

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-17 Revenue Recognition – Payroll Bank Account Reconciliation**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

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

***Requirement***

Per NCGAS1, most expenditures and transfers out are measurable and should be recorded when the related liability is incurred. Revenues and other governmental fund financial resource increments (e.g., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

***Condition***

During our test work over revenue, we noted that the District improperly recorded revenue related to a write-off of \$1.8 million of outstanding checks. The District recorded the write-off by reducing the liability and increasing revenue. However, the District should have reduced expenses rather than increased revenue.

***Possible Asserted Cause and Effect***

The established practice of recording write-offs of outstanding checks as income was not in accordance with GAAP. Accounting policies and practices should be in accordance with GAAP to ensure a proper financial statement presentation.

***Recommendation***

Individuals responsible for establishing accounting policies and practices should be experienced and well-trained. Management should review all of its accounting policies and practices to ensure compliance with GAAP and the Michigan Public School Accounting Manual.

***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*

\_\_\_\_\_  
*Date*