



**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Single Audit Report

June 30, 2006

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

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**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Education of the School District  
of the City of Detroit Public Schools:

**Compliance**

We have audited the compliance of the Detroit Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Detroit Public Schools' major federal programs are identified in the Summary of Auditors' Results Section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Detroit Public Schools' management. Our responsibility is to express an opinion on the Detroit Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Detroit Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Detroit Public Schools' compliance with those requirements.

As described in items 2006-20, 2006-21, 2006-22, 2006-23, 2006-24, 2006-25, 2006-26, 2006-27, 2006-28, 2006-29, 2006-30, 2006-31, 2006-32, 2006-33, 2006-34, 2006-36, 2006-37, 2006-38, 2006-40, and 2006-41 in the accompanying schedule of findings and questioned costs, the Detroit Public Schools did not comply with the requirements regarding activities allowed or unallowed, allowable costs/cost principles that are applicable to Title I-A, Reading First, Vocational Education, Special Education; cash management for Title I-A, Vocational Education, 21st Century Learning Community, Reading First, Title II, Special Education; period of availability for Title I-A, Vocational Education, Special Education; equipment & real property management for Title I-A; procurement, suspension and debarment for Title I-A, Reading First, Special Education, Vocation Education, Head Start; reporting for Title I-A, Vocational Education, Reading First, Title II, special tests and provisions for Title I-A, Vocational Education, 21<sup>st</sup> Century Learning Community, Special Education, and Head Start. Compliance with such requirements is necessary, in our opinion, for the Detroit Public Schools to comply with the requirements applicable to these programs.



In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Detroit Public Schools did not comply in all material respects, with the requirements referred to above that are applicable to the Title I-A program. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the Detroit Public Schools complied, in all material respects, with the requirements referred to above that are applicable to the Vocation Education, 21st Century Learning Community, Reading First, Special Education Cluster, and the Head Start programs. Also, in our opinion, the Detroit Public Schools complied, in all material respects, with the requirements referred to above that are applicable to the Child Nutrition and Title II programs for the year ended June 30, 2006.

### **Internal Control over Compliance**

The management of the Detroit Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Detroit Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Detroit Public Schools' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2006-20, 2006-21, 2006-22, 2006-23, 2006-24, 2006-25, 2006-26, 2006-27, 2006-28, 2006-29, 2006-30, 2006-31, 2006-32, 2006-33, 2006-34, 2006-35, 2006-36, 2006-37, 2006-38, 2006-39, 2006-40, and 2006-41.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-21, 2006-22, 2006-23, 2006-25, 2006-27, 2006-31, 2006-33, 2006-36, 2006-37, 2006-38, and 2006-41 to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the State of Michigan, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

**KPMG LLP**

Detroit, Michigan  
November 30, 2006



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## **Independent Auditors' Report on Supplementary Information**

Board of Education of the School District  
of the City of Detroit Public Schools:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Detroit Public Schools (the School District) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 22, 2006.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the School District taken as a whole. The supplementary information included in the schedule of expenditures of federal awards (SEFA) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the school board and management of the School District and the State of Michigan who have previously received the financial statements of the School District as of and for the year ended June 30, 2006, and our unqualified opinion thereon, for use in evaluating those financial statements and is not intended to be and should not be used for any other purpose.

**KPMG LLP**

Detroit, Michigan  
November 22, 2006

**THE SCHOOL DISTRICT OF THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<b>Program title/project number/subrecipient name</b>	<b>CFDA number</b>	<b>(Unaudited) approved award amount</b>	<b>(Unaudited) (memo only) prior-year(s) expenditures</b>	<b>(Unaudited) accrued (deferred) revenue at July 1, 2005</b>	<b>Adjustments and transfers</b>	<b>Federal funds/ payments-in-kind received</b>	<b>June 30, 2006 expenditures</b>	<b>Accrued (deferred) revenue at June 30, 2006</b>
<b>Clusters:</b>								
Child Nutrition Cluster – U.S. Department of Agriculture: Passed through the Michigan Department of Education:								
National School Breakfast Program:								
Project number 051970	10.553	\$ 8,661,794	8,493,763	1,773,504	(1,180,554)	1,614,070	1,021,120	\$ —
Project number 061970		6,923,266	—	—	—	6,923,266	7,452,763	529,497
Total National School Breakfast Program		15,585,060	8,493,763	1,773,504	(1,180,554)	8,537,336	8,473,883	529,497
National School Lunch Program:								
Project number 041960	10.555	20,651,199	22,799,323	—	—	10,046	10,046	—
Project number 041980		213,392	213,392	66,644	(66,644)	—	—	—
Project number 051950		2,922,153	2,344,803	305,967	(305,967)	516,468	516,468	—
Project number 051960		21,959,224	—	4,053,213	(2,627,208)	3,845,200	2,419,194	(1)
Project number 051980		234,152	—	—	—	10,380	10,380	—
Project number 061950		2,234,172	—	—	—	2,234,172	2,234,172	—
Project number 061960		16,679,221	—	—	—	16,679,221	18,034,560	1,355,339
Project number 061980		214,305	—	—	—	214,300	216,593	2,293
Total National School Lunch Program		65,107,818	25,357,518	4,425,824	(2,999,819)	23,509,787	23,441,413	1,357,631
Total Child Nutrition Cluster		80,692,878	33,851,281	6,199,328	(4,180,373)	32,047,123	31,915,296	1,887,128
Special Education Cluster – U.S. Department of Education: Passed through the Wayne County ISD:								
IDEA:								
Education of the handicapped 03-04	84.027	22,644,563	22,644,563	(20,000)	—	—	—	(20,000)
Education of the handicapped 04-05		24,546,835	16,313,854	1,585,750	—	9,818,731	7,940,122	(292,859)
Education of the handicapped 05-06		24,546,673	—	—	—	16,888,135	18,800,280	1,912,145
WCRESA IDEA Center Expansion 04-05		3,935,295	3,493,740	(114,037)	—	400,864	64,252	(450,649)
WCRESA IDEA Center Expansion 05-06		3,839,600	—	—	—	3,455,640	3,536,572	80,932
Assistive Technology Training and Information Center Grant 04-05		499,906	487,375	37,459	—	49,990	—	(12,531)
Assistive Technology Training and Information Center Grant 05-06		500,000	—	—	—	450,000	383,499	(66,501)
Barsamian Assessment Center – Capacity Building Center – Project		375,475	267,649	(121,826)	—	39,424	3,660	(157,590)
Barsamian Assessment Center – Capacity Building Center – Project		394,249	387,091	32,266	—	382,212	314,863	(35,083)
Total IDEA		81,282,596	43,594,272	1,399,612	—	31,484,996	31,043,248	957,864
Preschool Incentive:								
Preschool Incentive 04-05 – Project number not available	84.173	874,904	700,153	(53,852)	—	83,778	—	(137,630)
Preschool Incentive 05-06 – Project number not available		837,783	—	—	—	651,518	697,872	46,354
Infant Interagency – Project number not available 04-05		87,938	70,304	26,335	—	36,620	10,285	—
Infant Interagency – Project number not available 05-06		87,938	—	—	—	43,969	69,404	25,435
Total Preschool Incentive		1,888,563	770,457	(27,517)	—	815,885	777,561	(65,841)
Total Special Education Cluster		83,171,159	44,364,729	1,372,095	—	32,300,881	31,820,809	892,023
Medicaid Cluster:								
U.S. Department of Health and Human Services: Passed through the Wayne County ISD – Medical Assistance Program:								
Medicaid Outreach 04-05	93.778	585,675	585,675	—	—	585,675	585,675	—
Medicaid Outreach 05-06		—	647,773	—	—	647,774	647,774	—
Pupil transportation		—	287,697	—	—	287,697	287,697	—
Total Medicaid Cluster		585,675	1,521,145	—	—	1,521,146	1,521,146	—
Other federal awards:								
U.S. Project HRRTEP:								
Project number not available		496,721	496,421	102,083	—	102,083	—	—
Project number not available		225,604	56,536	56,536	—	173,146	116,610	—
Project number not available		225,604	—	—	—	—	69,740	69,740
Total U.S. Project HRRTEP		947,929	552,957	158,619	—	275,229	186,350	69,740

**THE SCHOOL DISTRICT OF THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<b>Program title/project number/subrecipient name</b>	<b>CFDA number</b>	<b>(Unaudited) approved award amount</b>	<b>(Unaudited) (memo only) prior-year(s) expenditures</b>	<b>(Unaudited) accrued (deferred) revenue at July 1, 2005</b>	<b>Adjustments and transfers</b>	<b>Federal funds/ payments-in-kind received</b>	<b>June 30,2006 expenditures</b>	<b>Accrued (deferred) revenue at June 30, 2006</b>
Carol M. White Physical Fitness	94.215F	373,671	373,670	37,786	—	37,786	—	—
Carol M. White Physical Fitness	94.215F	292,096	49,298	49,298	—	104,298	55,000	—
Carol M. White Physical Fitness	94.215F	373,671	—	—	—	158,898	125,688	(33,210)
Total Carol M. White Physical Fitness		1,039,438	422,968	87,084	—	300,982	180,688	(33,210)
Linking Kids to Learning	84.Unk	280,125	272,326	(7,799)	2,869	—	—	(4,930)
Linking Kids to Learning	84.Unk	322,214	237,468	237,468	(2,869)	282,121	47,522	—
Total Linking Kids to Learning		602,339	509,794	229,669	—	282,121	47,522	(4,930)
Transition to Teaching Best	84.350A	363,666	566,092	45,359	—	50,494	5,135	—
Transition to Teaching Best		566,092	77,981	77,981	—	235,428	157,447	—
Transition to Teaching Best		284,000	—	—	—	120,155	89,273	(30,882)
Total Transition to Teaching Best		1,213,758	644,073	123,340	—	406,077	251,855	(30,882)
21st Century Comm Learning Center 05211004029/042110RC0429	84.287	850,000	733,531	246,043	(189,179)	145,952	89,088	—
21st Century Comm Learning Center 0521100430	84.287	850,000	532,906	18,080	—	79,734	61,654	—
21st Century Comm Learning Center 05211004032	84.287	850,000	523,608	225,581	(197,252)	148,921	120,592	—
21st Century Comm Learning Center 052110 21sr078	84.287	875,000	569,627	198,173	(203,409)	34,754	39,990	—
21st Century Comm Learning Center 052110 21sr079	84.287	850,000	686,758	316,566	(165,474)	262,031	72,322	(38,617)
21st Century Comm Learning Center 052110 21sr03060	84.287	850,000	811,537	388,829	(349,091)	41,580	1,842	—
21st Century Comm Learning Center 052110 21sr03061	84.287	850,000	606,732	148,259	(110,814)	49,010	11,565	—
21st Century Comm Learning Center 052110 21sr03062	84.287	850,000	592,615	167,622	(148,736)	183,679	164,793	—
21st Century Comm Learning Center 052110 21sr03063	84.287	850,000	600,274	303,005	(322,848)	(19,843)	—	—
21st Century Comm Learning Center 052110 21sr03064	84.287	850,000	723,219	458,015	(427,134)	(29,043)	(59,924)	—
21st Century Comm Learning Center 052110 21sr03065	84.287	850,000	665,423	86,894	(74,581)	37,703	25,390	—
21st Century Comm Learning Center 062100 04-030	84.287	850,000	—	—	—	644,192	683,827	39,635
21st Century Comm Learning Center 0621100 21st03-063	84.287	850,000	—	—	—	742,541	780,417	37,876
21st Century Comm Learning Center 062100 21st 3062	84.287	850,000	—	—	—	792,493	715,663	(76,830)
21st Century Comm Learning Center 052110/st02708	84.287	875,000	—	—	—	—	—	—
21st Century Comm Learning Center 062110/04-029	84.287	850,000	—	—	—	—	721,203	721,203
21st Century Comm Learning Center 062100 04-032	84.287	850,000	—	—	—	373,552	718,156	344,604
21st Century Comm Learning Center 062110/31st02-078	84.287	875,000	—	—	—	691,913	742,457	50,544
21st Century Comm Learning Center 062100 21st02-79	84.287	875,000	—	—	—	—	611,392	611,392
21st Century Comm Learning Center 062100 21st03-060	84.287	850,000	—	—	—	—	743,699	743,699
21st Century Comm Learning Center 062100 21st03-061	84.287	850,000	—	—	—	—	754,776	754,776
21st Century Comm Learning Center 062100 21st 064	84.287	850,000	—	—	—	—	744,043	744,043
21st Century Comm Learning Center 062100 21st 065	84.287	850,000	—	—	—	—	671,024	671,024
Smaller Learning Community	84.287	2,200,000	1,099,591	339,827	—	825,168	481,277	(4,064)
Smaller Learning Community Phase 2	84.287	2,500,000	669,161	169,161	—	787,974	462,951	(155,862)
Southeastern Village Community Learning Centers Program	84.287B	1,400,000	1,356,115	53,135	(53,135)	—	—	—
New Century After-School Community Learning Centers Program	84.287B	1,150,080	981,086	32,572	416,105	448,677	—	—
New Century After-School Community Learning Centers Program	84.287B	1,150,080	901,199	837,442	(837,442)	—	—	—
Total Community Learning		28,050,160	12,053,382	3,989,204	(2,662,990)	6,240,988	9,358,197	4,443,423
The National Science Foundation – Direct program:								
Detroit Urban Systemic Initiative – Project number ESR-9908234	47.049	11,500,000	5,725,015	71,624	—	399,000	289,119	(38,257)
Total noncluster direct programs		43,353,624	19,908,189	4,659,540	(2,662,990)	7,904,397	10,313,731	4,405,884

**THE SCHOOL DISTRICT OF THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Program title/project number/subrecipient name</u>	<u>CFDA number</u>	<u>(Unaudited) approved award amount</u>	<u>(Unaudited) prior-year(s) expenditures</u>	<u>(Unaudited) accrued (deferred) revenue at July 1, 2005</u>	<u>Adjustments and transfers</u>	<u>Federal funds/ payments-in-kind received</u>	<u>June 30,2006 expenditures</u>	<u>Accrued (deferred) revenue at June 30, 2006</u>
U.S. Department of Education:								
Passed through the Michigan Department of Education:								
Education Consolidation and Improvement Act:								
Title I:	84.010							
Chapter I regular (Title I Part A) 03-04 – Project number 041530 304		106,404,257	106,404,257	—	—	(1,271,561)	(1,271,561)	—
Chapter I regular (Title I Part A) 03-04 – Project number 041530 405		27,256,922	18,995,085	10,995,085	—	12,899,172	1,904,087	—
Chapter I regular (Title I Part A) 04-05 – Project number 041530 - RC0405/051530/405		117,049,816	83,624,193	20,977,933	1	48,016,998	27,039,064	—
Chapter I regular (Title I Part A) 04-05 – Project number 051530 0506		19,500,705	—	—	—	15,009,968	16,547,470	1,537,502
Chapter I regular (Title I Part A) 05-06 – Project number 0615300506		136,211,208	—	—	—	64,143,111	80,219,002	16,075,891
Title One 2% School Impro 00415500405		2,542,700	—	—	—	2,542,700	1,593,195	(949,505)
Title One 2% School Impro 00415500405		5,085,000	—	—	—	—	455,262	455,262
Title I Schoolwide Plan Grants 05120/0506		24,000	—	—	—	5,500	10,500	5,000
Title I Part D 04-05 – Project number 0517000405		397,141	301,953	40,795	(52,345)	(12,623)	(1,073)	—
Title I Part D 04-05 – Project number 051700/506		70,000	—	—	—	—	67,501	67,501
Total Title I		414,541,749	209,325,488	32,013,813	(52,344)	141,333,265	126,563,447	17,191,651
Migrant Education:	84.011							
Project number 051830 2005		198,772	62,249	62,249	—	198,772	136,523	—
Project number UNK		198,772	—	—	—	—	13,474	13,474
Project number 051890 0405		345,436	287,809	287,809	(284,525)	60,911	57,627	—
Project number 061890 0506		395,666	—	—	—	184,379	206,165	21,786
Total Migrant Education		1,138,646	350,058	350,058	(284,525)	444,062	413,789	35,260
Title III Limited English								
Project number 045800405	84.365	289,778	289,778	289,778	(289,778)	—	—	—
Project number 050580 0405		861,987	600,838	600,838	—	861,987	261,149	—
Project number 050580 0506		310,077	—	—	—	175,000	175,000	—
Project number 060580 0506		1,666,975	—	—	—	666,203	745,502	79,299
Total Title III		3,128,817	890,616	890,616	(289,778)	1,703,190	1,181,651	79,299
Title VI:	84.298							
Project number 040250 0405		665,815	232,756	232,756	(665,815)	—	433,059	—
Project number 050250 0405		1,248,196	1,489,164	1,489,164	(240,968)	1,248,196	—	—
Project number 050250 0506		370,362	—	—	—	158,056	132,767	(25,289)
Project number 060250 0506		1,394,262	—	—	—	862,771	881,587	18,816
Total Title VI		3,678,635	1,721,920	1,721,920	(906,783)	2,269,023	1,447,413	(6,473)
Drugfree Schools and Communities Natl Program:								
Project number 042600/0CS03A	84.184	93,272	91,267	91,267	—	93,272	—	(2,005)
Project number 042600/0cs03B	84.184	91,189	91,267	91,267	—	91,189	(78)	—
Project number 042600 CS205		10,500	—	—	—	10,500	7,607	(2,893)
Total Drugfree Schools and Communities Natl Program		194,961	182,534	182,534	—	194,961	7,529	(4,898)
Safe and Drugfree Schools and Communities:	84.186							
Project number 0328600304		37,450	—	(373)	373	—	—	—
Project number 0328600304		659,554	—	(9,531)	9,531	—	—	—
Project number 0428600304		1,346,427	1,317,354	(29,072)	29,072	—	—	—
Project number 0528600405		1,939,688	821,443	(652,221)	—	466,024	1,118,245	—
Project number 0528600506		834,396	—	—	—	238,406	238,406	—
Project number 0628600506		2,792,100	—	—	—	1,838,419	1,212,181	(626,238)
Total Safe and Drugfree Schools and Communities		7,609,615	2,138,797	(691,197)	38,976	2,542,849	2,568,832	(626,238)



**THE SCHOOL DISTRICT OF THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<b>Program title/project number/subrecipient name</b>	<b>CFDA number</b>	<b>(Unaudited) approved award amount</b>	<b>(Unaudited) (memo only) prior-year(s) expenditures</b>	<b>(Unaudited) accrued (deferred) revenue at July 1, 2005</b>	<b>Adjustments and transfers</b>	<b>Federal funds/ payments-in-kind received</b>	<b>June 30,2006 expenditures</b>	<b>Accrued (deferred) revenue at June 30, 2006</b>
Homeless Children and Youths:	84.196							
Project number 02320-001C-0405		12,429	—	(114)	114	—	—	—
Project number 052320-0405		325,739	253,339	26,150	—	98,550	72,400	—
Project number 05230 0506-c		17,040	—	—	—	17,040	17,040	—
Project number 062320 0506		284,426	—	—	—	103,498	171,191	67,693
<b>Total Homeless Children and Youths</b>		<b>639,634</b>	<b>253,339</b>	<b>26,036</b>	<b>114</b>	<b>219,088</b>	<b>260,631</b>	<b>67,693</b>
Emergency Immigration Education Assistance:	84.162							
Project number 041840 0405		70,756	70,756	70,756	(57,795)	12,961	—	—
Project number 051840 0405		75,139	—	—	(81)	18,943	19,024	—
<b>Total Emergency Immigration Education Assistance</b>		<b>145,895</b>	<b>70,756</b>	<b>70,756</b>	<b>(57,876)</b>	<b>31,904</b>	<b>19,024</b>	<b>—</b>
Adult Basic Education:	84.002							
Project number 041130 510335		659,144	—	—	(23,165)	(23,163)	—	(2)
Project number 051120 55000394		23,061	22,199	22,199	—	23,061	—	(862)
Project number 051130 510335		805,619	754,830	346,573	23,165	397,362	26,776	(848)
Project number 061120 6500395		25,000	—	—	—	9,462	16,285	6,823
Project number 061130 610336		1,725,700	—	—	—	1,389,670	1,310,485	(79,185)
<b>Total Adult Basic Education</b>		<b>3,238,524</b>	<b>777,029</b>	<b>368,772</b>	<b>—</b>	<b>1,796,392</b>	<b>1,353,546</b>	<b>(74,074)</b>
Comprehensive School Reform Demonstration:	84.332							
Project number 041870 0405		983,225	878,374	73,834	(61,353)	117,332	104,851	—
Project number 051870		781,000	—	—	—	449,856	415,632	(34,224)
<b>Total Comprehensive School Reform Demonstration</b>		<b>1,764,225</b>	<b>878,374</b>	<b>73,834</b>	<b>(61,353)</b>	<b>567,188</b>	<b>520,483</b>	<b>(34,224)</b>
Vocational Education – Basic Grants to States (Perkins II):	84.048							
Project number 53520 501224		4,410,663	4,150,091	1,324,609	(1)	1,585,181	260,572	(1)
Project number 063520 6012.24		4,543,578	—	—	—	2,840,439	3,564,383	723,944
<b>Total Vocational Education – Basic Grants to States (Perkins II)</b>		<b>8,954,241</b>	<b>4,150,091</b>	<b>1,324,609</b>	<b>(1)</b>	<b>4,425,620</b>	<b>3,824,955</b>	<b>723,943</b>
Vocational Education Tech Prep:	84.243							
Project number 53450 501424		147,944	119,948	66,746	—	82,534	15,788	—
Project number 063540 6014-24		168,172	—	—	—	69,471	72,302	2,831
<b>Total Vocational Education Tech Prep</b>		<b>316,116</b>	<b>—</b>	<b>66,746</b>	<b>—</b>	<b>152,005</b>	<b>88,090</b>	<b>2,831</b>
Michigan Department of Education Goals 2000-Goals 96-97	84.276							
Goals 2000-Goals 2000 96-97		50,000	—	(4,119)	4,119	—	—	—
<b>Total Michigan Department of Education Goals 2000-Goals 2000 96-97</b>		<b>50,000</b>	<b>—</b>	<b>(4,119)</b>	<b>4,119</b>	<b>—</b>	<b>—</b>	<b>—</b>
Technology Literacy Challenge:	84.318							
Project number 34280-2		802,000	800,722	(1,278)	1,278	—	—	—
Project number 044290 0405		1,008,637	—	1,008,637	—	1,075,457	66,820	—
Project number 054280-3		2,174,674	—	—	—	53,250	53,250	—
Project number 054280-4		799,750	—	—	—	148,482	145,584	(2,898)
Project number 005280 5A		2,012,633	—	—	—	31,201	31,201	—
Project number 054290 0405		3,284,393	—	(651,516)	—	1,676,297	2,327,813	—
Project number 0542900506		933,970	—	—	—	126,888	80,600	(46,288)
Project number 0642900506		2,525,364	—	—	—	350,000	—	(350,000)
<b>Total Technology Literacy Challenge</b>		<b>13,541,421</b>	<b>800,722</b>	<b>355,843</b>	<b>1,278</b>	<b>3,461,575</b>	<b>2,705,268</b>	<b>(399,186)</b>

**THE SCHOOL DISTRICT OF THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<b>Program title/project number/subrecipient name</b>	<b>CFDA number</b>	<b>(Unaudited) approved award amount</b>	<b>(Unaudited) (memo only) prior-year(s) expenditures</b>	<b>(Unaudited) accrued (deferred) revenue at July 1, 2005</b>	<b>Adjustments and transfers</b>	<b>Federal funds/ payments-in-kind received</b>	<b>June 30, 2006 expenditures</b>	<b>Accrued (deferred) revenue at June 30, 2006</b>
Reading First State Grants:	84.357							
Project number 042930 020302		6,113,348	6,353,869	1,600,042	(2,382,014)	(15,306)	766,666	—
Project number 042930 020303		5,555,536	4,187,007	2,685,795	(2,998,788)	1,055,536	1,368,529	—
Project number 052930 0506		7,222,065	—	—	—	3,615,366	4,581,090	965,724
Project number 062920 050601B		16,931	—	—	—	16,931	16,931	—
Project number 062930 040302		589,630	—	—	—	296,956	530,161	233,205
Total Reading First State Grants		<u>19,497,510</u>	<u>10,540,876</u>	<u>4,285,837</u>	<u>(5,380,802)</u>	<u>4,969,483</u>	<u>7,263,377</u>	<u>1,198,929</u>
Title II , Part A Teacher Training/ Principal Training:	84.367							
Project number 045200405		1,174,155	1,174,765	(13,725)	—	(13,725)	—	—
Project number 0505200405		21,400,904	19,176,608	17,716,717	—	20,611,813	2,895,096	—
Project number 0605200506		4,331,241	—	—	—	1,174,257	20,016,534	18,842,277
Project number 0505200506		204,672	—	—	—	204,672	204,672	—
Total Title II , Part A Teacher Training/Principal Training		<u>27,110,972</u>	<u>20,351,373</u>	<u>17,702,992</u>	<u>—</u>	<u>21,977,017</u>	<u>23,116,302</u>	<u>18,842,277</u>
Total noncluster programs passed through the Michigan Department of Education		<u>505,550,961</u>	<u>252,431,973</u>	<u>58,739,050</u>	<u>(6,988,975)</u>	<u>186,087,622</u>	<u>171,334,337</u>	<u>36,996,790</u>
U.S. Department of Education:								
Passed Through the Michigan Department of Education (MDE)	84.334							
MDE Gear-up 03-04		579,546	565,376	30,142	(30,142)	—	—	—
MDE Gear-up 04-05		569,706	—	393,454	—	483,642	90,820	632
MDE Gear-up 05-06		—	—	—	—	113,114	290,252	177,138
Total U.S. Department of Education noncluster programs		<u>1,149,252</u>	<u>565,376</u>	<u>423,596</u>	<u>(30,142)</u>	<u>596,756</u>	<u>381,072</u>	<u>177,770</u>
U.S. Department of Health and Human Services:								
Passed through the City of Detroit Neighborhood Services Department – Headstart:	93.600							
Headstart 03-04 – Project number not available		7,882,861	8,227,785	53,846	(53,846)	—	—	—
Headstart 04-05 – Project number not available		7,272,529	—	354,319	(179,239)	3,414,058	3,238,978	—
Headstart 05-06 – Project number not available		8,794,855	—	—	—	2,251,280	2,974,432	723,152
Headstart Special Education 04-05 – Project number not available		147,120	—	50,066	2,305	74,481	22,110	—
Headstart Special Education 05-06 – Project number not available		161,431	—	—	—	171,685	165,594	(6,091)
Total noncluster programs passed through the City of Detroit		<u>24,258,796</u>	<u>8,227,785</u>	<u>458,231</u>	<u>(230,780)</u>	<u>5,911,504</u>	<u>6,401,114</u>	<u>717,061</u>
Total U.S. Department of Health and Human Services noncluster programs		<u>24,258,796</u>	<u>8,227,785</u>	<u>458,231</u>	<u>(230,780)</u>	<u>5,911,504</u>	<u>6,401,114</u>	<u>717,061</u>

**THE SCHOOL DISTRICT OF THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Program title/project number/subrecipient name</u>	<u>CFDA number</u>	<u>(Unaudited) approved award amount</u>	<u>(Unaudited) (memo only) prior-year(s) expenditures</u>	<u>(Unaudited) accrued (deferred) revenue at July 1, 2005</u>	<u>Adjustments and transfers</u>	<u>Federal funds/ payments-in-kind received</u>	<u>June 30,2006 expenditures</u>	<u>Accrued (deferred) revenue at June 30, 2006</u>
U.S. Department of Agriculture: Passed through the Michigan: Department of Education: Food Distribution:	10.550							
Entitlement commodities		2,349,225	—	—	—	2,091,419	2,091,419	—
Bonus commodities		533,270	—	—	—	147,997	147,997	—
Total Food Distribution		2,882,495	—	—	—	2,239,416	2,239,416	—
Child Care Food Program:	10.558							
Project number 041920		40,408	40,408	33,526	(33,526)	—	—	—
Project number 519200		127,031	187,715	69,959	33,526	105,478	1,993	—
Project number 052010		21,553	4,391	2,030	—	4,660	4,537	1,907
Project number 061920		114,874	—	—	—	264,046	299,039	34,993
Project number 062010		—	—	—	—	13,152	31,537	18,385
Total Child Care Food Program		303,866	232,514	105,515	—	387,336	337,106	55,285
Summer Food Serv Prog for Children:	10.559							
Project number 050900		21,540	—	—	—	21,540	21,540	—
Project number 051900		2,230	—	—	—	2,230	2,230	—
Total Summer Food Serv Prog for Children		23,770	—	—	—	23,770	23,770	—
Total U.S. Department of Agriculture noncluster programs		3,210,131	232,514	105,515	—	2,650,522	2,600,292	55,285
U.S. Department of Housing and Urban Development: Passed through the City of Detroit Department of Health and Human Services:	14.244							
Title XX Empowerment Zone – Project number not available		96,510	76,545	—	—	—	—	—
Passed through City of Detroit Planning and Development – Title XX Empowerment Zone:	14.244							
Empowerment Zone – Detroit Compact – Project number not available		606,000	296,200	2,035	—	2,035	—	—
Empowerment Zone – Health Clinics – Project number not available		42,966	98,417	55,451	—	55,451	—	—
Total Title XX Empowerment Zone		648,966	394,617	57,486	—	57,486	—	—
Total U.S. Department of Housing and Urban Development noncluster programs		745,476	471,162	57,486	—	57,486	—	—
Passed through City of Detroit:	17.259							
WIA Breithaupt CTC IN School 03-04		346,960	303,960	50,710	—	50,710	—	—
WIA Breithaupt CTC IN School 04-05		306,000	261,924	261,924	—	279,848	17,924	—
WIA Breithaupt CTC IN School 05-06		—	—	—	—	160,581	160,581	—
WIA Breithaupt CTC OUT School 03-04		149,192	36,060	97,214	—	—	—	97,214
WIA Breithaupt CTC OUT School 04-05		—	11,140	11,140	—	—	—	11,140
WIA Breithaupt CTC OUT School 05-06		—	—	—	—	—	—	—
Total WIA Breithaupt		802,152	613,084	420,988	—	491,139	178,505	108,354
U.S. Department of Labor:	17.255							
Carnegie Cognitive Algebra		129,000	105,804	25,000	—	25,000	—	—
Carnegie Cognitive Algebra		—	—	—	—	26,003	78,188	52,185
Workfirst Adult		606,700	—	110,120	—	110,120	—	—
Workfirst Adult		509,628	354,030	354,030	—	482,026	121,665	(6,331)
Workfirst Adult		509,628	—	—	—	—	273,616	273,616
Total U.S. Department of Labor		1,754,956	459,834	489,150	—	643,149	473,469	319,470
Total federal awards		\$ 745,275,060	362,647,072	72,924,979	(14,093,260)	270,211,725	256,939,771	\$ 45,559,765

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Notes to Schedule of Expenditures of Federal Awards

June 30, 2006

**(1) Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Detroit Public Schools (the School District) and is presented on the same basis of accounting as the basic financial statements of the School District. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**(2) Noncash Assistance**

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

**(3) Grant Section Auditors' Report**

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditors'.

**(4) Adjustments and Transfers**

During the year ended June 30, 2006, adjustments and transfers in the amount of \$14,070,095 were made to write off receivables not expected to be collected and to return grant payments received in advance that were not spent before the awards had expired.

There is also an adjustment of \$1,271,561 made by the Michigan Department of Education. This was related to an over payment made in the previous year. This amount was deducted from the total expenditures of the current fiscal year.



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**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Education of the School District  
of the City of Detroit Public Schools:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2006, which collectively comprise the Detroit Public Schools' basic financial statements, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Detroit Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Detroit Public Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-09, 2006-11, 2006-12, 2006-13, 2006-14, 2006-15, 2006-16, 2006-17, 2006-18, and 2006-19.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, 2006-09, 2006-11, 2006-12, and 2006-16 to be material weaknesses.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Detroit Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2006-10.

This report is intended solely for the information and use of the audit committee, management, the State of Michigan, and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Detroit, Michigan  
November 22, 2006

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Section I – Summary of Auditors’ Results**

- (a) The type of report issued on the financial statements: Unqualified
- (b) Reportable conditions in internal control were disclosed by the audit of financial statements: Yes
- (c) Material weaknesses: Yes
- (d) Noncompliance that is material to the financial statements: Yes
- (e) The type of report issued on compliance for major programs: (each major program listed separately in the table below)

<b>Unqualified</b>	<b>Qualified</b>	<b>Adverse</b>
Child Nutrition (CFDA # Various)	Vocational Education (CFDA # 84.048)	Title I-A (CFDA # 84.010)
Title II (CFDA# 84.367)	21st Century Community Learning Centers (CFDA# 84.287)	
	Reading First (CFDA # 84.357)	
	Special Education Cluster (CFDA # Various)	
	Head Start (CFDA # 93.600)	

- (f) Any audit findings that are required to be reported under Section 501(a) of OMB Circular A-133: Yes
- (g) Major programs: Title I-A (CFDA # 84.010); Vocational Education (CFDA # 84.048); 21st Century Learning Community (CFDA # 84.287); Reading First (CFDA # 84.357); Title II (CFDA # 84.367); Head Start (CFDA # 93.600); Child Nutrition Cluster (CFDA # Various); Special Education Cluster (CFDA # Various)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

**2006-01          Financial Reporting**

***Criteria***

The process used by management to prepare the annual financial statements is manual in nature and labor intensive. The process requires a significant number of manual analyses and adjustments.

***Condition***

The overall preparation of financial statements and related footnote disclosures and other additional information should include a process that ensures that accounting information is accumulated, processed, summarized, and presented fairly in a complete set of financial statements on a timely basis.

***Cause***

The financial reporting process is not adequately designed to effectively accumulate process, summarize, and present fairly a complete set of financial statements on a timely basis.

***Effect***

The lack of internal controls over the financial reporting process increases the risk of inaccurate financial reporting and timeliness.

***Recommendation***

The School District should make a focused effort to improve the internal controls over financial reporting and thereby improve the timeliness and accuracy of the financial statement preparation process.

***Views of Responsible Officials***

The School District acknowledges this finding. The current process was handled by multiple individuals within the Office of Accounting. During the 2007 fiscal year, the Office will establish procedures to ensure that all schedules and financial statement data are compiled and reviewed in a more efficient manner.

**2006-02          Legal Case Reserve Analysis**

***Criteria***

All legal cases should be identified, monitored, and analyzed in accordance with generally accepted accounting principles.

***Condition***

There is no formal internal control process that identifies or analyzes legal cases in accordance with generally accepted accounting principles.



**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Cause***

Internal control procedures were not established, followed, or monitored on a consistent basis.

***Effect***

Not having an adequate process over legal cases could potentially cause a material error in the financial statements.

***Recommendation***

A periodic review of all legal cases should be performed in accordance with generally accepted accounting principles.

***Views of Responsible Officials***

The School District analyzes cases on a legal basis regularly; however, for accounting and financial reporting purposes this is only done at fiscal year end. The Office of Accounting will establish procedures to ensure that legal reserves are analyzed on a consistent basis.

**2006-03            Internal Audit**

***Criteria***

An internal audit department needs to be established to monitor the internal control environment. This ensures that all internal controls are designed appropriately, operating effectively and that all laws, regulations, and compliance matters are being complied with.

***Condition***

The School District does not have an internal audit department to establish and monitor the internal control environment.

***Cause***

The previous internal audit department was dissolved as a result of the overall financial difficulties with the School District.

***Effect***

A lack of an internal audit department gives a greater risk of inefficiencies throughout the School District and causes a greater risk of errors in the financial reporting process.

***Recommendation***

The School District should develop an internal audit department that among other things establishes and monitors the internal control environment of the School District.

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

*Views of Responsible Officials*

Currently, the School District's Board of Education has approved the re-establishment of the internal audit department. The department has an established budget, and the Inspector General position that will lead the department has been approved. It is anticipated that the department will be re-established by the end of the 2007 fiscal year.

**2006-04          Fraud Reporting**

*Criteria*

The School District should utilize an overall fraud-risk process to prevent, detect, and deter frauds from occurring. A fraud program would also enable staff and others to report frauds if they occur and investigate them if deemed necessary.

*Condition*

There is no formal process related to preventing, detecting, and deterring frauds. There is also no formal process for employees or others to report a fraud confidentially and allow for the report to be investigated.

*Cause*

Internal control procedures were not established to allow for fraud program to be implemented.

*Effect*

There is an increased exposure for unrecorded or unasserted claims to the Schools by not having a fraud reporting process.

*Recommendation*

A fraud program should be created to address areas of fraud prevention, detection, and deterrence. There should also be a fraud reporting and investigation process for employees or others to report frauds if they occur.

*Views of Responsible Officials*

The School District acknowledges this finding. It is anticipated that the fraud reporting process and investigation will be included in the internal audit department.

**2006-05          Internal Controls over Workers' Compensation**

*Criteria*

In order to appropriately design the internal control procedures to be utilized by the School District over the processing, authorizing, and documenting of workers' compensation claims, the School District should first obtain knowledge of the internal control procedures utilized by its third-party administrator and then assess and design controls over the process, authorizing, documenting for workers' compensation claims, and maintaining historical claims data.

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Condition***

The School District has not evaluated and reviewed the internal control procedures utilized by its third-party administrator and has not properly designed and maintained controls over the processing, authorizing, and documenting for workers' compensation claims or historical claims data.

***Cause***

The School District does not currently have a policy in place that requires the evaluation of internal controls of the third-party administrators or the processing, authorizing, documenting of workers' compensation claims, or maintaining historical claims data.

***Effect***

By not attaining an understanding of the internal control procedures utilized by the third-party administrator, the School District is at risk of not designing its internal control procedures adequately to correlate with or compensate for those of the third party administrator.

***Recommendation***

The School District should consider implementing a policy that any third-party administrator that will provide information that will be used to generate significant accounting estimates will be required to obtain and submit an auditor's report on its internal controls in accordance with Statement on Auditing Standards (SAS) No. 70, Service Organizations. The School District then should review and assess its internal controls over processing, authorizing, documenting workers' compensation claims, and maintaining historical claims data.

***Views of Responsible Officials***

The School District acknowledges this finding. Recommendations from the actuary included improving the accuracy of the data. This includes improvements in internal controls over the database that contains the information as well as continued updates on all claims. Also, the School District will request from its actuaries a SAS 70 report on internal controls from its third-party administrator.

**2006-06            Workers' Compensation/Health Claims**

***Criteria***

A qualified actuary should be used to assist in estimating the reserves for workers' compensation claims and the incurred but not reported health claims.

***Condition***

The School District also did not utilize a qualified actuary when originally estimating the reserves related to workers' compensation and the health claims.

***Cause***

The School District did not have a process in place to utilize a qualified actuary related to workers' compensation or the health claims.

**THE SCHOOL DISTRICT OF  
THE CITY OF DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Effect***

An increased risk of exposure and material misstatement to the financial statement occurs without properly estimating the reserves related to workers' compensation and health claims. Therefore, a qualified actuary should be used in estimating the reserves related to workers' compensation and health claims.

***Recommendation***

The School District should use a qualified actuary when estimating the reserves related to workers' compensation and health claims.

***Views of Responsible Officials***

The School District acknowledges this finding. The actuary that performed the valuation has Fellow of the Casualty Actuarial Society (FCAS) and Member of the American Academy of Actuaries (MAAA) designations. The School District will solicit proposals from actuarial firms for future services.

**2006-07            Schedule of Expenditures and Federal Awards**

***Criteria***

A reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger should be performed in order to ensure the SEFA is complete and accurate.

***Condition***

During the audit there were multiple differences between the SEFA and the General Ledger. This was due to the lack of a reconciliation process to reconcile the individual grants or the SEFA to the General Ledger.

***Cause***

Internal controls were not established properly to perform a reconciliation of the SEFA to the General Ledger.

***Effect***

Not reconciling the SEFA to the General Ledger resulted in various errors between the SEFA and the General Ledger.

***Recommendation***

Establish a process to reconcile each grant individually and the overall SEFA to the General Ledger on a periodic basis.

***Views of Responsible Officials***

The School District acknowledges this finding. While every program was reconciled to the General Ledger on an individual basis, on a consolidated basis there were errors in the mathematical calculations. An additional level of review will be incorporated into the process to ensure that the Schedule of Expenditures of Federal Awards is accurate.

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**2006-08          Bond Covenants**

***Criteria***

Management should have internal controls over the identification and monitoring of all debt covenants to ensure compliance.

***Condition***

There is no process to identify and monitor the Schools' compliance of all debt covenants.

***Cause***

A lack of internal controls over debt covenants.

***Effect***

Not monitoring the compliance with debt covenants could potentially lead to noncompliance with various debt issuances.

***Recommendation***

Establish an internal control process to identify and monitor the compliance with all debt covenants.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District has complied with all debt covenants; however, the Office of Accounting will develop a process to identify and monitor compliance with the requirements for all debts outstanding to ensure that the School District remains compliant.

**2006-09          Journal Entries – Support and Approval**

***Criteria***

Journal vouchers are prepared by the respective departments and should require approval by a supervisor or manager and sufficient supporting documentation. The approver of the journal voucher is required to be independent of the preparer of the journal voucher.

***Condition***

The internal controls over manual journal entries are not designed adequately to require a separate individual other than the preparer to review and approve the manual journal entry. Also, 6 out of 30 items selected for testing did not have evidence of the preparer and 8 were missing the required information sheet.

***Cause***

The policies that require review and approval of the supporting documentation for each journal entry are not consistently applied and enforced.

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***Effect***

Journal vouchers that lack appropriate approvals and supporting documentation might cause misstatements in the financial statements.

***Recommendation***

Employees who prepare and process journal entries should receive periodic training. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with School District policies. Employees who fail to follow the School District's policies should be subject to appropriate disciplinary action.

***Views of Responsible Officials***

The School District acknowledges this finding. While the journal entry forms have a place for preparer and approval signatures, this was not consistently followed. Going forward, for the 2007 fiscal year, all staff will be reminded of this process and it will be consistently followed. Specifically, all journal entries prepared by Program Associates will be reviewed and signed off by a Program Supervisor and all journal entries prepared by a Program Supervisor will be reviewed and signed off by the Executive Director.

**2006-10          Bond Proceeds**

***Criteria***

State of Michigan Bond requirements require that only employees that work solely on bond projects should charge their related time and costs to the project.

***Condition***

There was one employee that charged time and related costs to a bond project that had worked only 50% of their time on the project.

***Cause***

Internal control procedures were not followed and monitored on a consistent basis.

***Effect***

Spending restricted bond proceeds outside of State requirements is a violation of laws, regulations, and debt covenants.

***Recommendation***

A periodic review process should be established to ensure all restricted bond proceeds are spent on the intended purpose.

***Views of Responsible Officials***

The School District acknowledges this finding. There have been subsequent discussions with the State regarding this issue and the School District will conform to the State's requirement.

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**2006-11            Recording of Capital Asset Disposals**

***Criteria***

Internal controls should exist to ensure that all capital asset disposals are properly recorded in the financial records in accordance with generally accepted accounting principles. When using the assistance of a specialist related to disposal of capital assets, internal controls should first be appropriately designed over the specialists' methods, assumptions, and documentation of capital asset disposals.

***Condition***

Certain procedures were not in place to ensure that all relevant capital asset disposals are being properly identified and properly recognized in the financial statements. The School District has not evaluated the internal controls over the specialists' methods, assumptions, and documentation used to calculate the amount of capital asset disposals.

***Cause***

Procedures that were in place at the time of the audit were not deemed to be adequate to identify or recognize capital asset disposals in accordance with generally accepted accounting principles.

***Effect***

A lack of appropriate internal controls over the recording of capital asset disposals could lead to material errors in the financial statements.

***Recommendation***

Individuals who are knowledgeable in the area of generally accepted accounting principles related to capital assets should perform a substantive monitoring and communication with all departments to ensure all potential capital asset disposals are recorded properly.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District historically has continued to utilize fixed assets past their useful life and as such, at the time an item is disposed of, its value is minimal. All assets identified for disposal are subject to approval by the Board of Education.

**2006-12            Capital Asset Impairments**

***Criteria***

The School District should have a formalized process for determining the market value of impaired assets. In addition, the market values used should clearly state the assumptions used to estimate the value.

***Condition***

The process for estimating the market values of the assets is not properly supported by an appraisal or other relevant market data.

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***Cause***

Internal control procedures were not established, followed, or monitored on a consistent basis.

***Effect***

Not having an adequate process over the determination of market value of impaired assets could potentially cause material errors in the financial statements.

***Recommendation***

The internal controls over the process of estimating the market values of impaired assets should be strengthened to ensure they are recorded in accordance with generally accepted accounting principles.

***Views of Responsible Officials***

The School District acknowledges this finding. During the audit there were discussions with the Department of Facilities, Maintenance and Auxiliary Services, and this department is currently in the process of implementing a real estate appraisal process to address this issue.

**2006-13            Cash Receipts**

***Criteria***

The segregation of duties related to cash receipt should be clearly defined in the job duties of the responsible individuals.

***Condition***

The design of the control structure related to cash receipts was not deemed adequate and properly assigned to the responsible individuals.

***Cause***

The School District did not have an adequate segregation of duties for the individuals responsible for opening and recording cash receipts.

***Effect***

By not having clear and documented responsibilities related to cash receipts there is an increased risk of error in the financial statements or misappropriation of assets.

***Recommendation***

All roles and responsibilities should be clearly established and documented.

***Views of Responsible Officials***

The School District acknowledges this finding. Proper segregation of duties calls for separate individuals to receive cash and post cash to the ledger. Given the current budget constraints and staffing reductions made by the School District in prior years, it has been difficult to segregate this function. The Office of Accounting will work



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to identify an additional resource to document all cash receipts and provide related support to the Cash Management Section for General Ledger processing.

**2006-14            Cash Reconciliations**

***Criteria***

Cash and Investment accounts should be reconciled to the General Ledger on a monthly basis and all differences should be investigated and appropriately resolved on a timely basis.

***Condition***

Monthly cash reconciliations were not performed timely and they contained unresolved differences that were not investigated and resolved on a timely basis.

***Cause***

Internal control procedures were not followed and monitored on a consistent basis.

***Effect***

Unresolved differences on cash and investment reconciliations could result in errors and/or irregularities in the General Ledger.

***Recommendation***

Cash reconciliations should be completed within a short period of time after each month end and all differences should be investigated and resolved immediately.

***Views of Responsible Officials***

The School District acknowledges this finding. The reconciliations for investment accounts were performed on a monthly basis; however, there were some cash reconciliations that were delayed due to certain issues that needed resolution from the banking institutions. The Office of Accounting will ensure that reconciliations are done on a monthly basis and reviewed by management in a timely manner.

**2006-15            Investment Policy**

***Criteria***

The investment policy requires several monthly and quarterly reports to be prepared and analyzed.

***Condition***

These reports were not prepared and analyzed in accordance with the investment policy.

***Cause***

Internal control procedures were not followed and monitored on a consistent basis to maintain compliance with the investment policy.

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***Effect***

Unresolved differences on cash and investment reconciliations could result in errors and/or irregularities in the General Ledger.

***Recommendation***

Internal controls should be strengthened to ensure compliance with the investment policy.

***Views of Responsible Officials***

The School District acknowledges this finding. The Division of Finance is currently in the process of updating its investment policy. This updated policy will be submitted and approved by the Board of Education by fiscal 2007 year end.

**2006-16          Accounting for Investments**

***Criteria***

The School District investment policy is to record all investments at fair market value in accordance with generally accepted accounting principles.

***Condition***

There were several investments not recorded at fair market value in accordance with the School District's investment policies and generally accepted accounting principles.

***Cause***

Internal control procedures were not followed and monitored on a consistent basis.

***Effect***

Investments not recorded properly could potentially cause a material misstatement in the financial statements.

***Recommendation***

Internal controls should be strengthened to ensure all investments are recorded within the School District's policies and in accordance with generally accepted accounting principles.

***Views of Responsible Officials***

The School District acknowledges this finding. Investments are recorded at cost throughout the year in order to effectively track investment activity. Going forward, the School District will make the appropriate adjustments at year end to reflect the fair market value of its investments.

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**2006-17          Review of Leases**

***Criteria***

Internal controls should exist to ensure that all leases are properly reviewed to ascertain they are recorded in the financial records in accordance with generally accepted accounting principles and related School District policies.

***Condition***

Certain procedures should be in place to ensure that all relevant leases are being properly identified, reviewed, recognized, and disclosed in the financial statements.

***Cause***

Procedures that were in place at the time of the audit were not deemed to be adequate to identify, review, and ensure that all leases were properly recognized and disclosed in the financial statements in accordance with generally accepted accounting principles and School District's policies.

***Effect***

A lack of appropriate internal controls over the identification and review of leases could lead to material errors in the financial statements.

***Recommendation***

Individuals who are knowledgeable in the area of generally accepted accounting principles related to leases should perform a periodic search to identify all leases and review the lease terms to ensure all potential leases are recorded properly.

***Views of Responsible Officials***

The School District acknowledges this finding. During the 2006 fiscal year lease information was maintained with two different individuals. We are in agreement that this analysis and monitoring should be handled in one central location. The School District will work to implement this process during fiscal year 2007.

**2006-18          Procurement – Requisitions**

***Criteria***

All purchases are required to have a valid purchase requisition before a purchase order is generated.

***Condition***

The School District's internal controls and system configuration are not designed adequately to verify that all purchases have a requisition and a valid purchase order prior to placing an order.

***Cause***

Internal control procedures and the system configuration allow for a purchase order to be generated without a valid requisition being created first.

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***Effect***

Purchase orders being generated first causes orders to take place without going through the proper procurement policies and exposes the School District to a greater risk of error and fraud.

***Recommendation***

Internal controls should be strengthened to not allow individual schools to place orders without generating a valid requisition and related purchase order.

***Views of Responsible Officials***

The School District acknowledges this finding. There are specific instances in which this can occur and as such, it is not the normal process. The Division of Finance will work with the Department of Contracting and Procurement on eliminating this option from the departments that are able to do this function.

**2006-19          Procurement – Override of Controls**

***Criteria***

The procurement process is established to have various internal controls in place to ensure that all purchases are properly and accurately acquired. Among these internal controls are budget checks, proper approvals, and other edit checks to ensure all information is complete and accurate.

***Condition***

There are various ways end users at the schools can override certain internal controls to expedite the procurement of goods and services.

***Cause***

Internal control procedures were not established, followed, or monitored on a consistent basis.

***Effect***

The ability to override internal controls increases the risk of potential error or abuse within the procurement process.

***Recommendation***

Internal controls should be strengthened and monitored to ensure internal controls are followed as intended.

***Views of Responsible Officials***

The School District acknowledges this finding. This situation occurs when departments contract with vendors outside of the procurement process by discussing services with vendors directly or signing an agreement provided by the vendor without going through the proper procurement process. The School District will continue to communicate the procurement policies and procedures to internal departments as well as vendors to ensure compliance with policy.

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**Section III – Findings and Questioned Costs Relating to Federal Awards:**

**2006-20           Activities Allowed/Unallowed**

**Title I-A (CFDA # 84.010)**

***Criteria***

In accordance with OMB Circular A-133 and A-87, employees who work on multiple federal activities are required to have time and effort reporting to support the cost charged to the program. Employees who work solely on one federal program are required to complete a certification at least semiannually.

***Condition***

Out of 30 items selected for testing, 3 payroll certifications were not properly authorized and 1 lesson plan was unavailable for review.

***Questioned Costs***

None

***Cause***

Internal controls over time and effort reporting were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures could cause inappropriate costs to be charged to the program.

***Recommendation***

Internal control procedures should be strengthened to reduce the risk of potential noncompliance with grant requirements.

***Views of Responsible Officials***

The School District acknowledges this finding. This finding has been addressed and all certifications have been submitted.

**2006-21           Period of Availability**

**Title I-A (CFDA # 84.010)**

***Criteria***

In accordance with OMB Circular A-133 and the grant agreement, the entity may charge costs that were incurred during the specific grant period unless authorized by the federal awarding agency.

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***Condition***

Out of the 60 invoices selected for testing, 5 were not within the specific grant period and further authorization was not obtained from the federal awarding agency.

***Questioned Costs***

\$1,271,693

***Cause***

Internal controls over the period of availability were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures could cause inappropriate costs to be charged to the incorrect grant period.

***Recommendation***

Internal control procedures should be strengthened to reduce the risk of potential costs being inappropriately charged to the incorrect grant period.

***Views of Responsible Officials***

The School District acknowledges this finding. Procedures will be strengthened in this error to ensure that requests for extension of grant periods and related approvals are properly supported. In addition, there will be increased communication with program departments to ensure that funds are expended during the grant period.

**2006-22      Cash Management**

**Title I-A (CFDA # 84.010); Vocational Education (CFDA # 84.04); 21st Century Community Learning Centers (CFDA # 84.287); Reading First (CFDA # 84.357); Title II (CFDA # 84.367); Special Education (CFDA # Various)**

***Criteria***

In accordance with the Michigan School Audit Manual, the School District estimates the amount of cash reimbursement based on the cash needs for the 30-days and/or submits it on reimbursement basis. If the School District is advanced more cash than is needed, it must refund the excess federal funds.

***Condition***

Based on the test work performed, there appeared to be no internal controls or documentation supporting the estimate of the 30-day cash needs amount or the amount of reimbursement. Also, there appeared to be no assessment performed of the excess cash that potentially should be refunded.

***Questioned Costs***

None

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***Cause***

Internal controls over cash management were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures could cause the program to be in noncompliance.

***Recommendation***

Internal control procedures should be strengthened to reduce the risk of noncompliance with cash management requirements.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District does draw down cash based on review of general ledger activity and ensures that appropriate cash needs are met; however, procedures regarding this process should be documented. The School District will document the procedures that are currently in place to ensure that compliance regarding cash draw downs is maintained.

**2006-23          Equipment and Real Property Management**

**Title I-A (CFDA # 84.010)**

***Criteria***

In accordance with OMB Circular A-133 and A-102 common rule, when equipment is acquired with federal awards that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

***Condition***

There was not an internal control process in place to maintain complete and accurate equipment reports related to the federal program. Also, a physical inventory was not taken within the specific two-year time frame as required.

***Questioned Costs***

None

***Cause***

Internal controls over equipment records were not operating effectively and a physical inventory was not performed.

***Effect***

Failure to maintain adequate internal control procedures and documentation standards over equipment records could relate to noncompliance with federal regulations.

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***Recommendation***

Internal control procedures and documentation standards should be strengthened to reduce the risk of noncompliance with federal regulations. Also, a physical inventory should be performed at least every two years.

***Views of Responsible Officials***

The School District acknowledges this finding. Currently, the School District maintains a record of all fixed assets over \$5,000 as part of its capital assets policy. The Office of Accounting will work in conjunction with the Department of Federal, State and Local grant compliance and the Department of Facilities, Maintenance and Auxiliary services on addressing this issue.

**2006-24            Reporting**  
**Title I-A (CFDA #84.010)**

***Criteria***

In accordance with the School District's policies, the program director is required to review and approve the annual report and then submit it within 60 days after year end.

***Condition***

The annual report was not properly reviewed and approved by the program director and was submitted after the due date.

***Questioned Costs***

None

***Cause***

Internal controls over reporting were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures over reporting could cause inaccurate information to be reported in a timely basis to the granting agency.

***Recommendation***

Internal control procedures should be strengthened in order to properly submit complete and accurate information on a timely basis.

***Views of Responsible Officials***

The School District acknowledges this finding. The report was submitted late due to the review process by the Department of Federal, State and Local grant compliance and the Office of Accounting. Processes are now in place to ensure proper signoff of the budget by the department administrator is obtained.



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**2006-25            Special Tests and Provisions – School Wide Plans**

**Title I-A (CFDA # 84.010); Vocational Education (CFDA # 84.048); 21st Century  
Community Learning (CFDA # 84.287); Special Education (CFDA # Various)**

***Criteria***

In accordance with OMB Circular A-133, the School District is required to operate a school wide program that includes three core elements: (1) Comprehensive needs assessment of the entire school; (2) Comprehensive plan based on data from the needs assessment; (3) Annual evaluation of, and results achieved by, the school-wide program and revision of the school wide plan based on that evaluation and five components: (1) School-wide reform strategies; (2) Instruction by highly qualified professional staff; (3) Strategies to increase parental involvement; (4) Additional support to student experiencing difficulty, and (5) Transition plans for assisting preschool children in the successful transition to the school-wide program.

***Condition***

25 schools were selected for review of the school wide plans. After review of the plans and related documents, it was noted that certain aspects of the three core elements and five additional components were not clearly articulated in every plan and the related documents. Additionally, the files contained certain pieces of documentation that were not visibly dated.

***Questioned Costs***

None

***Cause***

Internal controls and documentation standards over school-wide plans were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures over school-wide plans could cause noncompliance with program requirements.

***Recommendation***

Internal control procedures and documentation standards should be strengthened in order to properly meet the school wide plan requirement.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District meets the criteria for school-wide plans however, building level action plans and parental involvement strategies should be more clear and concise. New templates have been prepared to address the ten compliance requirements for school-wide school programs and these templates are in the process of implementation for fiscal year 2007.

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**2006-26            Special Tests and Provisions – Comparability**

**Title I-A (CFDA #84.010)**

***Criteria***

In accordance with the Circular A-133, the statutory comparability requirements are as follows: (1) has a school-wide salary schedule; (2) has a policy to ensure equivalence among schools in teachers, administrators, and other staff; and (3) has a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.

***Condition***

Out of the 25 schools selected for testing, 1 did not have accurate supporting documentation.

***Questioned Costs***

None

***Cause***

Internal controls and documentation standards over the comparability requirement were not operating effectively.

***Effect***

Failure to maintain adequate internal controls and documentation standards could result in noncompliance with program requirements.

***Recommendation***

Internal control procedures and documentation standards should be strengthened in order to ensure compliance with program requirements.

***Views of Responsible Officials***

The School District acknowledges this finding. The incorrect documentation was for Douglas Academy in which the rate reported was 72% and not 92%. The documentation has been corrected.

**2006-27            Special Test and Provision – Schools Identified for Improvement**

**Title I-A (CFDA #84.010)**

***Criteria***

In accordance with OMB Circular A-133, schools that are identified for improvements are required to spend at least 10% of their funding allocation on professional development each year of the two-year award allocation.

***Condition***

Of the 25 schools tested, 21 did not meet the 10% professional development requirement.

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***Questioned Costs***

None

***Cause***

Internal controls over the funding of professional development were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures over the program requirement may result in a loss of future funding.

***Recommendation***

Internal control procedures should be strengthened in order to properly meet the professional development requirement.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District will ensure through communication and monitoring that schools identified for improvement utilize the required funding percentage on professional development.

**2006-28      Allowable Costs/Cost Principles  
                  Vocational Education (CFDA #84.048)**

***Criteria***

In accordance with OMB Circular A-133 and A-87, payroll costs paid with federal awards must be supported by sufficient time and effort reporting.

***Condition***

Out of the 30 employees selected for testing, 1 item had supporting documentation that did not agree to the amount paid and 1 item was incorrectly coded in the General Ledger.

***Questioned Costs***

None

***Cause***

Inadequate internal controls over time and effort report were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures over the payroll time and effort reporting may cause inaccurate reporting of payroll costs.

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***Recommendation***

Internal control procedures should be strengthened to ensure all employees are paid accurately and all costs are accurately being charged to the program.

***Views of Responsible Officials***

The School District acknowledges this finding. The respective departments have been notified of the timekeeping process and will ensure compliance.

**2006-29            Reporting**  
**Vocational Education (CFDA #84.048)**

***Criteria***

In accordance with the School District's policies, the program director is required to review and approve the annual report and then submit it within the required due date.

***Condition***

The annual report was not submitted by the required due date.

***Questioned Costs***

None

***Cause***

Internal controls over reporting were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures over reporting could cause inaccurate information to be reported on a timely basis to the granting agency.

***Recommendation***

Internal control procedures should be strengthened in order to properly submit timely reports.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District will ensure that reports maintain the proper signoff showing review and approval as well as document the date of submission to reporting authorities.

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**2006-30            Period of Availability**  
**21st Century Community Learning Centers (CFDA #84.287)**

***Criteria***

In accordance with OMB Circular A-133 and the grant agreement, expenditures must be incurred and paid within the grant period in order to be reimbursable.

***Condition***

Out of the 30 items selected for testing, 2 payments were for items incurred prior to the stated grant period.

***Questioned Costs***

\$73,745

***Cause***

Internal controls over the period of availability were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures during the period of availability may result in a loss of future funding.

***Recommendation***

Internal control procedures should be strengthened in order to properly meet the program requirements with regard to period of availability.

***Views of Responsible Officials***

The School District acknowledges this finding. The invoices for the payments in question were not received by the Office of Accounting until several months after the fiscal year end 2005 and therefore were not processed until fiscal year 2006. The School District will ensure that all costs are accounted for in the proper period.

**2006-31            Allowable Costs or Unallowed**  
**Reading First (CFDA #84.357)**

***Criteria***

OMB Circular A-133 requires that all costs allocated to the program have an accurate classification and be coded in the general ledger properly.

***Condition***

Out of 30 items selected for testing, 3 were not properly coded in the general ledger.

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***Questioned Costs***

\$53,029

***Cause***

Internal controls over coding of purchase orders were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures could cause inappropriate costs to be charged to the program.

***Recommendation***

Internal control procedures should be strengthened to reduce the risk of potential inappropriate costs being charged to a grant program.

***Views of Responsible Officials***

The School District acknowledges this finding. The program staff enters requisitions for costs incurred under the program which are approved for allowability by the Department of Federal, State and Local Grant Compliance. The School District will ensure that the general ledger object code is correct when approving requisitions for goods and services.

**2006-32          Reporting**

**Reading First (CFDA #84.357)**

***Criteria***

The School District's policy is to have someone a level above the preparer review and approve the annual report before submission. The submission of the annual report must be performed 60 days after year end.

***Condition***

The annual report was not reviewed and approved by the program director as required. The report was also not submitted on time.

***Questioned Costs***

None

***Cause***

Internal control procedures over reporting were not operating effectively.

***Effect***

Inadequate internal control procedures over reporting increases the risk of potential errors and submission on a timely basis.

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***Recommendation***

Internal control procedures should be strengthened to ensure that all reports all properly reviewed, approved, and submitted on a timely basis.

***Views of Responsible Officials***

The School District acknowledges this finding. There were several discussions before the issuance of the report between the program director and the Office of Accounting regarding the preparation of the annual report. While the report was prepared and reviewed, it was not evidenced by a sign off process. The School District will ensure that all required reports contain a preparer signature and date as well as a reviewer signature and date.

**2006-33            Procurement**

**Reading First (CFDA # 84.357); Special Education (CFDA # Various); Vocational Education (CFDA # 84.048); Head Start (CFDA # 93.600); Title I-A (CFDA # 84.010)**

***Criteria***

In accordance with OMB Circular A-133, Common rule A-102, and the School Districts procurement policy, each procurement must have supporting documentation to support the following: solicitation, history of the procurement, method of procurement, selection of contract type, contractor selection or rejection, basis of contract price, compliance supplement and the grant agreement, full and open competition, rationale to limit competition, appropriate cost or price analysis be performed, and various others.

***Condition***

Out of 3 contracts selected for testing, none had adequate documentation to verify they complied with the procurement requirements.

***Questioned Costs***

None

***Cause***

Internal control procedures over the compliance requirement were not operating effectively.

***Effect***

Inadequate internal control procedures and documentation standards could cause the program to procure goods and services that are not within the requirements of the program.

***Recommendation***

Internal control procedures and documentation standards should be strengthened to ensure that all procurements are within the requirements.

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*Views of Responsible Officials*

The School District acknowledges this finding. The School District's Procurement Policy requires that a competitive bidding process is performed for goods and services above certain dollar limits. The School District will ensure that all policies and procedures are communicated and adhered to.

**2006-34          Reporting**  
**Title II (CFDA #84.367)**

*Criteria*

In accordance with the Grant agreement and the School Districts policy, the annual report should be reviewed and authorized by the department manager. The report is also required to be submitted within 60 days after year end.

*Condition*

The annual report tested was not properly authorized by the department manager and was not submitted on a timely basis.

*Questioned Costs*

None

*Cause*

Internal control procedures over the reporting were not operating effectively.

*Effect*

Internal controls not operating effectively could cause inaccurate information to be submitted on a timely basis.

*Recommendation*

Internal control procedures should be strengthened to ensure that all annual reports are properly reviewed, approved, and submitted on a timely basis.

*Views of Responsible Officials*

The School District acknowledges this finding. The School District will ensure that reports maintain the proper signoff showing review and approval as well as document the date of submission to reporting authorities.

**2006-35          Allowable Costs**  
**Head Start (CFDA #93.600)**

*Criteria*

In accordance with OMB Circular A-133 and A-87, the School District is required to maintain adequate supporting documentation to support the time and related costs charged to the program.



**THE SCHOOL DISTRICT OF  
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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Condition***

Out of the 30 items selected for testing, 1 timesheet was not properly approved.

***Questioned Costs***

None

***Cause***

Internal control procedures over the compliance requirement were not operating effectively.

***Effect***

Inadequate internal controls over timesheets could potentially cause inaccurate costs being charged to the program.

***Recommendation***

Internal control procedures should be strengthened to ensure that all timesheets are properly reviewed and approved.

***Views of Responsible Officials***

The School District acknowledges this finding. The time sheet in question was not signed off by the location authority but rather another employee. The employee was subsequently paid. The School Districts' policy dictates that all departmental time sheets be signed by the departmental administrator. The School District will ensure compliance with payroll policies and procedures.

**2006-36          Procurement, Suspension & Debarment  
                          Head Start (CFDA #93.600)**

***Criteria***

In accordance with OMB Circular A-133 and the School Districts procurement policy, each contractor that is awarded a contracts must certify that their organization and principals are not suspended or debarred from. The School District must also verify that the contractor is not suspended or debarred.

***Condition***

Out of the 19 contracts selected for testing, all of them had a suspension and debarment certification that was completed and signed after the performance of the contract was initiated.

***Questioned Costs***

None

***Cause***

Internal control procedures over the compliance requirement were not operating effectively.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Effect***

Inadequate internal controls over suspension and debarment could potentially cause the School District to transact with suspended or debarred organization.

***Recommendation***

Internal control procedures should be strengthened to ensure that all suspended and debarred certifications are completed before performance of the contracts is initiated.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District has policies regarding suspension and debarment within the Procurement policy. The Division of Finance will communicate this finding to the Department of Contracting and Procurement to develop a process to ensure that all vendors are aware of the suspension and debarment compliance requirement.

**2006-37            Special Test and Provision – Social Services  
                          Head Start (CFDA #93.600)**

***Criteria***

In accordance with OMB Circular A-133 and the grant agreement, the School District is required to maintain 10% enrollment of children with disabilities.

***Condition***

The School District did not maintain the required 10% enrollment of children with disabilities for the first 90 days of the school year.

***Questioned Costs***

None

***Cause***

Internal control procedures over the compliance requirement were not operating effectively.

***Effect***

Inadequate internal controls over the special test and provision could potentially cause the School District to lose future funding due to noncompliance with the grant requirements.

***Recommendation***

Internal control procedures should be strengthened to ensure that all program requirements are met.

***Views of Responsible Officials***

The School District acknowledges this finding and will ensure compliance with the grant requirement.

**THE SCHOOL DISTRICT OF  
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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**2006-38            Special Test and Provision – Disabilities Services  
                          Head Start (CFDA #93.600)**

***Criteria***

In accordance with OMB Circular A-133 and the grant agreement, the School District is required to maintain an Individual Education Plan for each child diagnosed with disabilities.

***Condition***

Out of the 25 contracts selected for testing, 18 did not contain the required individual education plan.

***Questioned Costs***

None

***Cause***

Internal control procedures over the compliance requirement were not operating effectively.

***Effect***

Inadequate internal controls over the special test and provision could potentially cause the School District to lose future funding due to noncompliance.

***Recommendation***

Internal control procedures should be strengthened to ensure that all program requirements are met.

***Views of Responsible Officials***

The School District acknowledges this finding and will ensure compliance with the grant requirement.

**2006-39            Reporting  
                          Child Nutrition Cluster (CFDA # Various)**

***Criteria***

In accordance with the School District policy, the annual report should be reviewed and authorized by the department manager.

***Condition***

The annual report was not properly authorized by the department manager.

***Questioned Costs***

None

**THE SCHOOL DISTRICT OF  
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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Cause***

Internal control procedures over reporting were not operating effectively.

***Effect***

Internal controls not operating effectively could cause inaccurate information to be submitted.

***Recommendation***

Internal control procedures should be strengthened to ensure that all annual reports are properly reviewed and approved.

***Views of Responsible Officials***

The School District acknowledges this finding. In accordance with the School District policy, the annual report (Year End Report School Meals Program – SM-4012-A/R) was reviewed and authorized by the department manager. The report was certified and submitted to the State by the Chief of Facilities, Maintenance and Auxiliary Services, which the Office of Food Service reports to. The School District will maintain a written sign off and date to support that all reports are submitted within required time limits and approved by an administrator.

**2006-40          Period of Availability  
Special Education (CFDA # Various)**

***Criteria***

In accordance with OMB Circular A-133 and the grant agreement, the entity may charge costs that were incurred during the specific grant period unless authorized by the federal awarding agency.

***Condition***

Out of 30 expenditures selected for test work, 2 were out of period and improperly charged to the current grant year.

***Questioned Costs***

\$24,100

***Cause***

Internal controls over allowable costs were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures could cause the program to be in noncompliance.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Recommendation***

Internal control procedures should be strengthened to reduce the risk of noncompliance with allowable cost principles.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District will ensure that all costs are accounted for in the proper period.

**2006-41          Allowable Costs**  
**Special Education (CFDA # Various)**

***Criteria***

In accordance with OMB Circular A-133, payroll expenditures must be for allowable costs incurred during the grant period.

***Condition***

Out of 30 items selected for payroll test work, 5 contained costs that were not deemed to be allowable.

***Questioned Costs***

\$10,548

***Cause***

Internal controls over allowable costs were not operating effectively.

***Effect***

Failure to maintain adequate internal control procedures could cause the program to be in noncompliance.

***Recommendation***

Internal control procedures should be strengthened to reduce the risk of noncompliance with allowable cost principles.

***Views of Responsible Officials***

The School District acknowledges this finding. The School District will ensure that all payroll costs are properly supported by time records and certifications of time worked.