



INTERNAL AUDIT PLAN

DETROIT PUBLIC SCHOOLS COMMUNITY
DISTRICT

2020-2021

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FY 20 AUDIT PLAN

- Background..... 4**
- FY 2019-2020 Audit Summary 5**
- FY 2020-2021 Audit Plan 8**
- Authority and Independence 10**
- Responsibilities 10**
- Reporting and Monitoring 11**
- Quality Assurance Improvement Program..... 11**
- Audit Plan Development and Scope 11**
 - Audit Plan Development12**
 - Risk Based Approach.....12
 - High dollar Expenditure Area.....12
 - New Programs12
 - Topical Items.....12
 - Inherently Sensitive Area13
- Appendix A: FY 2020-2021 Schedule of Internal Audits..... 14**
- Appendix B: Professional Auditing and Accounting Standards 15**
- Appendix C: Type of Audits 16**
 - Performance Audits.....16**
 - Financial Audits16**
 - Special Examinations17**
- Appendix D: Audit Risk Scoring Matrix..... 18**

BACKGROUND

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

IAD assists 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.

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

IAD provides 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.

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 external auditors. Internal Audit supports the objectives of District stakeholders of issue related practices, objective analysis recommendations for process improvement, follow-up on the progress of implementing recommendations, and consultation on a diverse range of opportunities.

FY 2019-2020 AUDIT SUMMARY

Audit Work Completed

- **Athletic Department Audits and Follow-up Examinations**

The audit examined cash collection at school athletic events. The audit included a review of department policies and procedures for appropriate internal controls related to cash collection, ticket handling and segregation of duties.

The audit found the following deficiencies (1) weaknesses in the handling of cash, (2) ticket stub retention, and (3) segregating duties. The IAD made 6 recommendations to improve controls and address deficiencies by providing additional training, creating clear written instructions.

- **Risk Management Workers Compensation Audit**

The audit examined areas of risk in processing Workers Compensation Claims and the adequacy of controls and safeguards in place to address those risks. Ensuring compliance with established policies and determining if areas exposing the District to loss has been identified and risks mitigated.

The audit determined Risk Management's Manual of (1) General Procedures was out of date and did not provide adequate guidelines for current processes. (2) Employee worker incident reports were not forwarded in a timely manner. The delayed reporting resulted in coding errors causing inaccurate payroll submissions. The audit report included 4 recommendations to update and document current processes, expand training to other operational segments.

- **Vehicle Usage Audit**

The objectives of the audit were to review processes and procedures for verifying and identifying vehicles used throughout the district and compliance by departments with Risk Management policies and procedures. Our review was limited to three Departments: Office of Family and Community Engagement, Office of Operations, and the Police Department.

The audit determined mileage activity were not recorded consistently and logs were not maintained in District vehicles as required in the RMD Vehicle Use Procedures and Guidelines Manual, generating one (1) recommendation was made requiring the recording of mileage activity as well supervisory monitoring.

- **Contract Services and Travel Audit**

The objectives of the audit were to review processes and procedures for verifying contracted services and quality of performance. The scope of the examination entailed a review of contracts, invoices and billing rates to verify the appropriateness of costs billed, services performed, and the quality of services performed. Contracts serviced within the last school fiscal year, from July 1, 2018 to June 30, 2019.

The Audit found: Inadequate support to determine quality of performance and vendors failing to submit invoices. Lack of Supporting Documentation (Atlas Travel), - The travel checklist along with policies and procedures contained in the DPSCD Staff Travel Guidelines and

Procedures Handbook contains effective guidelines to ensure that documentation needed for district travel purposes is accurately completed and available. As the result of these findings, three (3) recommendations were made requiring document retention, monitoring and reconciliation of payables.

Consultations

Audit field work found compromises at several schools in following policy guidelines, in effort to address these matters efficiently IAD began scheduling consultations with learning centers. The consultation project enabled IAD to provide instructions to a greater number of principals than the time required to complete an audit assignment. The consultations were performed in-between audit examinations. Reviewed were current practices policy guidelines and practices in observing establishing internal controls and safeguards.

- **Student Activity Account Consultations and Follow-up Examinations**

The Consultation (1) reviewed actual practices in managing Student Activity Accounts at school operations, (2) assessed the effectiveness of internal controls in protecting District resources (3) identified recommendations to improve safeguards, and 4) performed follow-up examinations of selected Student Activity Accounts previously audited.

The Consultations found failures in requesting approval to conduct fund raisers, one school lacked supportive documentation, compromises in segregating duties and late bank deposits. Employee training sessions were determined to improve compliance with policy guidelines compared to 2019-2020 examination. In summary there were a total six (6) recommendations made to strengthen controls and address deficiencies.

- **“Grab and Go” Meal Distribution**

In support of DPSCD’s “grab and go” meal program during the Corona Pandemic, the Internal Audit Department made on-site visits at schools to assure supplies were adequately and provided other assistance.

Work in Progress

As result of the COVID-19 pandemic and the “Shelter in Place” emergency order, the IAD revised its scope of work. During the last quarter the department shifted to completing the following internal reviews.

- **Internal Control Training**

IAD will launch online training for school administrators and central office personnel on the importance of Internal Controls. The training will provide guidance on how to review current operating procedures to ensure they have appropriate controls. In addition to the training the Department is providing individual guidance to departments.

- **Consultation on Department Operating Procedures**

IAD is reviewing department operating procedures to ensure they have appropriate controls based on best practices. The Department will complete internal procedural reviews of Cash

Management, Fundraising, Payroll, Procurement, and Time and Effort reporting. Additional consultations will be available for department leaders.

- **Consultation on remote work procedures**

The Department is providing ongoing feedback to departments as they adjust their standard operating procedures to reflect the new requirements of remote work.

Audits and Consultations Not Completed

Due to the COVID-19 pandemic the Department did not complete the Bi-Weekly Payroll Audit and Employee Configuration Audit which were scheduled for the Spring of 2020. IAD did not perform a follow-up review of the School Nutrition Audit's 2020 audit because of a delay in the installation of new hardware and accounting systems. IAD had planned to conduct a consultation of the Transportation Departments process for distributing bus passes, but during the year, the District reached an agreement with DDOT which eliminated bus passes making the audit no longer applicable.

FY 2020-2021 AUDIT PLAN

The proposed Audit Plan builds on the previous audit work, staff risk assessment, and other requests/indicators. The Audit Plan continues to include consultations and support of department managers in developing operating procedures, reviewing internal controls, and ensuring overall compliance with Board Policy and best practice.

This year the Department conducted a risk assessment survey of school and central office administrators. The survey gave participants an opportunity to assess risk areas in Procedural Guideline, Budgeting, Compliance, Training, Monitoring. The survey was completed by 196 school and central office administrators.

- 96% of respondents indicated they had documented operating procedures aligned to board policy
- 92% of respondents indicated staff were trained on operating procedures
- 60% of respondents indicated their location received some type of cash collection, check or donation
- 50% of respondents indicated their department/school had inventory

Based on the responses, and the increase in technology purchases, the Department will include a Technology and Cash Collection Audits in the FY 21 Audit Plan as well as continue to over consultations to departments/schools on internal controls and operating procedures.

Response to COVID-19

The COVID-19 pandemic has altered our current audit procedures as we have had to work remotely. The Audit Plan reflects both on-site audits (if practical) or remote desk reviews in the event the pandemic continues to change the way we work. In response to these changes, the Internal Audit Department will look for opportunities to refine procedures to enhance the management of risk to better protect the District.

2020-2021 Audit Plan

As result of the objectives sought by the Internal Audit Department the following segments have been identified to be audited:

- **Technology Inventory Audit**

The audit will review District procedures for asset management including the receipt, issuance and reconciliation of equipment. The audit will include review of 1-1 laptop deployment and other equipment purchases within the last two (2) fiscal years.

In the event an in-person review is not practical, the audit will review department procedures related to the distribution and recapture of technology devices, monitoring of device usage, and procedure for maintaining inventory tracking.

- **Employee Configuration Audit**

The audit will review District procedures governing the onboarding, transfer and termination of employees and including any procedures related to change of employee compensation.

This audit will not significantly change in the event in-person review is not practical.

- **Bi-weekly Payroll Audit**

The audit will review procedures governing the bi-weekly payroll submission including recording and approving employee work hours, reporting supplemental assignments. The audit will include a review of school-based payroll procedures and actual payroll data submitted during the 2020-2021 school year along with other supporting information.

In the event an in-person review is not practical, the audit will review school based written procedures for time tracking to ensure appropriate controls are in place, as well as review actual payroll submission to identify potential anomalies, in particular verification of employee work hours and overtime work.

- **Student FTE Reporting Audit**

The audit will review student attendance taking procedures and Count Day reporting procedures. The examination will focus on record retention and compliance with applicable regulations.

In the event school does not return in a standard format, this audit may be canceled or delayed until later in the school year.

- **School Nutrition Department Audit**

The audit will follow up on the 2019 audit of cash collection procedures related to a la carte sales, cash deposits for the School Nutrition Department. The audit will examine the new software system and operating procedures related to implementation of the system.

In the event school does not return in a standard format, the audit will focus on process for distributing food at the Grab and Go food distribution sites. On-line audit limited to procedural guidelines governing processes. On site examinations limited due to restricted access to schools because of Corona Pandemic.

- **School Activity Funds Audit (Yearly Review)**

The audit will follow up on previous consultations and audits related to Student Activity Accounts for school compliance with District procedures for fundraisers, cash collections, deposits, use of internal school accounts, and assess status of previous recommendations.

In the event school does not return in a standard format, this review may be delayed, modified or canceled based on the activity level in School Activity Accounts.

- **Athletics Department Audit (Yearly Review)**

The audit will follow up on 2019 audit of school athletic events examining cash collections, cash deposits, and use of the internal athletic accounts. The audit will review ticket reconciliation practices, security and depositing of cash proceeds, and assess status of previous recommendations.

In the event school does not return in a standard format, this review may be delayed, modified or canceled based on the cash collection volume from athletic events.

Consultations & Training

The Department will continue to provide department consultations and individual training. These reviews are designed to promote the development of strong internal controls, defined operating procedures which be audited in future years.

The Department will provide specific consultations with applicable departments for the following areas to review defined procedures and internal controls.

- Internal Controls for New Managers
- Remote Work Procedures
- Vendor Payment & Receipt Process
- Federally Funded Log Process
- Title I School Compliance

AUTHORITY AND INDEPENDENCE

In order to perform audits, examinations and reviews 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 Internal Audit Department 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 Internal Audit Department following the conclusion of each audit and will be distributed to department managers, CFO and the Superintendent.

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. Department Managers will be asked to provide responses to audit findings and if necessary, corrective actions.

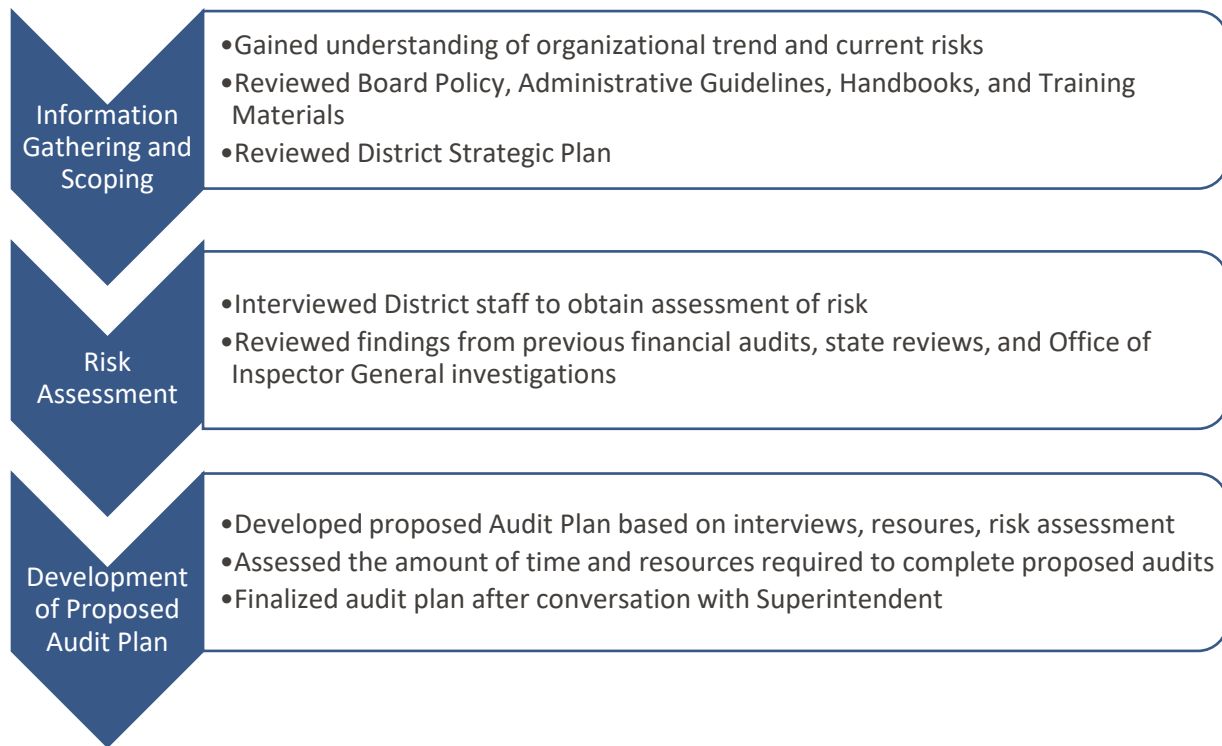
QUALITY ASSURANCE IMPROVEMENT PROGRAM

The Internal Audit Department 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 2020-2021 Audit Plan, to the extent practical, the Internal Audit Department 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 area. The five factors we consider are listed in the following table:

APPENDIX A: FY 2020-2021 SCHEDULE OF INTERNAL AUDITS

The Internal Audit (IA) Department proposes the following schedule of audits, reviews, and consultations for the FY 2020-2021 school year.

Type	Department	Area of Review	Timeline
Consultation	Accounts Payable	Vendor Payments	July 2020
Consultation	Multiple	Staff Logs	July 2020
Audit	Human Resources	Employee Configuration	August 2020
Audit	Finance	Bi-Weekly Payroll	September- October 2020
Audit	Schools	Student FTE	October – November 2020
Audit	Information Technology	Technology Inventory	December-January 2021
Audit	Operations	Athletics	February 2021
Audit	Operations	School Nutrition	March 2021
Audit	Schools	Student Activity Funds	April – May 2021
Consultation	Schools	Title I School Compliance	June 2021

APPENDIX B: 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).

APPENDIX C: TYPE OF AUDITS

The three types of audits the Internal Audit Department may performed are: Performance Audits, Financial Audits and Special Examinations

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 Internal Audit Department 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 Internal Audit Department 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 Internal Audit Department 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.

APPENDIX D: 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.

RATING RISKS OF AUDIT FINDINGS

RISK LEVEL	DEFINED	ACTION TAKEN
HIGH (MAJOR)	Processes Fail in Mitigating Risks and are seriously Flawed in Design or Operation	Mandatory Corrective Action with additional follow up review within one year
SIGNIFICANT	Weaknesses in the process that present risk exposure to the unit under review	Recommended corrective action with additional follow up review within one year
NOTABLE	The Processes are only partially effective in mitigating risks	recommended corrective action with no follow up review
NOMINAL	Processes are Generally Effective in mitigating risks	None