of Duties Was Not Maintained:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management function.

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 segregation of duties related to recordkeeping, custody, authorization and reconciliation of funds did not exist.

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AUDIT FINDINGS (continued)

Effect

The school account was totally managed and controlled by one person and thus was susceptible to inaccuracies and/or misappropriation of funds.

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.

MANAGEMENT RESPONSE

Management response provided by Carolyn Freeman–Brown, Principal

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June 24, 2009

Odell W. Bailey, Auditor General
Detroit Public Schools

RE: Financial Related Audit of McFarlane Elementary Report NO: 09-139

Findings: “Proper Segregation of Duties Was Not Maintained”

Response:

As the sole administrator of McFarlane Elementary, I have taken upon the responsibility to ensure all financial documentation is maintained accurately. However, in the future to be in compliance as directed, I am prepared to segregate cash management duties with an additional staff member, to assist in the “receiving and recording of financial transactions” for McFarlane. Such will be signed and dated appropriately.

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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.

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Odell W. Bailey, CIA
Auditor General