

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

2007-21 Sale and Lease Contracts – Retention of Executed Copies

Finding Type: Internal Control over Financial Reporting – Significant Deficiency

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

Requirement

Signature of Leases: 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 are available for decision-making purposes. Per Michigan Public School Accounting Manual, Section IV, Paragraph A.01, internal accounting control is generally defined as the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that transactions are recorded as necessary to maintain accountability for assets.

Conditions

During our testwork over specific lease or sales agreements of closed schools, we selected a sample of 20 schools. Within our sample, we noted five (5) contracts were not signed by the lessee.

Possible Asserted Cause and Effect

Individuals responsible for contract execution, document retention, and contract maintenance did not follow acceptable methods to ensure that transactions with third parties are based on valid agreements. Individuals responsible for ensuring that accounting entries and disclosures are based on final executed copies of contracts/agreements failed to ensure that executed copies were obtained for accounting purposes. Agreements with third parties should be based on signed contracts or the contracts may not be legally binding. Also, if accounting entries are recorded based on copies that are not signed, then there is a risk that the copy that the accounting entry is based on is not the final version of the agreement.

Recommendation

Policies and procedures regarding contract management should be reviewed to ensure that they are properly designed to achieve the commercial objectives of the district. The policies should include procedures whereby members of management are monitoring compliance and adhere to the policies. Individuals responsible for these areas should be trained on a regular basis.

Views of Responsible Officials

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

Corrective Action Plan

Signature

Date