

DPS OFFICE OF AUDITOR GENERAL



ANNUAL REPORT

For the period covering

(3/2009 – 6/2010)



Creating centers of excellence



Letter from the Auditor General :

Dear Parents, Students and Citizens of Detroit,

On March 23, 2009 I was selected by the District's Emergency Financial Manager, Robert C. Bobb, to serve as the Auditor General for Detroit Public Schools. As a graduate of Mumford High School, I was honored to have an opportunity to serve Detroit Public Schools. The challenges facing our school district represent opportunities to make a positive difference in the lives of our students and future leaders.

Prior to my appointment, the District had disbanded its internal audit department in 2005. In a District with over \$1.2 billion in revenue, the lack of an oversight body charged with ensuring that business processes had effective internal controls to mitigate risks led to a material weakness in the annual financial statement audit. The auditors felt that not having an internal audit department exposed the District to significant risks as there was virtually no internal oversight.

One of my first actions was to hire a veteran staff of five audit professionals. These auditors have a collective experience of over 90 years and are highly credentialed in their field of expertise. Their audit backgrounds include manufacturing, retail, Government, corporate, banking and automotive. In addition, several team members have extensive knowledge and experience with Sarbanes Oxley testing which is conducted to ensure internal controls in publicly-traded corporations are effective in mitigating financial misstatements.

As an office, we are proud to serve the citizens of Detroit and are committed to helping DPS become a leading educational institution that offers quality educational services for its students and community. Our mission is to ensure that the district has an effective set of internal controls over its operations to ensure departmental goals are achieved in an efficient and effective manner, financial reporting is accurate, reliable and timely and the District is complying with government regulations and its own policies and procedures.

We welcome this opportunity and are committed to improving the internal control environment within DPS and providing assurance to the community that DPS is accountable for quality educational services and transparent in its transactions. In this regard, we are proud to present our office achievements for the 15-month period ending June 30, 2010.

Office of Auditor General (OAG) Achievements

The OAG has established a series of metrics used to benchmark its progress to achieving its mission. These metrics include:

1. Dollar savings for the District
2. Number of risk mitigated
3. Number of reports issued
4. Number of recommendations implemented
5. Policy changes, and
6. Improvements that ensure compliance

DOLLAR SAVINGS

During the first 15 months, the OAG helped to generate \$15 million in additional funding for the District's e-rate program; Reduce mailing expenses for the Payroll department by eliminating bi-weekly mailings to 25,000 DPS employees which cost the District \$24,000 annually.

RISK MITIGATED

The OAG, through its audits has helped to eliminate the risk of:

- Paying salaries to those who are not authorized DPS employees;
- Theft from school cash collections;
- Theft and losses from Athletic Game Cash Collections;
- Ineligible student athletes participating in DPS athletic events;
- Over reimbursing employees for mileage fees incurred in carrying out job related duties;
- Unauthorized, revenue-generating activities on DPS premises.

NUMBER OF REPORTS ISSUED

The OAG issued **213 audit reports** and conducted **20 investigations** for its first 15 months under the direction of the Emergency Financial Manager. The Office issued 194 of 213 reports for its school audits which were conducted in a record 23 days. This was critical to identifying the internal control weaknesses at the schools and doing so in such a short time-frame helped to send the right message about expectations. Many of the schools had not been audited in several years and some of the newer principals had never experienced an audit.

The investigations generally represented direct requests from the Emergency Financial Manager to review, resolve or to assess allegations made by DPS employees, vendors or members of the public concerning DPS operations or programs. Typically, these matters did not result in a written report, but rather a written or verbal overview to the Emergency Financial Manager of what was determined. In some cases where we found the allegations to be valid and the matters were turned over to the Inspector General's Office for further investigation and possible prosecution.

NUMBER OF RECOMMENDATIONS IMPLEMENTED

Through the 213 audit reports issued and 20 investigations conducted, the OAG has made a number of recommendations that have already been implemented. These include the Office of Public Safety's agreement to implement inventory procedures and to work with IT to set up a computer infrastructure that could be serviced by IT. Additional recommended actions include cash management's requirement that school bookkeepers report to the CFO and the Schools and the Athletic Department's implementation of cash management procedures.

Although we have received agreement on our report findings and recommendations from various departments that have gone through an audit, the number of recommendations that were implemented will not be fully known or understood until a follow up audit on those recommendations occur, which is typically conducted within 12 months of the original audit. The audit activity scheduled for 2010-2011 will verify the implementation of our recommendations.

POLICY CHANGES

One of the most notable policy changes resulting from our audit work was a change in practice that was costing the district significant dollars was the practice that allowed school administrators to be absent work up to eight days without charging any leave bank. The cost due to the continuation of this practice is immeasurable because it was not documented.

Another recommendation that led to a policy change was to have the payroll check distribution division stop mailing out checks to 2,500 employees which had been occurring for the last ten years. Management officials told us that the District's PeopleSoft system, which was installed in the District in 1999, had many of these employees receiving their check in the mail "hard coded" in the People Soft system. Despite some initial resistance, management officials agreed to have the system re-programmed to stop the mailings.

In addition, the payroll verification audit required that all DPS employees have a picture ID badge and their unique file numbers in order to receive their payroll check or payroll remittance advice. Through this effort the District discovered that over 7,000 of the 13,000 employees did not have picture ID badges. Consequently, the District launched a significant effort to have all employees receive a picture ID badge. This helped to improve security on our school campuses so that unauthorized personnel can no longer enter our campuses.

IMPROVEMENTS TO ENSURE COMPLIANCE

Most of the audit work performed over the last 15 months identified areas of non compliance with District policies and procedures. All of the deficiencies identified in the 194 school audits related non compliance with the District's School Administration Financial Manual. Similarly, the Cash Collection audits of Athletic Games Receipts and at DPS Basketball Games found non compliance with the District's cash collection procedures as well.

In addition, the audit Athletic Eligibility of Southwestern football players identified non compliance with the District and MSHDA requirements.

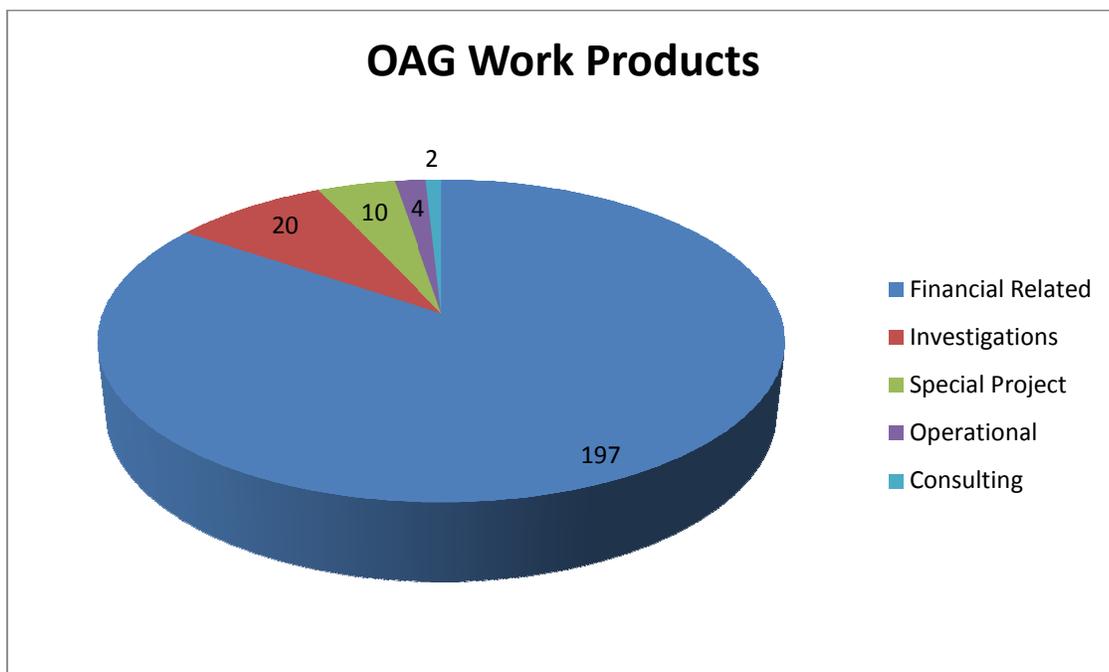
YEAR IN REVIEW

The OAG conducts various types of audits and provides consulting services to achieve its mission. The audit types are financial, operational, informational, and follow up. In addition, the OAG from time to time will take on special projects that are not audits nor or they consulting projects. Consulting efforts vary depending on the objective, but typically involve the OAG participating in an effort to either achieve a desired outcome or to avoid an undesired outcome. These efforts are proactive in nature and different from audits, which require independence and address transactions that have already occurred.

To ensure full accountability and transparency, the OAG posts its audit reports on the District’s web-page for interested stakeholders to review. See <http://detroitk12.org>.

The pie chart below visually illustrates the breakout of audits, by type, consulting efforts, investigations and special projects.

Graph 1.1: OAG INITIATIVES BY TYPE



FINANCIAL- RELATED AUDITS

School Audits

The OAG conducted audits of each of the 194 schools for School Year 2008-2009 to assess the level of compliance with the District’s School Administrative Financial Manual, which covers cash management procedures. Most of the schools had between 1 and 5 internal control weaknesses; however, 19 schools

had no internal control weaknesses. In general, we found many bookkeepers and administrators were not aware of District cash management policies and oversight of school cash collection procedures by the Accounting Department was limited and ineffective at ensuring compliance. We also prepared a consolidated report on the schools that provides a summary of the deficiencies identified in each school audit and four specific recommendations to the Chief Financial Officer aimed at addressing the noted internal control weaknesses.

Cash Collections at Athletic Games

As part of the EFM's initiative to "clean up" the athletic program at DPS, the OAG audited cash collections at athletic games starting with the football season of 2009 and moving on to winter sports including basketball and swimming. The OAG noted similar internal control weaknesses within athletics as found at the schools. Perhaps equally important was the presence of auditors at the games, which helped to send the message that the District was serious about cleaning up its athletic program and wanted to institute effective internal controls to mitigate the risk of losses due to theft and questionable practices that had become the norm at DPS athletic events.

INVESTIGATIONS

From time to time the OAG is requested by the Emergency Financial Manager (EFM) and other District Administrators to investigate complaints, allegations of wrong-doing and questionable actions by DPS employees. These investigations typically involve direct verification, follow up and review of documents. Some of the cases have resulted in referrals to the Inspector General's Office or to the Office of State and Federal Programs. For the 18 month period covered by this annual report, the OAG conducted 20 investigations with 4 being referred to other departments for further investigation. One of the investigations revealed a long time DPS employee had been charging student fees for new identification badges and keeping the proceeds from his efforts. Although the information was not available to quantify the amount of funds generated from this effort, the practice had been ongoing for several years. The investigation was subsequently turned over to the Office of the Inspector General and the employee was disciplined and is no longer with the District.

Other OAG efforts resulted in resolutions that addressed matters that were not systemic but impacted the District or a DPS employee. The Emergency Financial Manager takes all emails and calls from DPS employees and others very seriously. As a result, every request that the OAG received from the EFM was promptly reviewed, assessed and acted upon. We believe our efforts in this regard no matter how limited in scope are important and help to demonstrate the District's commitment under the EFM to make a positive difference in the lives of DPS students and staff.

SPECIAL PROJECTS

The OAG completed 10 special projects for the period covered in this report. Special projects often involve techniques similar to an audit such as review of documents, interviews and analysis. However, they are not audits and are not completed in accordance with government auditing standards; however, special projects can be of great value to the district.

OPERATIONAL AUDITS

The OAG conducted 4 operational audits. Operational audits are designed to identify actions that will mitigate the risk of not achieving departmental goals and to do so in an effective and efficient manner. Although the number of operational audits performed was not significant, the four audits identified serious internal control weaknesses within District operations. Each audit includes recommendations for improved operations. We found department administrators to be receptive to our recommendation and many have been implemented. The following provides a brief synopsis of each of these audits.

Office of Public Safety Audit

The OPS audit found several internal control weaknesses and identified questionable procurement and inventory practices that raised concern about the possibility of wrong-doing. Specifically, the audit found that the Office lacked inventory procedures and had limited controls over its inventory including weapons. In conducting a physical inventory, the OAG found

- 160 blackberry phones new in the box,
- 97 hand held two-way phones, new in the box
- 21 metal detectors
- 1872 new master locks
- 1870 video tapes
- 132 new safety kits
- 586 motion detectors
- 501 switch boxes
- 11 motorcycles (with limited mileage)
- 1996 Chevrolet Caprice Classic

In addition, we found \$750 in money orders for badge replacements in the top drawer of an OPS administrator. All of the inventory items were either new in the box or slightly used, but none were accounted for in the department's inventory records. In total, we estimated the value of these items to be over \$200,000 not including the low value items like locks and video tapes. The audit recommended the department establish inventory procedures including weapons and adopt the District's cash collection procedures.

Payroll Verification

The payroll verification audit was requested by the Emergency Financial Manager after two highly visible cases of payroll fraud in DPS were revealed shortly after he was appointed. Although both cases involved collusion, the risk that additional payroll frauds were occurring was significant. To mitigate this risk, the EFM ordered the Office of the Auditor General to act quickly and to establish procedures for each of the District's more than 13,000 employees to personally come in and pick up their payroll checks or payroll remittance advices. District employees overwhelmingly complied with the audit requirement. Setting up 10 locations throughout the District, the OAG planned and organized the process which resulted in a 98 percent response rate and ultimately verified that the District had no "Ghost

Employees” on its payroll. The audit received lots of media attention and was reported nationally on CNN. Although several employees were investigated by the Office of the Inspector General, the District received confirmation that only DPS who had earned their salaries were being rightfully paid by the District.

The audit did, however, identify several other internal control weaknesses not the least of which involves employees who take leave without charging any vacation or sick leave hours. The District had an accepted practice of allowing administrators at the schools to take up to 8 days leave without having to charge the time to one of leave banks. Although we could not quantify the dollar impact, it is a significant cost to the district. In addition, the audit discontinued the practice of mailing 2,500 payroll checks and payroll remittance advices to DPS employees which cost the District over \$24,000 per year.

Athletic Eligibility of Southwestern Football Players

One of the concerns voiced by the EFM and echoed by the community was that the District had players who were ineligible due to their academic performance. The OAG audited the eligibility of players who participated in the in District Football Championship for ** Division. A hotline tip had alleged that some of the players for Southwestern had played and won the championship with ineligible players. At the time, the team was led by a well-known and respected coach. In anticipation of community outrage, the EFM had the OAG contract with the law firm of Dickinson and Wright to conduct a joint audit of the championship season. This law firm was selected primarily because of its reputation and that of former Mayor Dennis Archer, who as a former Supreme Court Justice and community supporter, had gain a reputation of being highly ethical. Working closely with the law firm, auditors from the OAG, conducted an audit of the player’s eligibility and identified non compliance for both participating teams. Moreover, the auditors working cohesively with the law firm identified both District and Michigan High School Athletic Association (MHSAA) eligibility requirements that were unknown to the district. As a result of the audit, the championship title was relinquished.

Facilities Mileage Reimbursement

The Facilities Department charges some employees with duties that require they drive from one school location to another. In accordance with union contract provisions and District policy, these individuals are eligible for mileage reimbursement up to 700 miles per month. Our report found a lack of oversight and management, which has resulted in several abuses by employees. The result is additional expense for the District.

The report identifies instances where employees made multiple trips to the same school within a short time period and was reimbursed even though our audit revealed that the school was permanently closed at the time these trips allegedly occurred. Without any work directives, employees whose duties require they use their personal vehicles for job related duties have lots of autonomy. Lacking any authorization and verification on miles driven, the risks of paying employees for unnecessary travel or travel that did not occur is significant.

CONSULTING PROJECTS

From time to time, the OAG is called upon by management to work as consultants to help ensure that District initiatives are successful in achieving the stated objective. Consulting efforts unlike audits typically have a preventative objective and require directive activities designed to meet or achieve a goal. The OAG participated in two consulting efforts the fall student count initiative and the free and reduced lunch application drive to enhance e-rate funding.

Fall Student Count

The Office of the OAG contracted with 16 auditors to assist the Pupil Population Management Office with the fall student count. Auditors reviewed school alpha rosters to ensure they included new students and to remove former students from the database. They also reviewed and assessed documentation for the District's work-based, second chance and homebound programs. In addition, the Auditor General managed and directed the activities of the Districts attendant agents which included a ground campaign to track and go to the homes of 11,000 of the District's most truant students. The effort resulted in 300 students moving from partial to full FTE status ensuring the District of full funding for each of these students. In addition, this effort helped stem the loss of students and exceed the Demographer's projection of students for the fall, 2009.

E-Rate Initiative

Staff members from the OAG managed the safekeeping, tracking and distribution of promotional gift cards issued as incentives to parents who completed the free and reduced lunch campaign. The OAG also directed attendant agents in this effort which ultimately resulted in the District becoming eligible for an additional \$15 million in E-Rate funding.

STAFF BIOGRAPHIES

The OAG is staffed with six veteran auditors including the Auditor General and one veteran administrative assistant. Each audit team member has a distinguished background with solid experience in the area of audits. The following is a picture and a brief bio on each OAG staff member to familiarize the reader with the internal audit staff.

Odell W. Bailey



• Auditor General

Odell is a Certified Internal Auditor and a Certified Government Financial Manager with 24 years of experience in governmental auditing, accounting and financial management. After graduation from the University of Michigan Dearborn he joined the U.S. General Accounting Office (now the Government Accountability Office) and was promoted to an Evaluator in Charge where he worked in the Mobile Source Emission area working closely with EPA and the Big Three Automakers on federal regulatory programs.

He joined the Wayne County Auditor General's Office in 1996 as an audit manager and within one year was promoted to Deputy Auditor General. During his tenure with Wayne County, he helped to double office production, re-structure the office to align with County departments and was nominated by both the Chairman of the Commission and the CEO of Wayne County for outstanding performance. Odell is a graduate of Mumford High School and has a Masters Degree in Finance from Walsh College and a Bachelors of Arts in Public Administration from University of Michigan Dearborn. He is an active member of the institute of Internal Auditors and the Association of Government Accountants.

Nancylene Johnson

- **Administrative Assistant**



Ms. Johnson is a Detroit Public School graduate and a MBA graduate of Davenport University, where she studied Human Resource Management. She has worked for DPS for 30 years in a variety of clerical and administrative positions including accounts payable, payroll, and Staff Training and Development. Ms Johnson is a graduate of Osborn High School and she is an active member of her church, where she serves as Church Secretary and Youth Director.

Dennis Johnson

- **Acting Deputy Auditor General**



Mr. Johnson has broad-based experience in Sarbanes-Oxley implementation and compliance, financial audit, financial management, process improvement and risk assessment. With over 20 years of experience in financial institutions, manufacturing, mortgage banking and automotive after-market operations, Mr. Johnson is focused on fostering an atmosphere of common purpose and teamwork.

Mr. Johnson earned a Bachelors and a Masters Degree in Business Administration with a concentration in Finance from Central State University and Howard University, respectively. He is a Certified Internal Auditor and Certified Fraud Examiner. He is a member of the institute of Internal Auditors, and the Michigan Association of Certified Fraud Examiners.

Tyrone Foster

- **Audit Manager**



Mr. Foster has served as Audit Manager in the DPS Office of the Auditor General since May 4, 2009. At DPS, Tyrone has worked on various projects including Payroll Verification, Student Count Project, managed the review of the Office of Public Safety and various other projects. Tyrone has over 15 years of audit experience with the automotive and pharmaceutical industries; and over 5 years of experience implementing and supporting financial systems. Prior to coming to the Detroit Public School System, Tyrone worked as a business consultant assisting clients with audit support and financial system implementations. Tyrone earned a Bachelor degree in Accounting from Miami University in Oxford, Ohio and a MBA from Baldwin Wallace College in Berea, Ohio.

Donna M. Owens

- **Principal Senior Auditor**



Ms. Owens is a Principal Senior Auditor, and joined the OAG in April 2009. She has managed several key projects within the district including a 2009 audit of all 194 schools' cash management programs. Donna has nearly 20 years of auditing experience in various industries including: Education, Banking, Energy, Mental Health, Automotive, Aviation, Gaming and Government. She has expertise in risk assessment, compliance, operational and financial auditing as well as experience in Sarbanes Oxley planning and controls testing. Ms. Owens has served as an SAP implementation liaison and financial analyst. She is a Certified Internal Auditor (CIA) and Certified Trust Auditor (CTA). In addition, she is a graduate of Osborn High School and has a Master of Business Administration from the University of Detroit Mercy and a Bachelor of Business Administration degree from Marygrove College.

Rashawn Johnson



• Senior Auditor

Mr. Rashawn Johnson started with the Auditor General's staff in April 2009, after working as an Engagement Manager at Daimler AG. He has over 10 years of internal audit and compliance experience in government, automotive and beverage manufacturing, and consulting for private businesses. Since joining the OAG, Mr. Johnson has been responsible for the engagements completed on Athletics, Operations & Auxiliary Services and many of the investigations into allegations forwarded from the EFM or the Office of Inspector General. In addition, he has played a key role in the financial review of Schools and other special projects reported to management.

Mr. Johnson is a graduate of Cass Technical High School and has a Bachelor's of Business Administration Degree in Accounting from Northwood University and a Master's of Science in Management from Walsh College.



***-Working together to
build a better School
District-***

Edyth Porter-Stanley



- **Staff Auditor**

Edyth Porter-Stanley is a former DPS auditor, who re-joined the newly-established Office of the Auditor General (OAG) in April, 2009. Since joining the OAG, Edyth has worked on audits of the school financial expenditures, payroll verification, Office of Public Safety, fall 2009 Student Count Project, athletic gate receipts, supplemental educational service, and Facilities Mileage Reimbursements. She has over 16 years of experience as an internal auditor, having worked for three local governmental units: the City of Detroit, Wayne County and Detroit Public Schools. Edyth has a Bachelors of Science Degree in Accounting from Indiana Institute of Technology.

WE'RE IN



OAG'S COMMUNITY SERVICE

Odell Bailey

- Participated in the District's blue door "I'm in" campaign in August, 2009.
- Participated in the School Pride initiative at CMA High School in August, 2010.
- Patrolled northwest Detroit neighborhood for City of Detroit initiative "Angel's Night" in October, 2009.
- Serve as a coach for church league basketball
- Serve as a panel member for Troop 1649 on Eagle Scout evaluations

Dennis Johnson

- Active member of Kappa Alpha Psi Fraternity
- Presented information to high school students interested in joining Fraternity

Tyrone Foster

- Served as Treasurer for Kalamazoo Chapter of NAACP

Donna Owens

- Assist treasurer with Church finances
- Assist with church nursery
- Serve as a Girl-Scouts Assistant for Brownies and Juniors
- Serve as an assistant for PTA

Rashwan Johnson

- Active member of Omega Psi Phi Fraternity
- Serve as an assistant coach for Think Detroit PAL T-ball

Edyth Porter-Stanley

- Serve as a Cadet Girl Scout Leader
- Chaired a used uniform drive for son's school

Nancylene Johnson

- Serve as Secretary for her church
- Serve as a Youth Director for her church

COLLABORATIVE EFFORTS

✓ **PUPIL POPULATION MANAGEMENT / FOR STUDENT COUNT**

The OAG worked closely with the Pupil Population Management team to facilitate an effective student count process for fall, 2009. OAG auditors were assigned to constellations where they reviewed the schools' alpha rosters to ensure students who should be added or dropped were captured on the roster; went to the schools to troubleshoot attendance and scheduling issues, reviewed documentation for the homebound, work-based and second chance programs

✓ **ATTENDANT AGENTS / FOR STUDENT COUNT**

The OAG assembled a team of agents, issued assignments, conducted daily meetings with team leaders, and provided oversight and guidance for ground campaign to retain and recruit DPS students. In recent years, the district has lost 10,000 students each year. This effort helped to limit the loss of students and resulted in obtaining an FTE count that nearly equaled demographers estimate for head count.

✓ **DEPARTMENT OF FEDERAL AND STATE GRANTS / FOR MASTER SCHEDULE REVIEW**

We managed a team of auditors from Department of Federal and State Grants in a review of master schedules for selected high schools to determine how teachers were being used and whether or not potential savings existed where teacher staffing levels exceeded class workload. The audit revealed a number of questionable practices employed by school officials that cost the District millions of dollars in salary expense.

✓ **ATHLETIC DEPARTMENT / FOR CASH COLLECTIONS AT ATHLETIC GAMES**

OAG auditors attended games throughout the 2009-2010 School Year to observe and make recommendations on the cash collection procedures to ensure adequate controls were in place over cash and to recommend consistent procedures be employed at all games. The presence of the auditors at the games has had a positive impact.

Collaborative Efforts (continued)

✓ **ATHLETIC DEPARTMENT / FOR PLAYER ELIGIBILITY REQUIREMENTS**

OAG auditors worked with newly appointed, interim Athletic Director to ensure DPS athletic coordinators were familiar with eligibility requirements. Provided an overview for athletic coordinators to ensure they were knowledgeable of District Eligibility requirements.

✓ **FACILITIES FOOD SERVICE/ FOR E-RATE PROMOTIONAL INITIATIVE**

Auditors from the OAG developed procedures to safeguard and distribute gift cards as part of a drive to obtain additional free and reduced lunch applications which allowed the District to be eligible for an additional \$15 million in E-Rate funding.

✓ **INSPECTOR GENERAL / FOR REVIEW OF VENDOR EXPENSES**

The OAG participated in a review of vendor invoices for services provided to the District documenting potential overcharges and questionable expenses charged to the District by the vendor. Although the effort is ongoing, we estimate initial potential overcharge of tens of thousands of dollars.

✓ **INSPECTOR GENERAL / FOR CONFLICT OF INTEREST CONTRACT REVIEW**

The OAG helped to verify corporate information as part of a request from a state representative who raised concern about potential conflict of interest in DPS contracts. Information found that most contracts included a signed conflict of interest statement, but those that could not be located in the vendor file were requested.

✓ **INSPECTOR GENERAL / FOR REVIEW OF CASH COLLECTIONS AT GOLIGHTLY & RANDOLPH TECHNICAL SCHOOLS**

As part of the OAG audit of cash collections and bookkeeping activities at the schools, the OAG identified potentially fraudulent activity and worked with the Inspector General's Office to document questionable expenditures beyond one year scope of our audit to facilitate an investigation of both schools' expenditures. To date, the investigation has led to charges against the principal for one of the schools.

DPS AND ITS BRIGHT FUTURE



The Office of the Auditor General staff would like to thank Mr. Robert C. Bobb for allowing us to make a positive difference in the lives of our students and for our community.

As we look to the future and Mr. Bobb's 5-tier strategy to make all Detroit Public Schools *centers of excellence* where students are challenged with rigorous requirements in safe and clean learning environments housed in new, recently renovated and well maintained buildings in a district on solid financial standing with engaged parents, it looks pretty bright.

