

**APPENDIX A**

**Audit Findings and Corrective Actions**

**Financial Statement Findings**

**2011-FS-01 Audit Adjustments – Capital Assets (Repeat)**

Finding type: Material weakness in internal controls over financial reporting

Test Results:



**Condition:**

The District erroneously removed from the capital asset listing the new Cass Tech High School. In addition, depreciation expense for assets acquired and disposed of during the year was originally incorrectly calculated. The District also misclassified impairment expense as a loss on disposal of assets.

**Effect:**

Capital asset balances were initially understated by \$109.3 million due to the removal of Cass Tech High School from the asset register. Both the old and new Cass Tech HS were coded the same in the asset register. Depreciation for 425 new and disposed assets was initially miscalculated. Impairment expense of \$4.5 million was initially misclassified as a disposal, which resulted in a loss. These adjustments were reviewed, approved, and posted by management.

**Correction Action:**

The Office of Capital Assets established a new school code for the new Cass Tech High School. Monthly meetings will be scheduled with the appropriate District personnel (i.e., Office of Facilities and Auxiliary Services, Pupil Population Management etc) to review school closures, demolitions and newly constructed schools to determine when school codes need to be revised in the Asset Works database.

Monthly procedures have been established between the Office of Capital Assets and Asset Works on a monthly basis to verify the accuracy of depreciation expense, beginning capital asset balances and accumulated depreciation. This process helps ensure the accuracy of the information in the Asset Maxx database and the PeopleSoft system.

To ensure impairment expense is recorded correctly, the Office of Capital Assets has identified the appropriate accounting pronouncement (GASB 42) pertaining to recording impairment expense. This pronouncement was used to update the District's Capital Assets and Insurance procedures and policies.

**Observation:**

To ensure the effectiveness of these procedures all applicable departments must attend meetings regularly to ensure information on school closures, consolidations and other changes that impact DPS assets are conveyed timely to Capital Asset staff. Also, depreciation reports should be reviewed monthly and signed off by Deputy CFO.

**2011-FS-02 Audit Adjustments – Compensated Absences (Repeat)**

**Finding type:** Significant deficiency in internal control over financial reporting

**Test Results:** 

**Condition:**

Reconciliations for compensated absences had calculation errors that led to significant variances between the amounts initially reported in the trial balance and the amounts supported by the corrected reconciliations. Accordingly, a significant audit adjustment was necessary to properly state the District's financial statements.

**Effect:**

As a result of this condition, the District's internal accounting records were initially misstated by amounts that were significant to the District's financial statements. The compensated absences were initially overstated by \$2,845,781. The audit adjustment proposed as a result of the audit process was reviewed, approved, and posted by management.

**Corrective Action:**

The Office of Accounting (with the assistance of the Division of Technology and Information Systems) has established a process (automated query) for creating a reasonable Compensated Absences accrual. The accrual calculation is based upon determining the District's payout liability or in other words the amount the district would owe upon an employee termination. The process captures the rules of vacation and sick time pay for all active union contracts and the requirements of Emergency Manager's Executive Orders. This IT solution is flexible enough to be easily revised when there are revisions to union contracts and to Executive Orders. A draft copy of the procedures for creating the accrual has been documented as an accounting desk procedure.

**2011-FS-03 Noncompliance – 1994 Bonds Procurement Documentation (Repeat)**

**Noncompliance – 2009 & 2010 Bonds Procurement Documentation**

**Finding type:** Material noncompliance; Material weakness in internal control over financial reporting

**Test Results:** 

**Condition:**

**1994 Bonds** - During our test work over bonds and the related bidding process, the District was unable to provide the competitive bidding documentation for one contract that had a total value of approximately \$1,000,000.

**2009 & 2010 Bonds** - During our test work over bonds and the related bidding process, the District was unable to provide the bidding documentation for certain contracts that are tied to the purchase orders from our selection as follows: For one of twenty-five contracts, we were not provided evidence of Newspaper advertising. This contract had a total value of approximately \$ 1,400,000.

- For 3 of 25 contracts, we were not provided evidence of competitive bidding. Disbursements totaling \$18,700,000 related to these contracts were expended during the year competitive bidding. Disbursements totaling \$18,700,000 related to these contracts were expended during the year.

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- For 7 of 25 contracts, we were not provided documented evidence of vendor comparison for non-construction projects. Disbursements totaling approximately \$1,600,000 related to these contracts were expended during the year.
- For 2 of 25 contracts, we were not provided contracts for the projects. Disbursements totaling approximately \$1,000,000 related to these contracts were expended during the year.
- For 4 of 25 contracts, we were not provided purchase orders with proper approval. Disbursements totaling approximately \$700,000 related to these contracts were expended during the year.

**Effect:**

**1994 Bonds** - Compliance with the requirements of the Revised School Code has not been adequately documented.

**2009 & 2010 Bonds** - Compliance with the requirements of the Revised School Code has not been adequately documented.

**Effect:**

**1994 Bonds** - Compliance with the requirements of the Revised School Code has not been adequately documented.

**2009 & 2010 Bonds** - Compliance with the requirements of the Revised School Code has not been adequately documented.

**Corrective Action:**

The Office of Procurement and Logistics updated their policy manual effective March 1, 2012. The policy manual includes a Contract File Checklist which is maintained in all contract files. All items checked off on the checklist must be included in the contract file. The checklist includes items that are required to be filed with both construction and non-construction contracts for Bond and non-related Bond activities. The checklist includes all of the items noted by the external auditors.

The Office of the Auditor General (OAG) reviewed the vendor contract files to ensure all required information for the 2009-2010 Bonds program were maintained in the files. Only two contractor files were reviewed because there were only two contracts that were initiated after March 1, 2012 when the new procedures became effective. During the review no exceptions were noted.

**2011-FS-04 Budget (Repeat)**

**Finding type:** Material noncompliance; Material weakness in internal controls over financial Reporting

**Test Results:** 

**Condition:**

Expenditures exceeded appropriations by material amounts as disclosed in the notes to the financial statements. In addition, the District made payments to vendors that were in excess of the approved contracts and purchase orders.

**Effect:**

The ability of those charged with governance to effectively monitor the expenditures of the District is limited or eliminated.

**Corrective Action:**

The Office of Management & Budget (OMB) completed development a formal amended budget for the 2011-2012 FY during the first half of February 16, 2012. The amended budget was approved by the Emergency Manager and uploaded in to PeopleSoft on February 15, 2012.

The OMB has developed and documented a process and procedures for identifying and resolving instances where actual expenses exceed the budget at schools. This process is used only to identify and resolve negative balances (expenditures greater than budget) for discretionary budget line items. The review and resolutions of Human Capital budget line items is not included in this review.

A process for reviewing and resolving budget line items for Central Office Departments has not been documented as of June 30, 2012. In addition, a comprehensive policies and procedures manual has not been completed as of June 30, 2012.

**2011-FS-05 Audit Adjustments – Bonds and Notes Payable and Related Accounts (Repeat)**

**Finding type:** Material Weakness

**Test Results:** 

**Condition:**

Bond issuance costs were initially misclassified as bond discounts, which net against the liability balance, rather than as assets. In addition, the accrued interest payable was recorded based on incorrect terms.

**Effect:**


As a result of this condition, the District's internal accounting records were misstated by amounts that were material to the District's financial statements. In the General Fund, accrued interest payable related to short-term notes was initially overstated by \$12,155,000. In the government-wide financial statements, bonds payable were initially understated by approximately \$1,483,000 and other assets were initially understated by the same amount. In addition, interest payable on long-term bonds payable was understated by approximately \$929,000. All of the adjustments proposed as a result of the audit process were reviewed, approved, and posted by management.

**Corrective Action:**

The documentation of procedures and the account streams to be used for recording journal entries of current bond and notes payable activity needs to be updated by the District's Cash Manager and approved by Accounting and Finance management.

**2011-FS-06 Material Audit Adjustments - Property Taxes (Repeat)**

**Finding type:** Material weakness in internal controls over financial reporting

**Test Results:** 

**Condition:**

When originally received, calculations made to estimate property tax revenue and related receivables and payables were based on inappropriate assumptions and information. Also, the levy amount used in the calculation was not reconciled to taxable values reported to the State of Michigan by Wayne County through Form DS-4410B.

**Effect:**

Property tax revenue was initially overstated by \$16.4 million, \$13.5 million, and \$1.7 million in the general fund, the bond redemption fund, and the judgment levy fund, respectively, based on the revised estimates. All of the adjustments proposed and discovered as a result of the audit process were reviewed, approved, and posted by management.

**Corrective Action:**

A corrective action plan has been developed by the Office of Accounting; however, the corrective action plan is dependent upon obtaining property tax information from outside Governmental Agencies (i.e. City of Detroit and Wayne County). The majority of the activities required to accurately report property tax revenue will be performed after our audit scope date of June 30, 2012. The completion date of this process will be in September 2012.

**Observation:**

The auditors have a preferred approach for estimating property tax revenue that differs from the one employed by DPS. We attempted but were unsuccessful in trying to get accounting staff to obtain buy-in from the auditor on the desired formula. However, accounting staff felt that the issue had to do with obtaining proper support from the City of Detroit going forward. They were confident that this could be achieved.

**2011-FS-07 Individual Schools – Cash Policies and Procedures (Repeat)**

**Finding type:** Significant deficiency in internal controls over financial reporting

**Test Results:**  

**Condition:**

Each school maintains separate bank accounts to account for the activity of various student organizations. During our testing, we noted bank reconciliations were performed timely for all schools as of June 30, 2011; however, at some schools, supporting documentation was not consistently maintained for receipts and disbursements, and receipts were not consistently deposited in a timely manner. In addition, we noted that receipts and disbursements for athletic activities, which represent governmental activity of the District, were commonly being accounted for in these accounts rather than in the General fund.

**Effect:**

Due to the deficiencies noted above, there is an increased risk of misappropriation of assets and errors and deficiencies in financial reporting. In addition, an indeterminable amount of revenue and expense that should have been recorded in the District's General fund has been inappropriately recorded in the District's Student Activities fund.

**Corrective Action:**

The School Financial Procedures Manual was revised (March 12, 2012) to require deposit ticket to be prepared the evening prior to the next scheduled armor car pick-up. In addition, the School Financial Procedures Manual financial records retention and disposal policy was revised to address the minimum amount of time that financial records must be maintained. A new school Athletic Program policy was implemented at the beginning of the 2011-2012 school years. The policy states, "Revenue from athletic events is not to be deposited into the school's general checking account. Separate deposit tickets for these funds are provided to the schools to ensure that this revenue is deposited in the designated

district bank account". A review of fall 2012 athletic receipts was deposited in the designated district bank account; however, deposits were not made timely resulting in a failure.

**2011-FS-08 Audit Adjustments – Interest Receivable**

**Finding type:** Significant deficiency in internal control over financial reporting

**Test Results:** 

**Condition:**

Interest receivable related to investment income earned from investment accounts was not properly calculated or recorded. This led to a significant variance between the amounts initially reported in the trial balance and the amounts supported by the corrected calculation. Accordingly, an audit adjustment was necessary to properly state the District's financial statements.

**Effect:**

As a result of this condition the District's internal accounting records were initially misstated by amounts that were significant to the District's financial statements. The interest receivable was initially understated by \$972,072. The adjustment proposed as a result of the audit process was reviewed, approved, and posted by management.

**Corrective Action:**

The Office of Accounting has established and is using Bond MILAF Reconciliation Spreadsheets for each Bond Account (202361, 202397, 202367 and 202399). The spreadsheets are completed by Plante Moran personnel and are used to reconcile the Managed Account Summary Statements (PFM Asset management LLC) to the PeopleSoft general ledger monthly. DPS accounting management reviews and approves the reconciliation spreadsheet monthly. District personnel will enter the transactions into PeopleSoft. In addition, the Deputy CFO will review and approve all journal entries.

**SINGLE AUDIT FINDINGS AND QUESTIONED COST (Related to Federal Grant Awards)**

**2011-SA-01 Activities Allowed – Production Records**

**Finding type:** Noncompliance; Significant deficiency in internal controls over compliance  
Passed through the Michigan Department of Education (MDE)

**Test Results:** 

**Questioned costs:**

Not readily determinable inasmuch as this grant is reimbursed based on the number of meals served.

**Condition:**

The District prepared production records that did not include all required breakfast components and others that were not prepared completely/accurately.

**Effect:**

Of the 60 production records selected for testing, 4 (6.7%) were incomplete or completed inaccurately.

**Corrective Action**

All staff responsible for completing on site production records received appropriate training and was tested for skill acquisition as it related to completing production records. Area managers assigned to each school are required to audit one production record each week to test for accuracy of completion. The Director of Operations will direct this process.

**Observation:**

The initial test performed by the OAG using a sample size of fifteen (15) food services resulted in two exceptions where production records that were not properly completed. An additional test was performed using a sample size of twenty (20) food service records without any exceptions.

**2011-SA-02 Allowable Costs/Cost Principles – Timesheet/Payroll Documentation (Repeat)**

**Finding type:** Noncompliance; Significant deficiency internal controls over compliance

**Test Results:** 

**Questioned costs:**

- Title I, Part A Cluster – \$16,290
- Title II, Part A – \$2,539
- Head Start Cluster – \$305

**Condition:**

The District had multiple payroll transactions charged to federal programs that were not adequately documented.

**Effect:**

- Title I, Part a Cluster – A semiannual certification in accordance with OMB Circular A-87 was provided but indicated the wrong grant program in 1 instance out of 14 transactions tested.
- Title II, Part A – A semiannual certification in accordance with OMB Circular A-87 was not prepared in 1 instance out of 38 transactions tested.
- Head Start (CFDA# 93.600) – The timesheet tested did not agree to the number of hours paid to the employee in 1 instance out of 46 transactions tested and a semi-annual certification in accordance with OMB Circular A-87 was not signed in 1 instance out of 46 transactions tested.

**Corrective Action:**

Effective January 2012, Human Resources implemented a revised process to ensure certifications of employees' payrolls charge to Federal program are properly documented. In addition, Human Resources has aligned the certification process with the input of 4034 (Request for Personnel Action) to ensure that certifications are processed or updated timely.

**2011-SA-03 Allowable Costs/Cost Principles; Severance and Unused Leave Pay**

**Finding type:** Material noncompliance; Material weakness in internal controls over compliance  
Federal agency: U.S. Department of Education

**Test Results:** 

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**Questioned costs:**

- Title I, Part A Cluster – \$1,054,632
- Special Education Cluster – \$348,322
- Career & Technical Education – \$24,471
- Title II, Part A – \$198,045
- Head Start Cluster – \$65,377

**Condition:**

The District erroneously charged severance pay and payments for unused absence time as direct costs to federal programs rather than as indirect costs.

**Effect:**

- Title I, Part A Cluster had at least \$20,245 of severance, \$191,675 of Termination Incentive Plan (TIP) payments, and \$838,682 of unused leave pay charged directly to the program.
- Special Education Cluster had at least \$50,664 of severance, \$100,750 of TIP payments, and \$196,908 of unused leave pay charged directly to the program. Career & Technical Education had at least \$4,580 of severance, \$8,500 of TIP payments, and \$11,391 of unused leave pay charged directly to the program. Title II, Part A had at least \$8,957 of severance, \$54,000 of TIP payments, and \$135,088 of unused leave pay charged directly to the program. Head Start Cluster had at least \$62,054 of severance and \$3,324 of TIP charged directly to the program.

**Corrective Action**

Effective January 1, 2012, a new account stream was created to capture severance and unused leave pay in fund 11 (General Fund). Per the OMB circular A-87, severance pay and payments for unused absence time are required to be allocated as a general administrative expense and not charged as a direct cost to Federal Programs.

To correct severance payments and unused pay charges made directed to Federal Programs the Office of Accounting created two journal entries using the new accounting stream to correct the charges for employees receiving severance payments from July 1, 2011 to February 24, 2012 that were directly charged to the Federal Program.

In addition, effective May, 2012 a new account stream was created to capture TIP Payouts (Termination Incentive Pay) when it was determined the 228 employed that received TIP Payouts were not captured in the first analysis of employees receiving severance and/or termination pay. These TIP payments were reclassified in May 2012.

**2011-SA-04 Allowable Costs/Cost Principles; Matching – In-kind Contributions used for Match (Repeat)**

**Finding type:** Material noncompliance; material weakness in internal controls over compliance

**Test Results:** 

**Federal agency/ U.S. Department of Health and Human Services –**

Federal program(s): Head Start Cluster (CFDA# 93.600 & 93.708) Passed through the City of Detroit



**Questioned costs:** \$641,440 (amount claimed as space cost without supporting documentation)

**Condition:**

Expenditures exceeded appropriations by material amounts as disclosed in the notes to the financial statements. In addition, the District made payments to vendors that were in excess of the approved contracts and purchase orders.

**Effect:**

\$641,440 of in-kind contributions used as matching funds lacked proper documentation and support. Based on the reported costs, including the improperly supported space costs, the District did not meet the City of Detroit's matching requirement. Without the space costs, the District did not meet the Federal 20% match requirement.

**Correction Action:**

It was determined that the District could not charge space costs to the regular Head Start Program, because the District (grantee) cannot rent space to itself. A grantee is limited to charging the grant either depreciation (for the buildings housing the classrooms) or use allowances (up to 2% of the acquisition cost per year) for the use of the grantee owned space for operations of the Head Start program. In lieu of using space costs for in-kind contributions match the District decided to use employee wages and fringes to meet the Federal 20% match requirement (\$641,440).

The following steps were taken to set up the new process for capturing charges of in-kind contribution matching:

- Twenty identified Title 1 employees were moved from Title 1 to 31A.
- The OMB amended the Title 1 and the 31A budgets and created a new account stream for capturing Head Start in-kind matching charges.
- The Office of Grant Accounting created a journal entry to capture Head Start payroll costs (\$326,005) of pay dates beginning in November 18, 2011 to February 10, 2012 for all employees moved from Title 1 to 31A for Head Start in-kind matching.

**Observation:**

This solution adequately addresses this audit finding for the 2012 school year; however, due the projected reduced funding for 31A this solution will have be revisited for the 2013 school year.

**2011-SA-05 Cash Management – Improper Reimbursement Request**

**Finding type:** Material noncompliance; Material weakness in internal controls over compliance

**Test Results:** 

**Federal agency/ U.S. Department of Education –Federal program(s) State** Fiscal Stabilization Fund (CFDA# 84.394) passed through MDE

**Questioned costs:** The interest earned on funds received in advance which may be due back to the Pass-through agency is not readily determinable.

**Condition:**

The request for reimbursement for the State Fiscal Stabilization Funds was made before the related costs were incurred and paid.

**Effect:**

The District requested \$4,966,872 of State Fiscal Stabilization Funds in advance of the costs being incurred or paid (the funds were requested on January 10, 2011, and received on January 11, 2011, while the related costs were incurred during pay periods ending January 14, 2011 through August 26, 2011, and not paid until the week after each pay period).

**Corrective Action:**

The Office of Accounting (Grant Accounting) established revised, "Cash Draw Down Procedures for Federal Grants". The revised procedure details the following process which is completed prior to requesting funds:

- Grant Accounting prepares a State Cash Request Report which includes the grant name, grant number, project number, grant approved award total, project end date, total amount paid and remaining balance.
- Grant Accounting prepares a Cash Request Spreadsheet with award amount, amount paid to date, printed Cash Request form, balance of respective award, cumulative expenditures and the current request.
- Grant accounting personnel prepares a Cash Request Report on the State Cash Management system and signs the spreadsheet as the preparer.
- Grant Accounting submits the Cash Request Spreadsheet to the Deputy CFO for approval

**2011-SA-06 Cash Management; Period of Availability– Improper Reimbursement Request**

**Finding type:** Noncompliance

**Test Results:** 

**Federal agency/U.S. Department of Health and Human Services –Federal program(s):** Head Start Cluster (CFDA# 93.600 & 96.708) Passed through the City of Detroit

**Questioned costs:** 2010 Head Start Disabilities - \$3,500 ARRA – Head Start Quality Improvement - \$17,632

**Condition:**

During our testing, we noted that the District was reimbursed for costs paid after the costs were reported and the costs were not liquidated until after the end of the period of availability indicated by the grantor.

**Effect:**

The District received \$21,132 before the related obligations were liquidated, and those obligations were not liquidated within the period required by the grantor.

**Corrective Action:**

To ensure the District's reimbursed requests are made after expenditures have occurred and have been paid during the period of availability, Grant Accounting desktop procedures have been updated. The updated procedures details the process of reconciling all reported expenditures and the approval process by the District's Financial and Grant management prior to certifying the final report on the MDE Cash Management reporting system

**2011-SA-07 Eligibility – Verified Students**

**Finding type:** Noncompliance

**Test Results:** Exempt

**Federal agency/ U.S. Department of Agriculture** –Federal program(s): Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559) Passed through MDE

**Condition:**

The District did not make changes to eligibility status for all students.

**Effect:**


Three students who had their benefits removed due to the verification process subsequently provided the required documentation or were subsequently certified as eligible by the State of Michigan. This information was never processed in the Point of Sale (POS) system at the District and these students did not receive this benefit during the year.

**Corrective Action:**

The District is participating in the USDA Community Eligibility program that allows the District to offer 100% of all District students a free breakfast and lunch; therefore the eligibility verification procedures are not required. The Community Eligibility option is a four year reimbursement option for eligible high poverty LEA's and schools.

**2011-SA-08 Eligibility – Proper Documentation of Income Verification (Repeat)**

**Finding type:** Material noncompliance; Material weakness in internal controls over compliance

**Test Results:** 

**Federal agency/ U.S. Department of Health and Human Services** –Federal program(s): Head Start Cluster (CFDA# 93.600 & 93.708) Questioned **costs:** Not readily determinable.

**Condition:**

For certain records, documentation maintained by the District did not indicate which income verification document was examined or the document examined was not listed as acceptable in the OMB Circular A-133 Compliance Supplement. After the issues were brought to the District's attention, the required documentation was added to the application. It is impossible to determine if this documentation is valid as the documents examined were not retained by the District and almost an entire year had elapsed since the verification document was observed until the documentation was added to the application.

**Effect:**

Of the 60 child records selected, 13 (22%) either did not indicate what verification document was examined or the verification document indicated was not one of those listed as acceptable in the OMB Circular A-133 Compliance Supplement. In addition, one application could not be located and another application indicated that the family income was over the allowable limit but the student was not reported to the pass-through grantor as over-income.

**Corrective Action:**

The District's Head Start Program has instituted the use of the, "Head Start Eligibility Verification Form" to document Head Start families income verification. This form includes a list all of acceptable forms of income documentation that can used for income verification allowable under OMB Circular A-133 section 45 CRF 1305.4. The Office of the Auditor General tested a sample of Head Start student records to determine if the proper documentation of income verification was maintained in the students' file for the 2012 school year. During the first test there were two exceptions from a sample of 50 students and during the second test there were no exceptions from another sample of 50 students.

**2011-SA-09 Level of Effort – Maintenance of Effort**

**Finding type:** Significant deficiency in internal controls over compliance  
Pass-through/Special Education Cluster – Passed through Wayne RESA

**Test Results:** 

**Questioned costs:** None

**Condition:**

The District signed an assurance statement that it spent local funds of \$6,332,413 (the amount by which the District reduced local or State expenditures for special education costs) to carry out ESEA activities. The District did not have support for these costs at the time it signed the statement. These costs were identified only after the detail for these costs was requested by the auditors.

**Effect:**

The District did not have supporting documentation at the time the assurance statement was signed.

**Corrective Action:**


The Maintenance of Effort (MOE) for Special Education will now be tested at the Intermediate School District (ISD) level; however, school districts are still required to maintain support of their fiscal effort. The District will continue to create SE-4096/4094 reports and submit them to Wayne RESA in early to mid October. By November 1 Wayne RESA will send email with an attached spreadsheet of initial District calculations indicating if there is a shortfall. At this point the District will start reviewing their maintenance of effort support to ensure if there is a shortfall there is adequate support to explain the shortfall. The District will complete this process and submit information to the MDE/OSE no later than April 1<sup>st</sup>.

**Observation:**

We disagreed with this finding because the District did have support in excess of the amount on the assurance statement. Wayne RESA also disagrees with this audit finding.

**2011-SA-10 Level of Effort – Supplement vs. Supplant**

**Finding type:** Noncompliance

**Test Results** 

**Federal agency/U.S. Department of Education –Questioned costs:** Local funding supplanted by federal funds amounted to \$234,359

**Condition:**

The costs identified in the general ledger as locally funded professional development decreased substantially during the year while the Title II, Part A funds (which are specifically used for professional development) increased substantially.

**Effect:**

The District decreased the amount of professional development funded locally by \$234,359.

**Corrective Action:**

The Office of Accounting (Grant Accounting) developed procedures documenting the process for calculating and reporting the level of effort for Professional Development. The procedures include the process for calculating the locally funded Professional Development amount and maintaining documented support when the decrease of the level of effort exceeds 10% when compared to the previous fiscal year.

**2011-SA-11 Earmarking – Enrollment of Children with Disabilities (Repeat)**

**Finding type:** Noncompliance; Significant deficiency in internal controls over compliance

**Test Results:** 

**Federal agency/U.S. Department of Health and Human Services –Federal program(s):** Head Start Cluster (CFDA# 93.600 & 93.708)

**Condition:**

The District did not attain 10% enrollment of children with disabilities within 90 days of the beginning of classes.

**Effect:**

The District was not in compliance with this contract provision.

**Corrective Action:**

The District's Head Start Program has not implemented plan for the 2012 fiscal year to meet the current Head Start regulations (45 CFR 1305.6(c) Act, 42 U.S.C. 9837, and Section 640(d) (1) of having not less than 10% of the total number of children enrolled in the Head Start Program with disabilities and eligible for special education and related programs. This will be a repeat audit finding for the 2012 fiscal year.

**Observation:**

The District applied for and received a waiver from this requirement. However, the waiver was not received until well after the period in question resulting in an audit finding that should have been addressed by the waiver had it been received timely. The District should request a waiver from this provision and work to ensure it is received at the beginning of the school year.

**2011-SA-12 Procurement – Open Competition (Repeat)**

**Finding type:** Noncompliance; Significant deficiency in internal controls over compliance

**Test Results:** 

**Federal agency/ U.S. Department of Agriculture –Questioned costs:**

- Child Nutrition Cluster – \$176,060
- Spec Education Cluster – \$25,035
- Title II, Part A – \$27,614

**Condition:**

The District was not following the requirements for open competition as they relate to procuring goods and services in excess of the thresholds set by the State of Michigan

**Effect:**

- Child Nutrition Cluster – 4 of the 26 items selected for procurement testing did not have the required documentation for open competition.
- Special Education Cluster – 1 of the 17 items selected for procurement testing did not have the required documentation for open competition.
- Title II, Part A – 1 of the 24 items selected for procurement testing did not have the required documentation for open competition.

**Corrective Action:**

The Office of Procurement and Logistics updated their policy manual effective March 1, 2012. The policy manual includes a Contract File Checklist which is maintained in all contract files. All of the items checked off on the checklist must be included in the contract file. The checklist includes the following: (1) RFP's, bid list, supplier's responses, (2) bid opening and reading sign in sheets, (3) supplier's responses to bid, (4) supplier comparisons and (5) supplier pricing analysis. Contract files were reviewed by the Office of the Auditor General (OAG) in April 2012 and May 2012. There was one exception noted during the March 2012 review and there were no exceptions noted during the May 2012 review.

**2011-SA-13 Procurement – Properly Executed Contracts**

**Finding type:** Noncompliance

**Test Results:** 

**Federal agency/ U.S. Department of Education –Questioned costs:** \$25,719

**Condition:**

The District authorized purchase orders and paid invoices against contracts that were not signed.

**Effect:**

1 of the 52 items selected for procurement testing was not properly executed.

**Corrective Action:**

The Office of Procurement and Logistics updated their policy manual effective March 1, 2012. The policy manual includes a Contract File Checklist which is maintained in all contract files. All of the items

checked off on the checklist must be included in the contract file. The Contract File Checklist includes a, "Contract Review and Approval Form" item. The OAG reviewed the contract files in April 2012 to ensure all contracts were reviewed, approved and signed by designated Procurement and Logistic personnel and no exceptions were noted.

**2011-SA-14 Suspension and Debarment – Verification of Vendors (Repeat)**

**Finding type:** Material noncompliance; Material weakness in internal controls over compliance

**Test Results:** 

**Federal agency/U.S. Department of Agriculture**

**Questioned costs:** None

**Condition:**

During the year, the District entered into covered transactions without first verifying that the vendor was neither suspended nor debarred.

**Effect:**


- Child Nutrition Cluster – 7 of 26 items selected for testing did not have documented verification.
- Title I, Part A Cluster – 11 of 52 items selected for testing did not have documented verification.
- Special Education Cluster – 7 of 17 items selected for testing did not have documented verification.
- Career & Technical Education – 3 of 6 items selected for testing did not have documented verification.
- Title II, Part A – 6 of 24 items selected for testing did not have documented verification.

**Corrective Action:**

The Office of Procurement and Logistics updated their policy manual effective March 1, 2012. The policy manual includes a Contract File Checklist which is maintained in all contract files. All of the items checked off on the checklist must be included in the contract file. The Contract File Checklist requires a print out of excluded parties list to be maintained in the contract files. Contract files were reviewed by the Office of the Auditor General (OAG) in March 2012 and May 2012. There was one exception noted during the March 2012 review and there were no exceptions noted during the May 2012 review. There was one exception noted during the March 2012 review and there were no exceptions noted during the May 2012 review.

**2011-SA-15 Reporting – 1512 Reports (Repeat)**

**Finding type:** Noncompliance; Significant deficiency in internal controls over compliance

**Test Results:** 

**Federal agency/U.S. Department of Education –**

**Condition:**

The District did not report the required information on certain quarterly reports filed during the year.

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**Effect:**

- Title I, Part A Cluster – The District misreported the amounts paid to two vendors on the October 2010 report (under-reported one by \$34,676,091 and the other \$682,706) and under-reported the amount paid to one of these same vendors by \$4,101,421 on the April 2011 report.
- Special Education Cluster – The District did not report any vendor data on any of the quarterly reports. Based on testing, it appears that the District should have reported information for two vendors in the April 2011 report and reported information for these two vendors and a third in the July 2011 report. Amounts that should have been reported for these vendors were \$449,284, \$55,221, and \$25,199.

**Corrective Action:**

The Department of State and Federal Programs established desktop procedures for reporting 1512 ARRA vendor payments. To capture ARRA funded vendor remittances for the effective dates of the grant a PeopleSoft query of Non-salary Expenditures detail is run. The following parameters are used to identify applicable vendors and reportable transactions: (1) Funds 17 and 18, (2) All project numbers within funds 17 and 18, (3) Beginning accounting date for each report is July 1, 2009 and (4) the ending accounting date will be the prevailing report's quarter end date. State and Federal Programs personnel are to include any vendor who receives a single remittance of \$25,000 or greater. Once the \$25,000 single payment threshold is met subsequent reports must include both the total number of payments and the total corresponding dollar amount paid to each vendor. The information is entered in the ARRA Section 1512 report module in the Michigan Electronic Grant System (MEGS). State and Federal Program Directors and Executive Director reviews and approves vendor data prior to submitting the report in the MEGS System. This report will not be run during the 2013 school year because the ARRA funds have been exhausted.

**2011-SA-16 Reporting; Cash Management – Final DS-4044 Reports**

**Finding type:** Material noncompliance; Material weakness in internal controls over compliance

**Test Results:** 

**Condition:**

The District reported material "adjustments" on the final report that was not supported by the general ledger at the time of reporting. Based on testing of the subsequent activity it became apparent that the District was reimbursed based on the final report for costs that were not paid for until well after the payment was received.

**Effect:**

- Career & Technical Education – The District reported approximately \$545,000 of adjustments which include approximately \$50,000 of vouchers not paid until December 2010 or later. In addition, journal entries necessary to support the remainder of the adjustments were never posted. This resulted in \$242,826 of deferred revenue as reported on the Schedule of Expenditures of Federal Awards.
- Title II, Part A – The District reported approximately \$7.5 million of adjustments in December 2010, which were not paid until January through



September 2011.

**Corrective Action**

To ensure the District's reimbursed requests are made after expenditures have occurred and paid during the period of availability, Grant Accounting desktop procedures have been updated. The updated procedures details the process of reconciling all reported expenditures and the approval process by the District's Financial and Grant management prior to certifying the final report on the MDE Cash Management reporting system.

**2011-SA-17 Special Tests and Provisions – Verification Timeliness and Benefit Status (Repeat)**

**Finding type:** Material noncompliance; Material weakness in internal controls over compliance

**Test Results:** Exempt

**Condition:**

Students who had their free or reduced status removed during the verification process were reinstated after filling out a new application rather than providing verification of income, effectively circumventing the verification process. One student's verification information was unavailable for testing.

**Effect:**


It was noted that 2 of the 45 students selected for testing (4.4%) had their free or reduced statuses removed for not responding but were reinstated after new applications were filed. One student of the 45 selected (2.2%) was unable to be tested

**Corrective Action:**

The District is participating in the USDA's Community Eligibility program that will allow the District to offer 100% of all District students free breakfast and lunch; therefore eligibility verification procedures are not required. The Community Eligibility option is a 4-year reimbursement option for eligible high poverty LEA's and schools.

**2011-SA-18 Special Tests and Provisions – Comparability Report**

**Finding type:** Noncompliance: Significant deficiency in internal controls over compliance

**Test Results:** 

**Condition:**

The student count information reported in MEGs did not match the student count support provided by the District.

**Effect:**


Of the 146 schools reported, student count information for 14 schools was inaccurately reported in MEGs.

**Corrective Action:**

The Department of State and Federal Programs will obtain FTE school information from Pupil Population Management. This information will be used as the source data for input into the "Title I Comparability 2. Data On Schools in the District Report", which is a module of the Michigan Electronic Grants System (MEGS.). State and Federal Program Directors and the Executive Director will review and approve the report prior to submission in MEGS.

**2011-SA-19 Special Tests and Provisions – Average Class Size**

**Finding type:** Noncompliance: Significant deficiency in internal control over compliance

**Test Results:** 

**Condition:**

The District's average class size for Head Start did not meet the minimum average class size of 17.

**Effect:**

The average class size of the Head Start program was 16.84 students per class.

**Corrective Action:**

The District's Head Start Program has not established a corrective action plan to ensure the average Head Start class size is between 17 and 20 for four and five year old children. After reviewing the Head Start 2012-2012 fiscal year enrollment information the District will not meet this requirement. This will be an audit finding for the 2012 fiscal year.

**Legend for Test Results:**



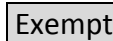
Passed – complete for 2012 fiscal year



All testing is not complete (Correction Action Plan not in place by 6/30/12)



Failed



Exempt from testing

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**APPENDIX B**

**TABLE: Corrective Action Plan Test Results by Department**

<b>Audit Finding Type</b>	<b>Instances</b>	<b>% of Total</b>	<b>Number of Tests/Verifications</b>	<b>Test Results by Responsible Department</b>
Repeat audit findings	15	56%	56	
New audit findings	12	44%		
<b>Total</b>	<b>27</b>			
Material Weakness audit findings	12	44%		
Significant Deficiency audit findings	11	41%		
Noncompliance - Audit findings	4	15%		
<b>Total Audit Findings</b>	<b>27</b>			
<b>Accounting/Finance - Total audit findings</b>	<b>12</b>		34	Passed 9.5
Material Weakness audit findings	6	50%		Incomplete 2.0
Significant Deficiency	4	33%		Failed .5
Noncompliance	2	17%		
Repeat	5	42%		
<b>Procurement Logistics - Total audit findings</b>	<b>4</b>		8	Passed 4.0
Material Weakness audit findings	2	50%		Incomplete 0.0
Significant Deficiency audit findings	1	25%		Failed 0.0
Noncompliance - Audit findings	1	25%		
Repeat	3	75%		
<b>Academics - Total audit findings</b>	<b>4</b>		4	Passed 2.0
Material Weakness audit findings	2	50%		Incomplete 0.0
Significant Deficiency	2	50%		Failed 2.0
Repeat	3	75%		
<b>Food Services - Total audit findings</b>	<b>3</b>		2	Passed 1.0
Material Weakness audit findings	1	33%		Incomplete 0.0
Significant Deficiency audit findings	1	33%		Failed 0.0
Noncompliance - Audit findings	1	33%		Exempt 2.0
Repeat	1	33%		
<b>Human Resources - Total audit findings</b>	<b>1</b>		2	Passed 1.0
Significant Deficiency - Audit finding	1	100%		Incomplete 0.0
Repeat	1	100%		Failed 0.0
<b>State and Federal- Total audit findings</b>	<b>2</b>		2	Passed 2.0
Significant Deficiency - Audit findings	2	100%		Incomplete 0.0
Repeat	1	50%		Failed 0.0
<b>OMB - Total audit findings</b>	<b>1</b>		4	Incomplete 1.0
Material Weakness	1	100%		
Repeat	1	100%		