

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-03      Fraud Risk Management**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

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

***Requirement***

An effective fraud risk management program has internal controls designed to: 1) reduce the risk of fraud and misconduct from occurring (prevention controls); 2) discover fraud and misconduct when it occurs (detection controls); and 3) take corrective action and remedy the harm caused by the fraud or misconduct (responsive controls).

***Condition***

The District has not adopted a comprehensive and integrated approach to fraud risk management that takes all relevant considerations into account.

***Possible Asserted Cause and Effect***

The District has not planned and conducted the evaluation of design and operating effectiveness of its antifraud controls. The District faces a variety of fraud and misconduct risks that are increased as a result of not having a comprehensive and integrated approach to fraud risk management.

***Recommendation***

The District should undertake designing and implementing a comprehensive program that contains the following elements: 1) prevention controls such as a fraud and misconduct risk assessment, development of a code of conduct, employee education on code of conduct and related regulations, employee and third-party due diligence, and process-specific fraud risk controls; 2) detection controls such as establishing a hotline and whistleblower mechanisms, establishing internal audit, implementing monitoring activities, and conducting proactive forensic data analysis; and 3) responsive controls such as internal investigation protocols, enforcement and accountability protocols, disclosure protocols, and remedial action protocols.

***Views of Responsible Officials***

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

***Corrective Action Plan***

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*Signature*

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*Date*