



INTERNAL AUDIT PLAN
Detroit Public Schools Community District

2021-2022

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FY 2021-2022 AUDIT PLAN	
BACKGROUND	4
FY 2020-2021 AUDIT SUMMARY	5
FY 2021-2022 AUDIT PLAN	8
AUTHORITY AND INDEPENDENCE	10
RESPONSIBILITIES	10
REPORTING AND MONITORING	10
QUALITY ASSURANCE IMPROVEMENT PROGRAM	11
AUDIT PLAN DEVELOPMENT AND SCOPE	11
AUDIT PLAN DEVELOPMENT.....	12
RISK BASED APPROACH	12
HIGH DOLLAR EXPENDITURE AREA	12
NEW PROGRAMS.....	12
TOPICAL ITEMS	12
INHERENTLY SENSITIVE AREA.....	13
A: FY 2021-2022 SCHEDULE OF INTERNAL AUDITS.....	14
B: PROFESSIONAL AUDITING AND ACCOUNTING STANDARDS.....	15
C: TYPE OF AUDITS	15
PERFORMANCE AUDITS	15
FINANCIAL AUDITS	16
SPECIAL EXAMINATIONS	16
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 is an independent reviewer 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 2020-2021 AUDIT SUMMARY

Active Employees (no pay)

The objective of the audit was to determine if 53 employees listed as active with the District but had not received pay in at least 3 months should still be active (on leave) or terminated. The review also evaluated processes and procedures followed by Human Resources and associated Departments to review and refer employees for termination.

The audit determined that there were various reasons why the 53 employees identified as active for over three months but not terminated (on administrative leave, part time retirees on-call, termination paperwork not completely processed).

One recommendation was made to Human Resources to work with the Finance Department to revise their policies and procedures related to the separation and job abandonment process.

COVID-19 Specific Audit: Social Distancing at Athletic Events

The objective of this audit was to determine if essential gameday personnel, athletes, and spectators were in adherence to safety and security requirements related to COVID-19 social distancing guidelines.

The audit determined that essential gameday personnel, athletes, and spectators in general adherence were practicing social distancing and wearing face coverings in accordance with safety and security requirements related to social distancing guidelines. The audit report included one recommendation that would further enhance compliance with social distancing guidelines.

COVID-19 Specific Audit – School Tracking PPE Review

The objective of the audit was to determine the adequacy of PPE maintained at the school sites. The review also evaluated PPE at the central and District warehouses, and procedures used to distribute PPE from the warehouse to schools throughout the District.

The audit determined that there was a lack of PPE inventory tracking at the school level. The audit report included one recommendation that the Procurement Department provide correspondence reemphasizing the importance of tracking PPE inventory.

Department Checking Account (Athletics, Office of General Council, Police)

Athletics: The objective of this audit was to review the Office of Athletics two checking accounts and determine the adequacy of safeguards surrounding transactions and related supporting documentation. The audit also evaluated the process of approving disbursements and other general activity of the account.

The audit determined that generally, checking account transactions were verified and supported with appropriate documentation. However, two disbursement checks issued from

the IAC checking account during the period examined did not match the amount noted on the check request.

One recommendation was made that the Office of Athletics develop written verification procedures to ensure the amount of the checks issued from the Office of Athletics checking accounts match the amount noted in the check request and related supporting documentation.

Office of General Council: The objective of this examination was to evaluate the effectiveness of safeguards, controls and the accuracy in reconciling the Legal Services Checking Account. The audit determined that transactions were found unique in supporting many functions of the Office of General Counsel. However, the specific activity of the Legal Services checking account was not specifically address in DPSCD's Cash Procedural Manual. Additionally, recommendations to segregate functions were also made to strengthen controls.

Police: The examination evaluated the effectiveness of fiscal controls relating to account transactions. The audit determined there were disbursements for non-operational activity: food for community meetings, internal retirement and promotion events. Additionally, the checking account was used to obtain non-emergency office supplies that are available though the procurement process. Recommendations were made to improve and document the approval of disbursements, as well as provided recommendations to enhance safeguards and compliance with District cash management procedures.

Police Vehicle Use

The examination analyzes the manner marked and un-marked public safety vehicles were used. The assessment determined on average; District Public Safety vehicles are driven less than those used by urban police departments. However, omissions were observed on patrol activity logs and supervisors failed to record the review of officers' logs. The mileage when oil changes were due were often omitted and three engine replacements were deemed premature. Recommendations were made requiring supervisors to review activity logs and make certain oil changes are performed as recommended by the manufacture.

Police Department (Uniform Allowance)

The purpose of this audit determined if any Public Safety Officer received excessive uniform allowance payment. The examination found one officer who was absent of qualifying work activity receiving a uniform allowance during the year 2020. It was recommended that records be updated to reflect the officer has been terminated and removed from the District's payroll system.

HR and Payroll: Uniform Recording of Employee Position Data (FTE)

The purpose of this examination inspected possible variances of Full Time Equivalent (FTE) data and actual working activity of part time Education Consultants within the Office of Specialized Education (OSE). The examination found 4 (four) employees with fractional FTEs

that were paid 80 hours. Payroll records indicated that each of the employees referenced had transitioned into other positions that changed their status from part-time to full-time. However, People-Soft continued reporting employee position because Human Resources may not have been notified of the status change of the employees.

It was recommended that the OSE review recorded and actual FTE activity of all assigned personnel and compare with related Budget data. Any discrepancies found must be brought to the attention to Human Resources so records can be updated as necessary.

Payroll: Additional Pay Activities

The objective of this audit was to determine if employees with more than one work assignment were paid for multiple work assignments that occurred at the same time. The audit found that there was one individual that worked multiple work assignments that overlapped each other on the same day. This information was forwarded to the Payroll Department for further investigation.

Real Estate Lease Transactions

The purpose of this review is to determine the effectiveness of existing safeguards and controls, surrounding the receipt and processing of District leased property payments. The examination found past record keeping practices contributed to difficulties in retrieving current lease agreements. Checks returned to the District because they were deposited beyond their expiration date. Recommendations were made for the Real Estate Office to search, locate and retrieve all current leased agreements. It was further recommended that Lessors shall direct their payments to the District's Cash Management Department.

FY 2021-2022 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 sent out an inquiry to key stakeholders in the District to provide feedback on potential risk areas to be considered for review by the Department.

Based on the feedback from District Management, Cabinet members and other key District stakeholders, the Department will include a Facilities review in the FY 21 Audit Plan as well as continue to provide consultations to departments/schools on internal controls and operating procedures.

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

Cash Collection Procedures (Athletics, School Nutrition, School Activity Accounts)

The scope of this review will focus on adhering to policies and procedures for cash collection activities within each of the three areas. Athletics will focus on cash collection at student athletic events. School Nutrition will focus on cash collection from point-of-sale food sales. School Activity Account review will focus on cash collection at schools through fundraisers.

COVID-19 Expenditures

The scope of this review will focus on District guidelines/procedures for tracking COVID 19 expenditures with funding provided by federal/state government.

Payroll and HR Reviews (Hiring Process, Employee Payroll Deductions, Bi-Weekly Payroll Approval Process)

The HR portion of this review will focus on multiple areas of the hiring process, which are as follows:

- Employee onboarding, PeopleSoft configuration and setup for payroll and benefits
- Employees review and record updating effecting personnel cost on Budget
- Employee Exit Process (Collection of Materials, Final Pay, Termination, ORS Reporting)
- Employee Leave and FMLA processes (Application process, PS coding, Payment Process)

The review will continue into two areas of employee contributions (payroll deductions) which are configured at hire and then can be modified during the employee's employment.

- Pre-Tax Retirement – Review for agreement between selection and payroll deduction.
- Voluntary - Review for agreement between selection and payroll deduction.

The Payroll scope of this review will focus on the process, procedures in which schools and departments submit bi-weekly payroll (time collection, submission, review, and approval process).

Asset Inventory (CTE & IT)

The IT inventory is a follow up on the procedure audit in FY 21, conduct onsite review of technology device assignment, funding source, and usage of District devices.

The CTE scope will focus on DPSCD policies and procedures of classifying inventory of capital assets within the CTC schools and CTE department.

Facilities – School Maintenance

The scope of this review will focus on operating procedures and expectations for completion of preventative maintenance by vendors, and onsite review to confirm completion.

Checking Account Review

The scope of this review revolves around examining safeguards surrounding transactions within DPSCD checking accounts. Specifically, we will identify and evaluate the effectiveness of internal controls governing checking account transactions for DPSCD checking accounts.

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.

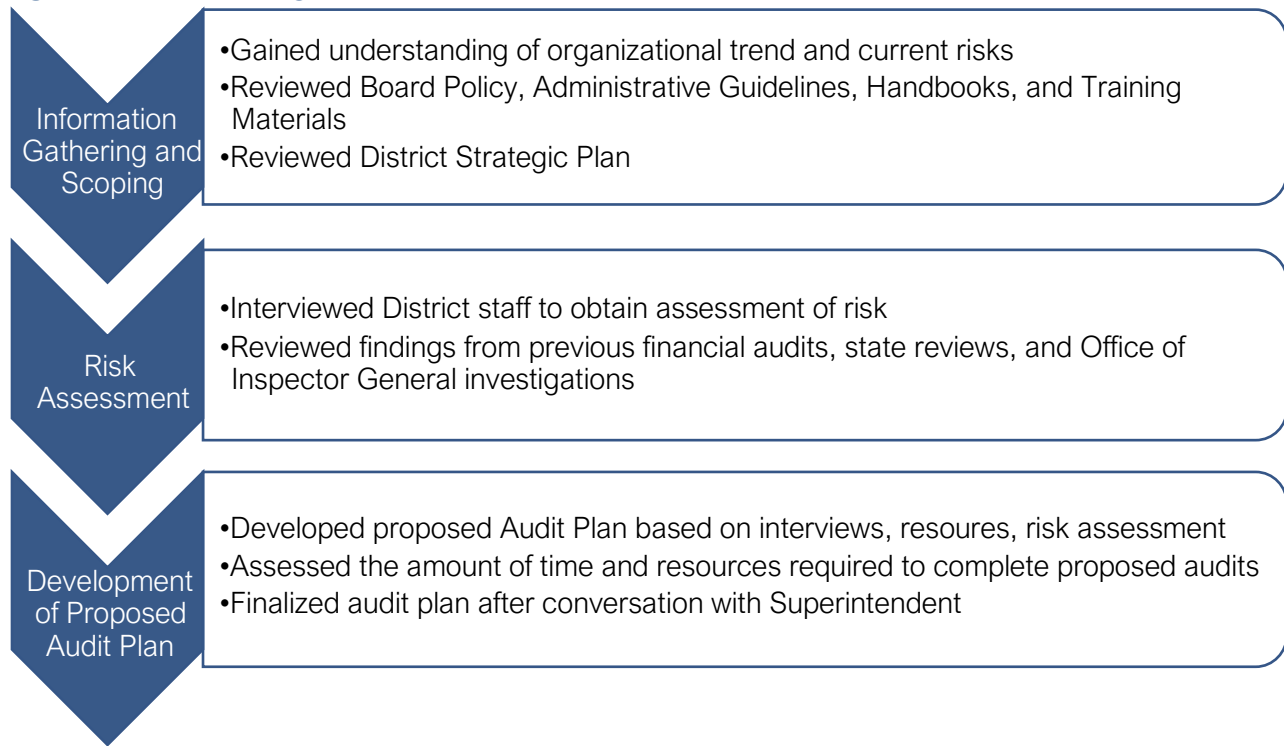
QUALITY ASSURANCE IMPROVEMENT PROGRAM

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 2021-2022 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 an area.

A: FY 2021-2022 SCHEDULE OF INTERNAL AUDITS

The Internal Audit (IA) Department proposes the following schedule of audits and consultations for the FY 2021-2022 school year.

Type of Review	Department	Area of Review	Timeline
Audit	Schools	COVID-19 Expenditures	1 st Quarter
Audit	Payroll and Human Resources	<ul style="list-style-type: none"> • Onboarding • Transfer employees • Employee Exit • Employee Leave 	1 st Quarter
Audit	School Nutrition	Cash collection related to food service	2 nd Quarter
Audit	Schools	Cash Collections at Athletic events	2 nd Quarter
Audit	Facilities	Preventative Maintenance	2 nd Quarter
Audit	Fundraising and Cash Management	Student Activity Accounts – Cash Collections/Fundraising Activities	3 rd Quarter
Audit	Payroll and Human Resources	Employee Contributions: <ul style="list-style-type: none"> • Pre-Tax Retirement • Voluntary 	3 rd Quarter
Audit	IT	School Device Inventory	3 rd Quarter
Audit	Multiple Departments	CTE Inventory – Classifying inventory of capital assets	4 th Quarter
Audit	Fundraising and Cash Management	Checking Account Review – Examine safeguards with DPSCD checking account transactions	4 th Quarter
Audit	Payroll	Bi-Weekly Payroll Submission	4 th Quarter
Audit	TBD	Cabinet Requests	Throughout FY 2022

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).

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 assess 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 intergovernmental, 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