

Detroit Public Schools

Office of the Auditor General



Review of Corrective Action Plans for Year Ended June 30, 2011

School Year 2011-12

REPORT NO: 11-037

Report Date: July 13, 2012

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Background

The Detroit Public Schools' (DPS) Comprehensive Annual Financial Report (CAFR) prepared by the REHMAN ROBSON Accounting firm, the District's external auditors, for the Fiscal Year (FY) ending June 30, 2011 disclosed twenty-seven (27) audit findings. There were eight (8) financial statement audit findings and nineteen (19) audit findings related to compliance with federal grant award requirements. The Emergency manger charged the Office of the Audit General (OAG) with the responsibility of working with appropriate District personnel to facilitate the process for developing corrective action plans that address and resolve 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 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 charges with governance.
- Material weakness in internal control over compliance - 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 – 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.

Of the 27 audit findings, 15 were repeat audit findings and 12 were new audit findings. In addition, twelve (12) of the audit findings were classified as a material weakness, eleven (11) were classified as a significant deficiency and four (4) 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 – Are formal procedures and policies in place.

Scope

The OAG reviewed, tested and/or verified corrective actions that were completed by responsible department personnel. The audit review period was from December 12, 2011 through June 29, 2012. Two of the 27 audit findings were exempted from testing due to the District's participation in a new federal program (Community Eligibility Program.)

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

- Accounting and Finance 12
- Procurement and Logistics 4
- Academics 4
- Food Services 3
- Human Resources 1
- State and Federal Programs 2
- OMB 1

Methodology

Auditors from the Office of the Auditor General (OAG) 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 audit conditions and recommendations made by the external auditors for all audit findings. 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 OAG reviewed and revised where necessary the corrective action plans 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 OAG tested and/or verified the corrective action plans to determine if they were designed and operating as intended. All test failures were reported to the applicable department heads and department personnel responsible for the activity to inform them and to develop a plan to prevent future noncompliance. Additional tests were performed once additional actions were taken. In addition, the OAG monitored the progress of corrective action plan development and test results throughout this process.

RESULTS IN BRIEF

Most of the corrective actions tested or verified passed. Specifically, 19.5 or 78 percent of the 25 corrective actions tested or verified passed while 3 or 12 percent of the corrective actions were scheduled to be complete but were not fully implemented by the end of our field work. The remaining 2.5 or 10 percent of the corrective actions failed testing. In 2009, when the OAG conducted testing of the 2008-2009 corrective actions, 16 of the 20 corrective actions or 80 percent failed. While the recent testing results are promising, the District continues to face risk exposures in those areas that have either failed testing and, to a lesser degree, those areas that were not ready for testing. Ultimately, the goal is to mitigate all audit risks that are identified in the year-end audit.

The greatest level of risk the District faces are for financial statement material weaknesses as they can result in a material misstatement in the District's financial statements. Audit findings, that are compliance-related, result from a failure to meet requirements for federal grant monies. These findings are of concern because under some circumstances they can require that the District reimburse the government with General Fund dollars. The total questioned cost impacting 7 of the compliance findings is \$2,861,340. To date, the District has repaid \$459,414 for three of the 7 findings. As of June 30, 2012 it was not clear if and when the District will have to pay the remaining \$2,401,926.

We noted one audit finding that, in our opinion, was made in error. Specifically, audit finding SA-09 involving "maintenance of effort" for special education should not have been a finding. The federal requirement states that whenever an entity like a school district receives federal allocations that exceeds the allocation of the previous year, it can reduce its expenditures by an amount not to exceed 50 percent of the excess funding. When the District elected to do this, it was required to show that it spent the amount equal to the reduction in expenditures to carry out activities authorized under the Elementary and Secondary Education Act (ESEA) of 1965.

Because of additional funding received under the American Recovery Reinvestment Act (ARRA), the District's federal allotment for this activity was significantly increased. The District signed an assurance statement indicating that it met that requirement by spending \$6,332,413 for Elementary and Secondary Education Act (ESEA) activities. The auditors issued a significant deficiency finding because they stated that the District did not have supporting documentation at the time the statement was signed. However, the documentation was provided upon request by the auditor. We disagree with this finding and our position is supported by the Wayne Regional Educational Service Agency (WRESA) which was required by the state to review selected audit findings. According to the auditor for Wayne RESA, "Wayne RESA has reviewed this situation and disagrees that the District did not have support for the costs at the time they signed the assurance statement. Virtually all of the local costs that the District expends annually to provide educational programs are qualifying ESEA expenditures. Qualifying expenditures well in excess of \$6,332,413 were incurred and documented in their (the District's) books and records at the time they signed the assurance statement. "

Finally, the District has implemented a corrective action related to audit finding SA-04. The corrective action that was implemented will be effective for the coming year, but due to an anticipated decrease in

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funding this corrective action must be revisited for alternative corrective actions next year. The table below provides descriptive information on each of the audit findings and highlights the results of our testing efforts.

TABLE: 2011 Audit Findings and Testing Results

Finding	Audit Finding Title	Test Status	Finding Type	Financial or Compliance	Repeat	Policy Change
FS-01	Capital Assets		Material Weakness	F	Yes	Yes
FS-02	Compensated Absences		Significant Deficiency	F	Yes	Yes
FS-03	Bond Procurement Documentation		Material Weakness	F	Yes	Yes
FS-04	Budget		Material Weakness	F	Yes	Yes
FS-05	Bonds and Notes Payable		Material Weakness	F	Yes	Yes
FS-06	Property Taxes		Material Weakness	F	Yes	Yes
FS-07	Cash Policies/Athletic Cash Procedures **		Significant Deficiency	F	Yes	Yes
FS-08	Interest Receivables		Significant Deficiency	F	No	Yes
SA-01	Production Records – Food Services		Significant Deficiency	C	No	Yes
SA-02	Allowable Costs/Timesheet Payroll		Significant Deficiency	C	Yes	Yes
SA-03	Severance and Unused Leave Pay		Material Weakness	C	No	Yes
SA-04	In-Kind Match for Head Start		Material Weakness	C	Yes	Yes
SA-05	Improper Reimbursement Request		Material Weakness	C	No	Yes
SA-06	Improper Reimbursement Request		Noncompliance	C	No	No
SA-07	Eligibility Verified Student Food Service	Exempt*	Noncompliance	C	No	N/A
SA-08	Income Verification – Head Start		Material Weakness	C	Yes	Yes
SA-09	Maintenance of Effort – Special Ed		Significant Deficiency	C	No	No
SA-10	Level of Effort – Supplement vs. Supplant		Noncompliance	C	No	Yes
SA-11	Enrollment of Children with Disabilities		Significant Deficiency	C	Yes	No
SA-12	Open Competition		Significant Deficiency	C	Yes	Yes
SA-13	Properly Executed Contracts		Noncompliance	C	No	Yes
SA-14	Suspense and Debarment		Material Weakness	C	Yes	Yes
SA-15	Reporting - 1512 Reports		Significant Deficiency	C	Yes	Yes
SA-16	Cash Management–Final DS4044 Reports		Material Weakness	C	No	Yes
SA-17	Verification Timeliness & Benefit Food Ser	Exempt*	Material Weakness	C	Yes	N/A
SA-18	Comparability Report		Significant Deficiency	C	No	Yes
SA-19	Average Class size – Head Start		Significant Deficiency	C	No	No
19.5	78 %	Passed – complete for 2012 Fiscal year				
3.0	12%	All testing is not complete (Corrective Action Plan not in place by 6/30/12)				
2.5	10%	Failed – No Corrective Action Plan in place to address audit finding				
2.0	0%	Exempt				
Total	100%					

*Exempt audit finding are not included in the percentage calculation

**Audit Finding FS-07 – The corrective action for Cash Policies and Procedures was tested and passed. The correction action plan for Athletic Cash Procedures was tested and failed.

The

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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.

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

Odell W. Bailey, CIA
DPS Auditor General