

DETROIT PUBLIC SCHOOLS



Office of Inspector General

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Inspector General

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THRU: Wilbert V. Marsh, Inspector General
Odell Bailey, Deputy Inspector General for Audit

FROM: Tyrone Foster, Internal Auditor
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DATE: July 9, 2013

SUBJECT: Review of Corrective Actions for Year Ended June 30, 2012

BACKGROUND

The Comprehensive Annual Financial Report (CAFR) and Single Audit Act Compliance Report (Single Audit) for Detroit Public Schools' (DPS) was audited by the REHMANN ROBSON Accounting/Auditing firm, for the Fiscal Year (FY) ended June 30, 2012. The audit identified 18 findings. There were six financial statement findings and 12 findings related to compliance with

federal grant award requirements. The Emergency Manager charged the former Office of the Auditor General (OAG) now the Office of Inspector General - Audit Department with the responsibility of working with appropriate District personnel to facilitate the process for developing sustainable corrective action plans that address and mitigate the audit findings. In addition, the OAG was responsible for reviewing and testing the corrective action plans and reporting any exceptions to the responsible members of management for clarity, resolution and to schedule additional testing when failures occurred.

The types of audit findings disclosed in the CAFR and Single Audit included the following:

- Material weakness (Financial Reporting) - is a significant deficiency, or combination of significant deficiencies, that result in a material noncompliance issue that will not be prevented or detected by the entity's internal control structure.
- Significant deficiency (Financial Reporting) - is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- Material weakness in internal control over compliance (Grant Reporting) - is a deficiency, or a combinations of deficiencies in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected , on a timely basis.
- Significant deficiency in internal control over compliance (Grant Reporting) – is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in the internal control over compliance, yet important enough to merit attention by those charged with governance.
- Noncompliant – is noncompliant with certain provisions of laws, regulations, contracts, or grant agreements which could have a direct and material effect on the determination of financial statement amounts.

Of the 18 audit findings, 13 were repeat and 5 were new. In addition, 6 of the findings were classified as a material weakness, 7 were classified as a significant deficiency, and 5 were classified as noncompliant.

Objective(s)

The objectives of this audit were to determine whether the corrective action plans:

- Fully addressed the audit finding.
- Are practical – Does the corrective action plan make sense to implement.
- Are sustainable – Formal policy and procedures established, added review or self-testing.

Scope

The OIG Audit reviewed, tested and/or verified corrective actions that were completed by responsible department personnel. The audit review period was from December 10, 2012 through June 29, 2013.

The number of audit findings and respective corrective actions by the responsible department is shown below:

Responsible Department	Quantity of Findings
Accounting and Finance	6
Procurement and Logistics	2
Academics	4
Food Services	1
Human Resources	1
State and Federal Programs	3
OMB	1 (multi-part)
Total	18

Methodology

The Office of the Inspector General – Audit Department (OIG-Audit) first reviewed the external auditor findings and requested documentation from the auditors to support those findings. Next, we met with responsible District personnel to review and discuss the conditions and recommendations made by the external auditors for each audit finding. In many instances, there were numerous meetings with District personnel to gain a complete and accurate understanding of the conditions that led to the audit findings and to determine the root cause.

The responsible District personnel were charged with developing the corrective action plans. The OIG-Audit team reviewed and suggested revisions where appropriate to the corrective actions to ensure they met the established objectives and were being implemented. We also reviewed revised policies and procedures and any process changes that were developed to address the audit findings.

The OIG-Audit team tested and/or verified corrective actions to determine if they were designed and operating as intended. All test failures were reported to the applicable department head and department personnel responsible for the activity under review. Additional tests were performed by the OIG-Audit team after responsible department personnel revised the corrective actions to mitigate the risk which led to the audit finding.

EXECUTIVE SUMMARY

The number of audit findings reported for the Year Ended June 30, 2012 declined from 27 to 18 for a 33 percent reduction compared to the prior year. Overall, 15 of the 18 corrective actions tested or confirmed passed resulting in an 83 percent pass rate, while only 3 or 17 percent failed. This also compares favorably with last year's test results, where 78 percent of the plans tested passed while the remaining 22 percent either could not be tested or failed.

These achievements coupled with the decline in the number of material weakness findings and questioned cost amounts supports that the District has made significant improvements in its control environment over District finances and operations. However, with 13 of the 18 findings being repeat findings, much work remains. Specifically, some of the findings that continue to be of concern include those related to the budgeting process. Because the District is in a financial deficit, a budget finding will continue to exist in accordance with the State Uniform Budgeting and Accounting Act until the deficit is eliminated. However, with a concerted collective effort between Grants accounting and Budget, the OIG believes that some of the other budget violations can be addressed.

As the primary control of an organization, the budget represents a framework to coordinate resources and expenditures to help ensure allocations are not exceeded. The budget is also a statement about the financial administration of an organization and should serve as a planning tool for management. To achieve this, accurate information is needed from all schools and departments in a timely manner. The District's plans to upgrade its enterprise resource planning system will significantly enhance the ability to produce timely, accurate and reliable information about District operations.

The District will also likely continue to experience audit findings based on payments made under contracts that preceded the implementation of the contract checklist which is a control put in place by the Department of Procurement and Logistics to ensure that all required procurement steps are performed and documented prior to the sign off of the Chief Procurement and Logistics Officer.

The review also noted significant efforts on the part of the Academic Department's Head Start Program which has made notable progress in addressing some challenging areas related to meeting the disability percentage and in-kind matches. The District received a waiver for the disability requirement and met the in-kind match with some innovative tracking of operational costs and documentation of volunteer services.

The effort by OIG Audit to drive the corrective action process has been an effective tool in helping to mitigate risks and ensure compliance. However, the positive results are attributed to several initiatives by the District including a restructuring of the finance department, the recruitment of skilled finance professionals and a tone at the top that has resulted in the District being more compliance-focused. To sustain the progress the continued support of management will be required.


Finally, during the course of our discussions with business owners for the applicable audit areas, we found that in some cases owners were not fully aware of the reason for the audit finding. Business owners are most knowledgeable about their areas and need to have an opportunity to discuss the results of audit testing so they understand the reason for the finding and are offered an opportunity to challenge the finding. To do this, more time has to be allotted during the audit process for discussion with business owners.

Summary of Results
2012 Audit Findings and Corrective Action Testing

Finding	Audit Finding Title	Test Status	Finding Type	Repeat	Policy Change	Procedure Change	Questioned Costs
FS-01	Payroll Benefits		Material Weakness	No	Yes	Yes	
FS-02	Bond payable & Related Accounts		Material Weakness	Yes	Yes	Yes	
FS-03	Property Taxes		Material Weakness	Yes	Yes	Yes	
FS-04	Budget		Material Weakness	Yes	Yes	Yes	
FS-05	Capital Assets		Significant Deficiency	Yes	Yes	Yes	
FS-06	Bond Procurement Documentation		Noncompliance	Yes	Yes	Yes	
SA-01	Required School wide Programs		Noncompliance; Significant Deficiency	No	Yes	Yes	\$ 666,047
SA-02	Payroll Documentation - Timesheet & Workshop		Noncompliance; Significant Deficiency	yes	Yes	Yes	\$ 634
SA-03	Payroll documentation - Certifications		Noncompliance	No	No	No	\$ 93,607
SA-04	In-Kind Contribution Match for Head Start		Noncompliance; Significant Deficiency	Yes	Yes	Yes	\$ 231,092
SA-05	Improper Reimbursement of Vouchers		Noncompliance; Significant Deficiency	Yes	Yes	Yes	\$ 141,354
SA-06	Income Verification – Head Start		Material Noncompliance Material Weakness	Yes	Yes	Yes	\$ -
SA-07	Enrollment of Children with Disabilities		Noncompliance; Significant Deficiency	yes	No	No	\$ -
SA-08	Suspension & Debarment - Bid Documentation &n Verification		Noncompliance	Yes	Yes	Yes	\$ 28,979
SA-09	Summer Food Service Meals		Noncompliance	No	No	No	\$ 1,419
SA-10	Reporting - 1512 Reports		Material noncompliance Material Weakness	Yes	Yes	Yes	
SA-11	Schools in Need of Improvement		Noncompliance	No	No	No	
SA-12	Average Class Size		Noncompliance; Significant Deficiency	Yes	Yes	Yes	
							\$ 1,163,132
	15.0	83%	Passed – complete for 2013 Fiscal year				
	3.0	17%	Failed – Corrective Action not sufficient to mitigate audit finding				
	18.0	100%	Total				

Review of the Corrective Action Plans For Year Ended June 30, 2012
Report No. 2013-CA-0032

Our audit was performed in accordance with U.S. Government Accountability 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.

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name.

Odell W. Bailey, CIA
Auditor General
Detroit Public Schools