

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

2007-26 Accounts Payable Bank Reconciliations – Unexplained Variances

Finding Type: Internal Control over Financial Reporting – Significant Deficiency

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

Requirement

Bank Reconciliations: Per Michigan Public School Accounting Manual, Section VI, 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 the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Paragraph A.02 (C) states that bank accounts should be reconciled monthly.

Condition

During our testwork over accounts payable, we noted that the District could not provide supporting documentation or an explanation for the variance of \$257,031 in account #765106. In addition, we also noted that the variance fluctuates from month to month depending on the flow of cash. Furthermore, individuals responsible for the reconciliation of this account have not investigated these variances throughout the year.

Possible Asserted Cause and Effect

Individuals responsible for reconciling this account have not investigated and compared the transactions that are processed by the bank to the transactions that are recorded in the general ledger at a level of detail sufficient enough to discover the nature and cause of the unexplained variance. Unexplained variances could impact the cash balances as recorded and increase the risk that an error or fraud would go undetected.

Recommendation

All bank reconciliation variances should be investigated and resolved fully on an ongoing and timely basis. Management personnel that are responsible for reviewing the reconciliations should ensure that all variances are explainable and appropriate.

Views of Responsible Officials

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

Corrective Action Plan

Signature

Date