



INTERNAL AUDIT PLAN

DETROIT PUBLIC SCHOOLS COMMUNITY
DISTRICT

2018-19

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BACKGROUND

The Office of Internal Audit (“OIA”) was re-established in 2019 as part of the District’s Strategic Plan to ensure effective use of District resources and adherence to Board Policy 6111 – Internal Controls. The policy requires the Superintendent to establish and maintain effective internal controls over the District’s financial operations, including grants and awards to provide reasonable assurance that funds are managed in compliance with applicable statutes, regulations and terms of the award.

The Office of Internal Audit (“OIA”) reports to the Chief Financial Officer with matrix reporting the Superintendent as necessary. The department provides independent review of Detroit Public Schools Community District (District) processes and procedures.

The OIA will assist the District in accomplishing its objectives by using a systematic, disciplined approach to elevate and improve the effectiveness of risk management, internal controls and governance processes.

Mission Statement

The Internal Audit function provides an independent appraisal which examines and evaluates District operations as a service to our community partners. The OIA furnishes management with objective, timely accurate analysis; develops recommendations; counsels; and provides information regarding activities in support of the district’s comprehensive plan.

ROLE OF INTERNAL AUDIT AND INSPECTOR GENERAL

The role of the Inspector General is to prevent, detect and deter fraud, waste, and abuse. The Internal Audit department’s role is to help the District accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes. The Internal Audit and Inspector General functions provide assurance that public funds are being used in alignment with laws, board policies and preventing fraud, waste, and abuse.

As mentioned, the Internal Audit department’s responsibility is to review District processes to reduce risk and ensure internal controls, it is not to investigate issues of fraud or abuse. If during the course of an audit, the Internal Auditors discover potential fraud or abuse, they will refer the matter to the Inspector General for further investigation and review.

VISION

OIA strives to improve effective use of District resources, risk management and control processes. The department promotes the highest level of professionalism, recognized for work integrity producing useful quality reports. The department is committed to promoting a teamwork approach to achieve this objective and encouraging the personal and professional growth of our staff.

GOALS

The goals of the OIA is to provide assurance and consulting services designed to add value to the school district as a service to the members of the School Board, the District’s Superintendent and the Chief Financial Officer in the effective discharge of their responsibilities. This includes:

- Accessing the effectiveness and efficiency of the District’s Internal Controls in ensuring prudent use of District resources.
- Evaluate business procedures for the adequacy of internal controls and provide advice and guidance on control aspects of new policies, systems, processes and procedures.

- Evaluate the accuracy, effectiveness and efficiency of the electronic information and processing systems.
- Review the accuracy and propriety of financial transactions.
- Confirm compliance with the District’s policies and procedures, and with state, federal laws and regulations.
- Coordinate audit efforts with and provide assistance to the external auditors.
- Conduct follow-up audits to review and evaluate the adequacy of management actions in correcting problems and ensure satisfactory solutions of all significant issues.

The internal audit function is often equated with or mistaken for the purpose of an external audit. While there may be similarities between the two processes, the scope of an internal audit function goes well beyond the review and certification of financial statements as conducted by an external auditor.

Additionally, the Internal Audit function provides recommendations for improvement, follow-up on the progress of implementing recommendations, and consultation on a diverse range of opportunities.

The OIA provides objective assurance and consultant services to the Board, the Superintendent and the Chief Financial Officer that can improve efficiencies and effectiveness of District operations, assisting the organization in achieving its objectives by bringing a systematic, disciplined approach to evaluate and improve business process execution, risk management, and governance.

PROFESSIONAL AUDITING AND ACCOUNTING STANDARDS

The conduct and performance of our professional services are guided by professional auditing standards issued by the following standard setting bodies:

- U.S. General Accountability Office (Generally Accepted Government Auditing Standards – (GAGAS)
- Institute of Internal Auditors (International Standards for the Professional Practice of Internal Auditing – The Professional Practice Framework (PPF).
- American Institute of Certified Public Accountants’ (AICPA) generally accepted auditing standards for fieldwork and reporting, as well as the related AICPA Statements on Auditing Standards (SAS).
- Information Systems Audit and Control Association’s (ISACA) Information System Standards, Guidelines and Procedures for Auditing and Control Professionals.

The auditing standards that need to be applied depend upon the nature of the professional services performed.

Auditors shall apply the accounting principles and financial reporting standards promulgated by the three authoritative bodies:

- Federal Accounting Standards Advisory Board (for federal government).
- Governmental Accounting Standards Board (for state and local governments).
- Financial Accounting Standards Board (for non-governmental entities).

TYPE OF AUDITS

The type of audits the OIA may performed can be categorized by the following three engagements.

PERFORMANCE AUDITS

Performance Audits are an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria. These assessments provide a prospective focus on the safeguarding of assets, adequacy of Internal Controls and compliance with existing policy.

Performance audits provide information to improve program operations, facilitate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to:

- Assessing program effectiveness and results.
- Assessing economy and efficiency.
- Assessing internal control.
- Assessing compliance with legal or other requirements.
- Providing prospective analyses, guidance, or summary information.

FINANCIAL AUDITS

Financial Audits are primarily concerned with providing reasonable assurance that financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP), or with a comprehensive basis of accounting other than GAAP. Other objectives of financial audits may include:

- Providing special reports for specified elements, accounts or items of a financial statement.
- Auditing interim financial information.
- Auditing compliance with regulations relating to grant award expenditures and other governmental financial assistance in conjunction with, or as a by-product of, a financial statement audit

Assignments to the OIA can involve Attestation Engagements, where the records of a contractor are reviewed to support assertions made by the vendor, can be verified. Auditing contractors' records for compliance with contract terms and conditions can also be reviewed, in addition to a broad range of other financial or non-financial objectives about subject matter depending on the need. These engagements may result in the issuance of a report, which either provides assurance or limited assurance on whether the subject matter of the engagement conforms, in all material respects, to the established criteria; or presents the findings, based on agreed-upon procedures performed.

The objectives of attestation engagements may include:

- Reporting on the processing of transactions by service organizations.
- Assessing investment performance.
- Assessing the ability of the contractor to accomplish contract terms and conditions

SPECIAL EXAMINATIONS

The OIA may be requested to perform special examinations as delegated by the Board, the District's Superintendent or the Chief Financial Officer. Matters relating to allegations of irregular conduct, or to perform surveys or studies relative to financial operations. These services may or may not result in the issuance of a report.

Prior to the assignment of such projects, a review of the undertaking will be performed to access if such service may impair the audit department's ability to provide future assurance services in an independent and objective manner. Should the resources committed to such projects, in aggregate begin to diminish the department's capacity to provide minimal internal audit coverage of the School District, it shall be reported by the OIA to the Chief Finance Director.

When providing information, conclusions, recommendations or opinions, the degree to which of audit verification was limited, shall be disclosed within the written report. Additionally, any condition where the auditing service was not conducted in accordance with GAGAS shall also be disclosed.

Regardless of the nature of the assignment, the quality of the work product shall in all cases be performed with high professional standards.

AUTHORITY AND INDEPENDENCE

In order to perform reviews, audits and examinations of varying types, Internal Auditors shall be granted authority for access to District records, physical properties, and personnel relevant to any function under review. Additionally, Internal Auditors shall not participate in implementing internal controls, developing procedures, installing systems, preparing records, or engaging in any other activity that may impair an internal auditor's judgment or be considered a conflict of interest.

RESPONSIBILITIES

The scope of the OIA encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of risk management and internal controls. The scope also includes carrying out assigned responsibilities to assist the District in reaching its stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of District's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report information.
- Evaluating the systems and internal controls established to ensure compliance with policy, plans, procedures, laws, and regulations which could have a significant impact on the District.
- Evaluating the methods of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Performing audits, analytical reviews, and investigations by applying various auditing techniques and procedures to evaluate the system of internal controls and/or for the detection and deterrence of fraud.
- Performing consultancy and advisory services related to governance, risks management, and control as appropriate to District.

REPORTING AND MONITORING

A written report will be prepared and issued by the OIA following the conclusion of each audit and will be distributed as appropriate.

The internal audit report may include Manager’s responses and any corrective actions taken, or to be taken, regarding the specific findings and recommendations made by the auditors. Management’s responses will include a timetable for anticipated completion of actions to be taken, expected outcome of those actions, and explanation for any recommendations not implemented.

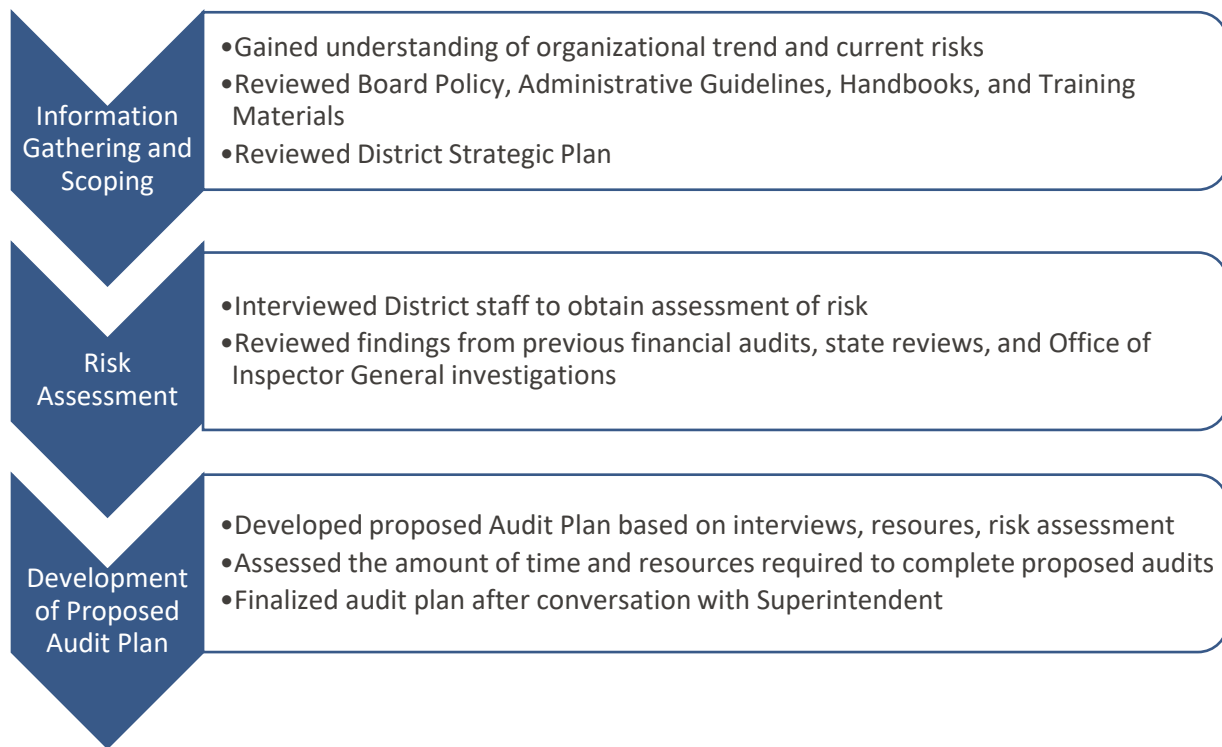
QUALITY ASSURANCE IMPROVEMENT PROGRAM

The OIA will maintain a quality assurance improvement program that covers all aspects of its internal audit activity. The program will include an evaluation of the internal audit activity’s conformance with the definition of Internal Auditing and whether internal auditors followed the Institute of Internal Auditors’ Code of Ethics, and other applicable professional standards. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvements.

AUDIT PLAN DEVELOPMENT AND SCOPE

The Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. Interim changes to the Audit Plan will occur from time to time due to changes in business risks. The department will work with the CFO regarding any changes to the audit plan.

AUDIT PLAN DEVELOPMENT



RISK BASED APPROACH

In developing the FY 19 Audit Plan, to the extent practical, the OIA consulted Executive Directors, Finance Managers and Accounting Staff. Particular attention was given to high-dollar expenditure areas, program activities, topical items, and inherently sensitive areas.

HIGH DOLLAR EXPENDITURE AREA

A review of the School District’s annual budget for high-dollar programs.

NEW PROGRAMS

New programs may be highly vulnerable to potential fraud, waste and abuse since experience has not been adequate to reveal weaknesses. For this reason, new programs must be considered high potential areas to which audit resources will be devoted. Comparison of legislative appropriations and organizational charts can reveal new programs, which should be scrutinized with care.

TOPICAL ITEMS

Topical items may be analyzed during the initial assessment; however, various areas and programs will become subject to topical interest during the School Board's policy development process. Heightened news media coverage, public interest, group attention, and/or external investigations may also reveal worthwhile audit topics.

INHERENTLY SENSITIVE AREA

Areas with enforcement of specifications or regulations are inherently prone to corrupt or fraudulent practices such as bribery and collusion.

Our quantitative approach considers factors unique to the District against which a number is assigned based on the likelihood of occurrence and impact on the District. The cumulative value is then ranked to determine whether audit work should be considered in a particular area. The five factors we consider are listed in the following table:

AUDIT RISK SCORING MATRIX

Risk Factors	Considerations
Materiality	This risk factor measures the relative size of the program over a multi-year period.
Audit Coverage	This risk factor considers the extent of past audit coverage, regardless of provider, i.e. internal or external.
Internal Risk	This measure operational risk; i.e., internal reasons (processes and controls) that School District activities may be ineffective or inefficient or expose the School Board to unacceptable loss or failure.
Environmental Risk	This risk factor measures external forces that could significantly affect the School District's operations. They include inter-governmental, public confidence and catastrophic recovery risk.
Information Risk	Reliance on incomplete or inaccurate data may cause inappropriate financial and operational decisions, these include processing, integrity, availability, relevance and budgetary risk.

This risk-oriented approach in developing the Audit Plan identified the following areas for examination and provides the District with the opportunity to optimize its audit assurance function(s), given the available resources. The Annual Audit Plan reflects a consideration of the preceding risk factors and its relationship to the mission and objectives of the District.

FY 19 SCHEDULE OF INTERNAL AUDITS

Department	Area of Review	Detail	Timeline
Schools	Student Activity Accounts	School compliance with District procedures for fundraisers, cash collections, deposits, and use of internal school accounts.	January – February
Athletics	Athletic Department Cash Collections	Review of Departments procedures for cash collections from student athletic events, cash deposits, and use of internal Athletic account.	March- April
Nutrition	Cash Collections	Review of the Departments procedures for cash collections associated with the student breakfast and lunch programs, cash deposits, and use of internal accounts.	May
Transportation	Student Bus Passes	District Office and school compliance with procedures for distribution of student bus passes.	June

The Segment operation managing the above areas for review will be notified and scheduled for an initial engagement meeting.

All documents needed for the examination will be requested to be made available for the auditors. Generally, any findings will be discussed with the appropriate manager for resolution. At the conclusion of the examination, the Audit Report will be discussed with the department head before report submission. Any comments or responses offered by the audited segment may be included in the final report.

BUDGET

As part of the FY 19 Budget, the District approved funding for two Senior Internal Auditors and one Deputy Executive Director to lead the internal audit function. Additional allocations for materials, supplies, and technology for the staff was included in the budget adoption. There are no additional required expenditures outside of what has previously been approved.