



# INTERNAL AUDIT PLAN

DETROIT PUBLIC SCHOOLS COMMUNITY  
DISTRICT

2019-20

Board Leadership



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## BACKGROUND

The Internal Audit Department was reestablished in January 2019. The department 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 Internal Audit Department 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.

The Internal Audit Department provides an independent review 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.

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

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.

## FY 19 AUDIT SUMMARY

### Audit Work Completed

- **Student Activity Account Audit**

The purpose of this audit was to (1) review actual practices in managing Student Activity Accounts at school operations, (2) assess the effectiveness of internal controls in protecting District resources and (3) make recommendations to improve safeguards.

The audit identified deficiencies related to segregation of duties, timeliness of bank deposits, appropriateness of fund usage and training. The report included recommendations made to strengthen controls in addressing the aforementioned deficiencies identified during the audit. Departments provided responses to recommendations in June 2019. Internal Audit will conduct a follow up review based on the responses in FY 2020.

- **Office of Athletics Audit**

The purpose of this audit was to (1) identify risks associated with cash collection and evaluating controls in place mitigating those risks, (2) review policies and practices to provide value-added recommendation for appropriate internal controls and ensure goals and objectives of the District are maintained, and (3) provide recommendations to enhance safeguards and controls.

The audit identified deficiencies related to ticket stub retention, reconciliation of tickets sold, timeliness of cash counted after tickets were sold, maintaining ticket sequence order for tickets sold and K-8 ticket sales. The report included recommendations made to strengthen controls in

addressing the aforementioned deficiencies identified during the audit. Department responses to the recommendations are due July 2019. Internal Audit will conduct a follow up review based on the responses in FY 2020.

#### **Audit Work in Progress**

- **Office of School Nutrition Audit**

An overall audit of the Office of School Nutrition procedures with a specific focus on cash collections commenced May 13, 2019. Field work will be completed June 17, 2019 and a report will be issued July 2019. Internal Audit will review any Department responses in the follow up review performed in FY 2020.

#### **Supplemental Audit**

- **Student Activity Accounts Review – Special Audit**

As a result of prior audit findings identified in the aforementioned Student Activity Account Review, a Special Investigative Audit was conducted, which expanded the original audit period reviewed to assess the effectiveness of internal controls, safeguards and practices of four specified Student Activity Accounts.

The special investigative audit identified there were deficiencies related to document retention to support fundraisers for 2 of the 4 student activity accounts review. This remains an area of concern and will be revisited in the follow up review in FY 2020.

#### **Audit Work Not Started**

- **Office of Transportation – Bus Passes**

An audit to determine if the District Office and Schools are in compliance with policies and procedures for distribution of student bus passes did not take place as scheduled due to the focus on reviewing cash collection procedures in other areas. This consultation has been rescheduled to take place during FY 2020.

## **FY 20 AUDIT PLAN**

#### **Reviews**

- **Procurement Audit – Contract Services**

Internal Audit will review processes and procedures for verifying contract services are performed and quality of the performance. The review will entail review of contracts, invoices, billing rate to verify appropriateness of costs billed, services performed, quality of services performed and department procedures for contract management. Internal Audit will focus on contracts serviced within the last fiscal year.

- **Technology Inventory Audit**

The OIA will review asset management systems and reconcile deployment of Information Technology (IT) equipment with procurement records. We will focus on laptop computers deployed in the last 2 school fiscal years and compare the equipment with inventory records provided by the Procurement Department and IT Department.

- **Workers Compensation Audit**

The OIA, in conjunction with the Risk Management department, will focus its review on policies and procedures in place to determine compliance with the Workers' Compensation Act of the State of Michigan. We will look at worker compensation claims reported and processed within the last school year and the coordination of medical care and income benefits for those employees with processed claims.

- **Travel Audit**

Internal Audit will review DPSCD travel policies and procedures, which will include documentation of approvals for travel taken during fiscal year 2019. Supporting documentation for travel authorizations and vouchers will be compared with DPSCD policies and procedures to determine compliance with travel regulations set forth by the District.

- **Office of Athletics Audit**

Follow up from FY 2019 review of Department procedures for cash collections from student athletic events, cash deposits, and use of the internal Athletic account. This will include reconciling tickets sold with tickets stubs retained from athletic events and the associated cash collected and deposited for each related athletic event. Will determine if recommendations from previous review have been effectively implemented by the Department by performing site visits at approximately 10-15 schools.

- **Employee Configuration Audit**

Internal Audit will review processes pertaining to the efficiency and effectiveness of new employee setup and configuration for bi-weekly payroll, Direct Deposit, W-4, Employee Deductions. The review will focus on new employees hired during the most recent fiscal year and processes in place to setup a new employee in the payroll system and verifying that all payroll forms contained in the new hire packet are completed accurately and in a timely manner.

- **School Activity Funds Audit**

Internal Audit will perform a follow up from FY 2019 review of schools' compliance with District procedures for fundraisers, cash collections, deposits, and use of internal school accounts. Will determine if recommendations from previous review have been effectively implemented by the Department by performing site visits at approximately 15-20 schools.

- **Office of School Nutrition Audit**

Internal Audit will perform a follow up from FY 2019 review of the Departments procedures for cash collections associated with the student breakfast and lunch programs, a la carte services, cash deposits, and use of internal accounts. Will review daily summary reports detailing the number of students provided breakfast and lunch, as well as the amount of a la carte sales and compare to information provided for the Community Eligibility Provision and the deposit book. Will determine if recommendations from the previous review have been effectively implemented by the Department by performing site visits at approximately 10-15 schools.

- **Bi-weekly Payroll Audit**

The OIA will review processes and procedures around the bi-weekly payroll process, specifically looking at the following activities

- Time reporting process

- Verification of hours worked
- Overtime approval and documentation

The OIA will focus its review on payroll data from the 2019 fiscal year along with information potentially from Human Resources.

### Consultations

- **Payroll Family Medical Leave Act (FMLA)**

The OIA will provide consultation to the Human Resources Department in reviewing processes and procedures for documentation of FMLA and the impact on bi-weekly payroll reporting. The consultation will define any risks associated with documenting the FMLA's impact on bi-weekly payroll reporting.

- **Bus Passes**

The OIA will provide consultation to the Transportation Department in reviewing the District's compliance with processes and procedures related to the distribution of student bus passes. The OIA will determine if a larger scope review is necessary based on the consultation.

- **Procurement – Single Source Vendors**

The OIA will provide consultation to the Procurement Department to review compliance with processes for determining Single Source Vendors and alignment with board, state, federal policy. The OIA will define any risks associated with the processes and alignment with policies.

### **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 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**

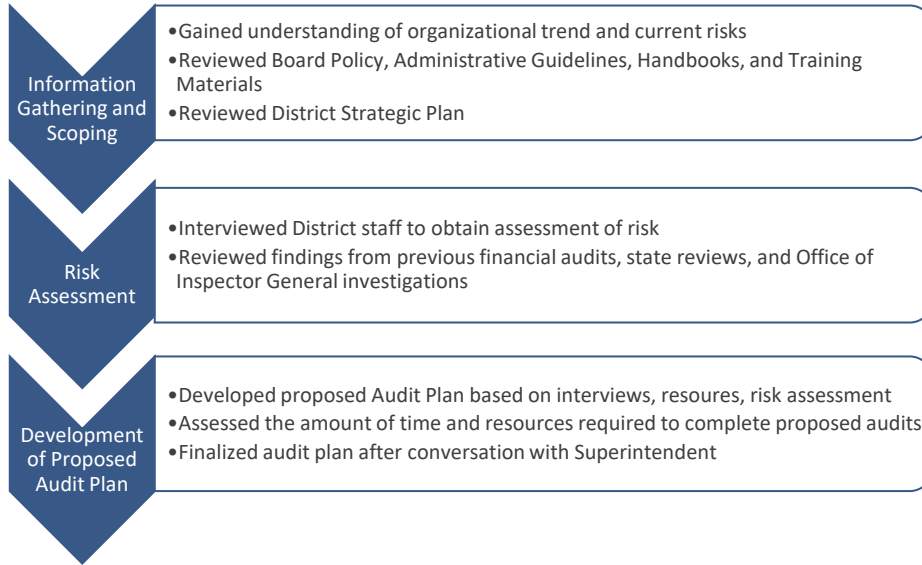
The OIA will maintain a quality assurance improvement program that covers all aspects of its internal audit activity. The program will include an evaluation of the internal audit activity’s conformance with the definition of Internal Auditing and whether internal auditors followed the Institute of Internal 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 2020 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:

## APPENDIX A: FY 2020 SCHEDULE OF INTERNAL AUDITS

The Internal Audit (IA) Department proposes the following schedule of audits, reviews, and consultations for the FY 20 school year.

Department	Area of Review	Detail/Scope	Timeline
Finance	Procurement	Review process and procedures for verifying contract services are performed and quality of performance	July-August 2019
Information Technology	Technology Inventory	Review asset management systems and reconcile deployment of IT equipment with procurement records	September 2019
Finance	Workers Compensation	Workers Compensation (review will be performed in conjunction with Risk Management)	October 2019
Operations	Travel	Review travel process, documentation of approvals	October 2019
Human Resources	Employee Configuration	OIA will review process for new employee setup and configuration for bi-weekly payroll, Direct Deposit, W-4, Employee Deductions	December 2019
Finance	Bi-weekly Payroll	OIA will review processes and procedures around the bi-weekly payroll process, specifically looking at the following activities <ul style="list-style-type: none"> <li>- Time reporting process</li> <li>- Verification of hours worked</li> <li>- Overtime approval and documentation</li> </ul>	April - May 2020

IA department will conduct follow up reviews on areas of specific concern from FY 19. These reviews will determine if process improvements have taken place since the previous year's review.

Department	Area of Review	Detail/Scope	Timeline
Schools	Athletics	Review Athletic procedures for cash collection and reconciliation, use of ticket stubs,	November 2019
Schools	School Activity Funds	Review School procedures for cash collection, documentation of fundraisers, and auditing of deposits to match cash collections	January 2020
Operations	Office of School Nutrition	Review School Nutrition procedures for cash collection, food sales, and inventory controls	February 2020

In addition to regular audits, IA staff will also provide consultations with departments to identify potential risks and define processes, procedures to mitigate those risks.

Department	Area of Review	Detail/Scope	Timeline
Human Resources	Payroll FMLA	Review process and procedures for documentation of FMLA and the impact on bi-weekly payroll reporting	2-3 weeks
Operations	Bus Passes	Review of process and procedures regarding distribution of student bus passes	2-3 weeks
Finance	Procurement	Review process for determining Single Source Vendors and alignment with board, state, federal policy	2-3 weeks

## 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 type of audits the OIA may performed can be categorized by the following three engagements:

**Commented [JV1]:** What are the 3 types of 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 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 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.

## APPENDIX D: AUDIT RISK SCORING MATRIX

Risk Factors	Considerations
<b>Materiality</b>	This risk factor measures the relative size of the program over a multi-year period.
<b>Audit Coverage</b>	This risk factor considers the extent of past audit coverage, regardless of provider, i.e. internal or external.
<b>Internal Risk</b>	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.
<b>Environmental Risk</b>	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.
<b>Information Risk</b>	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
<b>HIGH (MAJOR)</b>	<b>PROCESSES FAIL IN MITIGATING RISKS AND ARE SERIOUSLY FLAWED IN DESIGN OR OPERATION</b>	<b>MANDATORY CORRECTIVE ACTION WITH ADDITIONAL FOLLOW UP REVIEW WITHIN ONE YEAR</b>
<b>SIGNIFICANT</b>	<b>WEAKNESSES IN THE PROCESS THAT PRESENT RISK EXPOSURE TO THE UNIT UNDER REVIEW</b>	<b>RECOMMENDED CORRECTIVE ACTION WITH ADDITIONAL FOLLOW UP REVIEW WITHIN ONE YEAR</b>
<b>NOTABLE</b>	<b>THE PROCESSES ARE ONLY PARTIALLY EFFECTIVE IN MITIGATING RISKS</b>	<b>RECOMMENDED CORRECTIVE ACTION WITH NO FOLLOW UP REVIEW</b>
<b>NOMINAL</b>	<b>PROCESSES ARE GENERALLY EFFECTIVE IN MITIGATING RISKS</b>	<b>NONE</b>