

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

2007- 10 Procurement – Receiving

Finding Type: Internal Control over Financial Reporting – Significant Deficiency

Fiscal Year: July 1, 2006 to June 30, 2007

Requirement

Procurement: Per Michigan Public School Accounting Manual, Section VI, Paragraph A.07, approved purchase orders should be used for all purchases in accordance with district policy; receiving documents should be attached to and filed with applicable invoices; and internal controls should exist to prevent duplicate payment of invoices.

Condition

During our test work over procurement, we noted that the District's system is designed to track receiving documents, and to require a three-way match of a receiver, purchase order, and invoice before payment is made; however, third-party receiving documents and closed purchase orders are not retained. Therefore, the District was unable to provide to us third-party receiving documentation for goods and services obtained from vendors. As a result, the District we were unable to verify that a three-way matching of purchase order, receiving document, and invoice occurred prior to disbursing funds.

Possible Asserted Cause and Effect

The internal control procedures are not designed to retain third-party receiving documents. Therefore, the District is at greater risk of inappropriate payments being made, including payments for goods and services never received.

Recommendation

We recommend that no funds are disbursed against invoices unless matched to both a valid purchase order or contract and a corresponding receiving document evidencing that the goods and services were properly received. The District should consider strengthening its internal control procedures by requiring third-party receiving documents to be faxed to a central location.

Views of Responsible Officials

We understand and agree with the noted observation and are working toward corrective actions.

Corrective Action Plan

- *Contracting and Procurement will issue a District-wide Directive instructing all Users (Including Central Offices, Warehouses and Schools) to retain all third-party receiving documentation (receiving/packing documents, statement of services, etc.) for goods and services received from vendors. Contracting and Procurement will issue a Directive to all Users that where personal/professional services vendors are utilized, such vendors shall issue periodic statement of services to the User for purposes of receiving on PeopleSoft.*
- *Contracting and Procurement in conjunction with the Accounting Department will develop a receiving stamp to be imprinted on every receiving/packing document ,statement of services, etc. by the*

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User who receives on goods and services. This process may eventually be replaced by automating the receiving process in a manner that PeopleSoft modifies the present receiving process by capturing the receiver's name and attaching the scanned receiving/packing documents, etc.

- *Contracting and Procurement has issued a Business Users Request instruction to IT for purposes of developing a modification to PeopleSoft in order to maintain an authentic originally signed copy of all purchase orders issued by fiscal year (e.g. the original signature means the signature that was assigned to the PO when it was originally issued).*
- *Fully implemented by 8/15/08*

These corrective measures will allow the Auditors to verify the District Policy that a three-way matching of Purchase Order, Receiving Document and Invoice has occurred prior to disbursement of funds.

RESPONSIBLE PARTY: Executive Director, C&P

Clarence B. Tuck, Jr.
Signature
CCO

7-10-08
Date