

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

2007-13 Prepaid Expenditures

Finding Type: Internal Control over Financial Reporting – Significant Deficiency

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

Requirement

Accounts Payable: Per Michigan Public School Accounting Manual, Section II, Paragraph A.02, Paragraph A.02 (C), expenditures for services are recorded when the services are performed. Expenditures for materials and supplies are recorded when the items are placed in service. If supply items are purchased for future use, the transaction is recorded in an inventory account. A charge to an expense account is made when the item is requisitioned for use. Expenses paid that cover future periods, such as for a three-year insurance policy, are recorded as prepaid expenditures to the extent of the portion not yet expired.

Condition

During our test work over procurement, we selected a sample of 161 accounts payable general fund expenditures totaling \$50,568,370. Within our sample we noted that one (1) prepaid totaling \$438,187 was recorded in fiscal year 2007; however, \$346,898 of the prepaid previously noted, should have been recorded as prepaid assets and expended in fiscal year 2008. In addition, we also selected a sample of 89 nonaccounts payable general fund expenditures totaling \$162,327,167. Within our sample we noted that three (3) prepaids totaling \$1,829,894 were recorded in fiscal year 2007; however, \$213,256 of the prepaids previously noted, should have been recorded as prepaid assets and expended in fiscal year 2008.

Possible Asserted Cause and Effect

The internal control procedures related to evaluating and recording expenditures payable is not properly designed to ensure that all expenditures are recorded properly. Therefore, liabilities were not properly reviewed for completeness and accuracy. As a result, the invoices were improperly recorded as of June 30, 2007, therefore, creating an overstatement in the general fund.

Recommendation

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of expenditures.

Views of Responsible Officials

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

Corrective Action Plan

Signature

Date