

**APPENDIX A**

<b>Audit Findings and Corrective Actions</b>
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**FINANCIAL STATEMENT FINDINGS**

**2012-FS-01 Audit Adjustments – Payroll Benefits (Repeat)**

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

**Test Results:**



**Condition:**

In the government-wide and fund level financial statements, we identified and proposed certain material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances.

- The District entered into a new Union agreement which included the payment of compensated absence benefits to eligible employees upon retirement. However, the District calculated the benefit accrual using incorrect rates. In addition, the initial accrual included amounts attributable to certain employees who were not eligible for the benefits because they were not eligible for retirement under the terms of the union agreement.
- The District did not properly record the full amount of the liability due to the State of Michigan for unemployment benefits.
- The District did not properly record the amount of Termination Incentive Program (TIP) liability that should have been reported in the general fund.

**Effect:**

As a result of this condition, the District's internal accounting records were initially misstated by amounts that were material to the District's financial statements. The amount booked for compensated absences was initially overstated by approximately \$12 million in the government-wide statements; accrued unemployment was initially understated by approximately \$1 million in both the general fund and government-wide statements, and the amount for TIP was initially overstated by approximately \$0.8 million in the general fund.

**Corrective Action:**

The District will institute new policies and procedures to ensure that balances and calculations for compensated absences are correct. The policy will include evaluation methods, calculations and a review process. Specifically, the new processes will include:

- Review EFM orders and any related amendments issued during the fiscal year.
- Request from Labor Relations/General Counsel Office any pending or settled agreements pertaining to payroll related benefits during the fiscal year.

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- Conduct periodic meetings with Deputy CFO to assess EFM orders and settlement agreement impact on fund level and government-wide liabilities.
- Continue review of EFM orders and settlement agreements through the end of the fiscal year and subsequent periods before year end accruals are posted.
- Prepare preliminary liability calculations and submit to Financial Controller and Deputy CFO/CAO by August 15, 2014 for review and approval.

The District has instituted the following new policies and procedures to ensure the accrued unemployment balance are accurate at the end of the fiscal year:

- Record a standard monthly journal entry for unemployment expense during the FY.
- Adjust the monthly journal entries when quarterly unemployment files are received from the state.
- Adjust the monthly journal entries when unemployment invoices are received from the state.

The District will implement the following new procedures to ensure the accrued Termination Incentive Plan (TIP) liability balance is accurate at year end:

- By July 31<sup>st</sup>, obtain a list from Office of Payroll of retired employees and effective dates to verify that the correct population of employees is captured for the short term portion of the TIP accrual.
- Only employees with effective retirement dates as of July 1<sup>st</sup> of each year will be included in the calculation.
- Ensure that no grant funding sources are being used to record TIP payments.
- Perform a comprehensive review with the Financial Controller and Deputy CFO/CAO prior to recording the accrual.
- Discuss all policy and procedural changes with the external auditors to ensure the TIP accrual is properly recorded.

**2012-FS-02 Audit Adjustments – Unearned Revenue (Repeat)**

**Finding Type:** Significant weakness in internal controls over financial reporting

**Test Results:** 

**Condition:**

The unearned revenue related to Section 41a Bilingual was incorrectly calculated and recorded.

**Effect:**

Internal accounting records were misstated by amounts that were significant to the District's financial statements. Unearned revenue was initially overstated by approximately \$1.0 million in the general fund and government-wide statements.

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**Corrective Action:**

The District failed to write-off unspent Section 41a state-aid funds from the general ledger when the grant ended. To address this issue, the District will institute new policies and procedures to monitor monthly grant balances and expenditures to ensure funds are spent timely and appropriately to avoid carrying over unspent balances to subsequent years and/or returning unspent balances when the grant ends. The new policies and procedures will include the responsibilities of Grant Accounting, State and Federal Programs and responsible departments for monitoring grants. Grant Accounting will be responsible for writing-off unspent balances when the grant has expired and has an unspent balance.

**2012-FS-03 - Budget (Repeat)**

**Finding Type:** Significant weakness in internal controls over financial reporting

**Test Results:** 

**Condition:**

The District budgeted a fund deficit in the general fund, which violates Section 141.436 of Public Act 2 of 1968 and its approved deficit elimination plan. In addition, expenditures exceeded appropriations by significant amounts as disclosed in the notes to the financial statements. The District's current procedure includes a process of budget overrides that inappropriately allows actual expenditures to exceed budgeted expenditures at the account level. Finally, in the financial system the food service budget was increased by \$10 million without approval from the Emergency Manager.

**Effect:**

The ability to make appropriate budgetary and operational decisions based on budget and actual data could be inhibited as a result of expenditure overrides.

**Corrective Action:**

The District will continue to be in violation of Public Act 2, 1968 (PA), due to the cumulative deficit in the General Fund. The Public Act requires the District to include the cumulative deficit amount as part of its annual budget. Therefore, though the District approves a balanced annual operating budget for the Fiscal Year, this finding will remain until the cumulative deficit is budgeted to be eliminated.

The Office of Management and Budget (OMB) is relying on the implementation of PeopleSoft 9.2 to address the issue of actual expenditures exceeding budgeted expenditures at the account level. The implementation of FIN/SCM upgrade will not be deployed until July and August 2014; therefore the current audit findings will repeat for the 2013-2014 audit period.

Also, any budget increases will be reviewed by the Deputy CFO/CAO and approved by the Chief Financial/Administrative Officer.

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

**2013-SA-01 Allowable Costs/Cost Principles – Payroll Documentation (Repeat)**

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

**Test Results:** 

**Questioned Costs:**

- Special Education Cluster - \$168,844
- Title II, Part A - \$44,047
- Head Start - \$1,099
- Title L, Part A - \$172,591
- Career & Technical Education - \$22,512

**Condition:**

The pay rate used in calculating certain employees' compensation did not agree to documentation in personnel files. In addition, the District charged severance pay and payments for unused absence time as direct costs to federal programs rather than as allocated indirect costs.

**Effect:**

Pay rates used to calculate compensation for 28 of 285 payroll disbursements selected for testing did not agree to the approved pay rates documented in the personnel files. In addition, severance pay and payments for unused absence time, which were separately identified in its entirety by the pay code used in the accounting system, were charged directly to the grants. Finally, allowable payroll documentation for one journal entry used to move payroll costs into the Special Education Cluster was unavailable for testing.

**Corrective Action:**

The PeopleSoft compensation tables are updated manually when union contracts are changed. The Division of Human Resources (HR) is working with Technology and Information Services (IT) to develop a PeopleSoft edit report to be run after the compensation table has been updated. This edit report is to be used for comparing the compensation table rates with the Union contract published salary schedule. In addition, to ensuring employees' PeopleSoft compensation rates are correct and updated timely, HR and IT are in the process of developing edit reports to be run prior to each payroll to identify employees whose new compensation rates change by at least 10% to determine if any compensation rates need to be corrected.

Grant Accounting has implemented the following procedures and processes to ensure severance payments made to employees that were working under a grant are not charged as a direct cost to the grant:

- Grant accounting has provided the Office of Payroll with the following account streams to manually input severance payments in the PeopleSoft HCM system:
  - - 11.963100.28300.29000.00000.517930.0000000000
    - 11.963100.28300.29000.00000.638300.0000000000
    - The above account streams have been added to the general ledger chart of accounts.

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- Grant accounting will review all severance entries (pay codes TBS and TSE) for the 2013-14 fiscal year to determine if there were any severance payment charged directly to a grant.

The Office of Accounting will reissue and enforce its manual journal entry policy and procedures to ensure all submitted journal entries are submitted with appropriate supporting documentation.

**2013-SA-02 Allowable Costs/Cost Principles – In-kind Contributions (Repeat)**

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

**Test Results:** 

**Federal Programs:**

U.S. Department of Health and Human Services –

- Head Start (CFDA# 93.600); Passed through CDI; 2012-2013 Regular Head Start

**Questioned Costs: \$81,267**

**Condition:**

The District charged building supplies to the 2012-13 Regular Head Start program based on a projected per square foot rate plus paper supplies; however, the District was unable to support that actual costs to support the amounts charged had occurred. Also, there were 4 tutoring sheets and 10 time donation sheets that were not properly reviewed and approved.

**Effect:**

\$81,267 of in-kind contributions used as matching funds lacked proper documentation and support.

**Corrective Action:**

Officials from the District's Central Head Start Office had meetings/discussions with personnel from the Office of Auditor General and Facilities Management to ensure all future items charged as in-kind are fully supported by proper documentation. Based on those discussions, the director of the head start program made the decision to discontinue charging building supplies, utilities and maintenance costs as an in – kind contribution.

The Head Start Director will assign a clerical person to review all submitted tutoring and donation forms to ensure the forms are signed by a program official and hours reported on the forms agree to hours charged prior to calculating the monthly in-kind contribution/donation amount.

**Observations:**

Due to the decision to discontinue charging building supplies, utilities, and maintenance costs as part of the space costs used for the funding in – kind match, the condition cited in the prior year's report will no longer be applicable. The District will continue to use depreciation cost, which is the remaining component of

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space costs for the in-kind match calculation because it can be adequately supported. Therefore, the district's corrective action appears to be sufficient to ensure this portion of the finding is not repeated.

Regarding tutoring and donation sheets not being properly reviewed and approved (signed by program official), we performed a test to determine whether sheets contained evidence (signed) of being properly reviewed and approved. From the monthly donation sheets for the period September 2013 – April 2014, we selected 36 individual donation amounts for detail testing.

Each amount represents donations from either parent, reading corps, community or volunteers, home school connection, and parent activities. The results of our final test indicated that all sheets were properly signed by a program official evidencing review and approval, however the quantity of hours charged did not agree with the supporting detail provided for our review in 7 of the 36 items tested, or an exception rate of 19 percent. In 6 of the 7 instances, the hours charged exceeded the supporting detail. In one instance, the hours charged was less than the supporting detail. Therefore, the district's corrective action is not being executed to mitigate the risk that led to the audit finding.

**2013-SA-03 Allowable Costs/Cost Principles – 26 Pay Accrual Calculation**

**Finding Type:** Noncompliance; Material weakness in internal controls over compliance

**Test Results:** 

**Federal Programs:**

U.S. Department of Education:

- Title I, Part A (CFDA# 84.010 & 84.389); Passed through MDE; All project numbers
- Career & Technical Education (CFDA# 84.048); Passed through MDE; All project numbers
- Title II, Part A (CFDA# 84.367); Passed through MDE; All project numbers
- School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Passed; Passed through MDE; All project numbers
- U.S. Department of Health and Human Services –*
- Head Start (CFDA# 93.600); Passed through CDI; All project numbers

**Questioned Costs:** Title I, Part A - \$4,595

**Condition:**

In accruing summer payroll costs at year end, the District inadvertently utilized current salary amounts as of June 2013 rather than the appropriate rates that were in effect at various times throughout the fiscal year.

**Effect:**

The total amount accrued and paid for 3 individuals out of 19 tested were improperly calculated. In addition for 2 of the 19 individuals tested, the total accrual and payment was correct; however, the amount charged to federal versus nonfederal projects was improperly calculated.

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**Corrective Action**

The District has revised the 26 Pay process to ensure that proper data is being extracted from the system. An accrual of these amounts is created monthly based on actual expenditures. The new 26 Pay accrual method will eliminate fund and pay rate change errors because the accruals are based on actual data from each pay period. This process is being reviewed and approved by the Financial Controller on a monthly basis. In addition, there is a thorough review of split funded employees to determine if the correct amounts were accrued based on the Full Time Equivalent (FTE) and grant funding.

**2013-SA-04 - Eligibility – Proper Documentation of Income Verification (Repeat)**

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

**Test Results:** 

**Federal Programs:**

- U.S. Department of Health and Human Services -
- Head Start Cluster (CFDA# 93.600); Passed through CDI; All project numbers

**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.

**Effect:**

Of the 60 child records selected for testing, 2 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.

**Corrective Action:**

To address the deficiency related to income verification the District's Central Head Start Office conducted three service-training sessions during the period of September 4, 2013 to December 13, 2013 for instructional and other Head Start Staff that are responsible for enrolling students which included completing Eligibility (Income) Verification forms. In addition, the Head Start Director will assign a clerical employee to review income verification forms to ensure the provided income documentation is eligible in accordance with OMB Circular A-133 and the forms are completed properly before they are filed with student records.

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**Observation:**

Our review included examining training documentation for three separate training sessions that were held during the period of September 4, 2013 through December 13, 2013. Despite conducting three separate training sessions our test revealed some forms were not properly completed and there were instances where the form failed to indicate the verification of eligible types of income documentation, per the 45 CFR 1305.4(d) and OMB Circular A-133 Compliance Supplement was examined.

The OAG performed two detailed tests of Income Verification forms. During the first test the OAG selected and reviewed 99 Income Verification forms and 3 exceptions were disclosed. The OAG performed a detail test of all Eligibility (Income) Verification forms processed subsequent to the various training sessions identified above. A total of 29 forms were processed. The results of our test indicated three (3) forms, or just over 10 percent failed to identify which acceptable type of document was used to verify income. Two (2) forms indicated the student was “homeless” and living with grandparents, while the remaining form wrote “child support financial detail support.” Neither the status of “homeless” or “child support,” as a source of family income, qualify as an acceptable type of document to verify income. This was confirmed with the external auditors.

**2013-SA-05 – Reporting – 1512 Reports (Repeat)**

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

**Test Results:** 

**Federal Programs:**

U.S. Department of Education:

- School Improvement Grant (SIG) Cluster (CFDA# 84.388); Passed through MDE; All ARRA projects

**Questioned Costs:** None

**Condition:**

The District did not accurately report required information for the School Improvement Grant Cluster on the September 2012, December 2012, or March 2013 reports.

**Effect:**

An analysis of the voucher detail of the District indicates that the District did not report \$4,351,941 of payments related to 37 vendors on the September 2012 report, \$2,533,563 related to 33 vendors on the December 2012 report, and \$1,089,551 related to 27 vendors on the March 2013 report.



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**Corrective Action:**

The Department of State and Federal Programs corrective action was to recalculate all of the payments that were to be reported, going back to the inception of the American Recovery and Reinvestment Act (ARRA) funding to ensure all payments to vendors receiving a single payment of \$25,000 or more and vendors receiving cumulative payments of \$25,000 were captured. The external auditors did not identify any errors on the June 2013 report. The Department of State and Federal Programs will continue to closely monitor this process and work closely with accounting to ensure that any changes made during the year that impact vendor payments are captured prior to reporting vendor payments on the 1512 reports.

**2013-SA-06 – Special Tests & Provisions – Schools in Need of Improvement (Repeat)**

**Finding Type:** Noncompliance

**Test Results:**



**Federal Programs:**

U.S. Department of Education -

- Title I, Part A Cluster (CFDA# 84.010 & 84.389); Passed through MDE; All project numbers

**Questioned Costs:** None

**Condition:**

For the 2012 grant year, certain Title I, Part A eligible schools identified for improvement did not spend 10% of their funding on professional development, as required.

**Effect:**

Of the 8 schools selected during our testing, 2 schools did not spend 10% of their Title I, Part A expenditures for professional development. Ultimately, teachers in these two schools are not receiving the level of professional development that was determined to be needed to impact student performance.

**Corrective Action:**

The Office of Title I/Section 31a identifies all schools that are designated as either Priority or Focus schools as defined by the Michigan Department of Education in its annual Top-to-Bottom school listing. The Compliance Office uses a monthly progress report for schools that are identified as either Priority or Focus schools. This report will be forwarded to the appropriate Assistant Superintendent with a request to intervene when necessary to ensure grant funds are spent for school improvement. In addition, when a school is not making adequate progress for spending grant funds the Office of Title I/Section 31a will work closely with school administration to develop a plan that includes scheduled activities, timeframes for completion and costs to ensure the school meets their spending thresholds.