

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

2007-20 Capital Assets – Construction-in-progress Accounting

Finding Type: Internal Control over Financial Reporting – Significant Deficiency

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

Requirement

Construction in Progress: Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local; state, and federal authorities; and school employees. The adequacy of the accounting system depends on whether both current and historical information is available for decision-making purposes. Paragraph B.03, (B) Capital Asset Accounts: This account group is used to account for capital assets (land, buildings, and equipment) of the school district. Capital assets do not represent financial resources available for expenditure but are items for which financial resources have been used – though the cost of capital assets acquired are charged to expenditures as incurred in another governmental fund, continuing accountability for those assets should be maintained by the school district.

Condition

To maintain continuing accountability and compliance with U.S. generally accepted accounting principles, capital projects that are physically completed in service should be reclassified to depreciable status. There are several district wide projects that are using multiple bond series throughout multiple years and even though certain aspects of the projects have been completed and the corresponding assets placed into service, they have not been reclassified into depreciable status.

Possible Asserted Cause and Effect

District wide projects are accounted for as a group, and are not reclassified into depreciable status until all assets in the group are completed and placed into service. For example, swimming pools constructed for several schools are treated this way. As a result, a swimming pool that is completed in year one of a multiple year project could be placed into service in year one, however, depreciation on the pool will not start until the last year of the project when the last pool is placed into service. This could cause the pools that were completed first to have exhausted their economic useful lives even though there are still costs left to depreciate.

Recommendation

Major components of district wide projects should be put into depreciable status when they are 90% complete and placed into service. The accounting policies of the district should be modified to reflect this change and individuals responsible for the accounting for capital assets should be trained on appropriate accounting treatment for capital assets.

Views of Responsible Officials

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

Corrective Action Plan

Signature

Date