



**DETROIT PUBLIC SCHOOLS**

Single Audit Report

June 30, 2007

# DETROIT PUBLIC SCHOOLS

## Table of Contents

	<b>Page</b>
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	1
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	15
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 <i>Government Auditing Standards</i>	16
Schedule of Findings and Questioned Costs	18



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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**

The Detroit Board of Education  
Detroit Public Schools:

**Compliance**

We have audited the compliance of Detroit Public Schools (the District) 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, 2007. The District's major federal programs are identified in the summary of auditor's 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 District's management. Our responsibility is to express an opinion on the District's 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 Non-Profit 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 District's 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 of the District's compliance with those requirements.

***Qualifications (Noncompliance)***

As identified below and described in the accompanying schedule of findings and questioned costs, the District did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the identified major federal programs.

<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding Number</b>
Reading First	Cash Management	2007-48
Reading First	Cash Management	2007-50



<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding Number</b>
Reading First	Suspension and Debarment	2007-52
Reading First	Procurement	2007-53
Title I, Part A	Allowable Costs/Cost Principles	2007-56
Title I, Part A	Cash Management	2007-57
Title I, Part A	Cash Management	2007-59
Title I, Part A	Equipment and Real Property Management	2007-61
Title I, Part A	Suspension and Debarment	2007-63
Title I, Part A	Procurement	2007-64
Title I, Part A	Special Tests and Provisions – Schoolwide Programs	2007-66
Title I, Part A	Special Tests and Provisions – Comparability	2007-67
Head Start	Suspension and Debarment	2007-72
Head Start	Special Tests and Provisions- Social Services	2007-74
Head Start	Special Tests and Provisions – Social Services	2007-75
Head Start	Special Tests and Provisions – Disability Services	2007-77
Head Start	Special Tests and Provisions – Education	2007-78
Head Start	Special Tests and Provisions – Personnel Files	2007-79
21st Century	Allowable Costs/Cost Principles	2007-81
21st Century	Cash Management	2007-83
21st Century	Cash Management	2007-85
21st Century	Suspension and Debarment	2007-88
21st Century	Procurement	2007-89



<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding Number</b>
21st Century	Special Tests and Provisions – Schoolwide Plans	2007-90
Title II, Part A	Cash Management	2007-93
Title II, Part A	Cash Management	2007-95
Title II, Part A	Suspension and Debarment	2007-98
Title II, Part A	Procurement	2007-99
Title II, Part A	Special Tests and Provisions – Schoolwide Programs	2007-101
Title II, Part A	Allowable Costs/Cost Principles	2007-102
Special Education Cluster	Allowable Costs/Cost Principles	2007-103
Special Education Cluster	Cash Management	2007-105
Special Education Cluster	Cash Management	2007-107
Special Education Cluster	Suspension and Debarment	2007-108
Special Education Cluster	Procurement	2007-109
Special Education Cluster	Special Tests and Provisions – Schoolwide Programs	2007-110
Vocational Education	Allowable Costs/Cost Principles	2007-112
Vocational Education	Cash Management	2007-113
Vocational Education	Cash Management	2007-115
Vocational Education	Equipment and Real Property Management	2007-117
Vocational Education	Suspension and Debarment	2007-119
Vocational Education	Special Tests and Provisions – Schoolwide Programs	2007-120



In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A 133 and which are described in the accompanying schedule of findings and questioned costs.

### **Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007 47 through 2007 120 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items listed in the table in the *Qualifications (Noncompliance) Section above* to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A 133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.



The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Detroit Board of Education, others within the District, the State of Michigan, the City of Detroit, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 13, 2008 (except for the  
Schedule of Expenditures of  
Federal Awards, Paragraph 9,  
as to which the date is  
December 17, 2007)

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30, 2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
<b>Clusters:</b>								
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:								
National School Breakfast Program:								
Project number 061970	10.553	6,923,266	7,452,763	529,497	-	1,130,382	600,885	-
Project number 061970		-	7,452,763	-	-	5,032,525	7,434,251	2,401,726
Total National School Breakfast Program		6,923,266	14,905,526	529,497	-	6,162,907	8,035,136	2,401,726
National School Lunch Program:								
Project number 061950	10.555	2,234,172	2,234,172	-	-	365,833	365,833	-
Project number 061960		18,034,560	18,034,560	1,355,339	-	2,795,850	1,440,511	-
Project number 061980		216,593	216,593	2,293	-	3,055	762	-
Project number 071950		21,959,224	2,419,194	-	-	1,643,492	1,812,911	169,419
Project number 071960		234,152	10,380	-	-	12,575,087	18,977,971	6,402,884
Project number 071980		2,234,172	2,234,172	-	-	96,946	144,620	47,674
Total National School Lunch Program		44,912,873	25,149,071	1,357,632	-	17,480,263	22,742,608	6,619,977
Total Child Nutrition Cluster		51,836,139	40,054,597	1,887,129	-	23,643,170	30,777,744	9,021,703
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County ISD:								
IDEA:								
Education of the handicapped 03-04 - Project number not available	84.027	22,644,563	22,644,563	(20,000)	10,438	-	-	(9,562)
Education of the handicapped 04-05 - Project number not available		24,546,835	24,253,976	(292,859)	-	-	-	(292,859)
Education of the handicapped 05-06 - Project number not available		24,546,673	18,800,280	1,912,145	(10,438)	7,658,538	5,756,831	-
Education of the handicapped 06-07 - Project number not available		22,736,893	-	-	-	13,124,967	20,720,867	7,595,900
WCRESA Idea Center Expansion 04-05-Project number not available		3,935,295	3,557,992	(450,649)	-	-	-	(450,649)
WCRESA Idea Center Expansion 05-06-Project number not available		3,839,600	3,536,572	80,932	-	383,960	303,028	-
WCRESA Idea Center Expansion 06-07-Project number not available		4,135,656	-	-	-	2,568,673	4,137,161	1,568,488
Assistive Technology Training and Information Center Grant 04-05 Project number not available		499,906	487,375	(12,531)	-	-	-	(12,531)
Assistive Technology Training and Information Center Grant 05-06 Project number not available		500,000	383,499	(66,501)	-	50,000	78	(116,423)
Assistive Technology Training and Information Center Grant 06-07 Project number not available		500,000	-	-	-	325,755	398,729	72,974
Barsamian Assessment Center - Capacity Building Center - Project number not available		375,475	271,309	(157,590)	-	-	-	(157,590)
Barsamian Assessment Center - Capacity Building Center - Project number not available		394,249	701,954	(35,083)	-	42,468	5,000	(72,551)
Total IDEA		108,655,145	74,637,520	957,866	-	24,154,361	31,321,695	8,125,199



Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30,2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
<b>Clusters (Continued):</b>								
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County ISD (Continued):								
Preschool Incentive:								
	84.173							
Preschool Incentive 04-05 - Project number not available		874,904	700,153	(137,630)	-	-	-	(137,630)
Preschool Incentive 05-06 - Project number not available		837,783	697,872	46,354	-	113,531	67,177	-
Preschool Incentive 06-07 - Project number not available		614,952	-	-	-	391,801	574,852	183,051
Infant Interagency 04-05 Project number not available		87,938	80,589	-	-	-	-	-
Infant Interagency 05-06 Project number not available		87,938	69,404	25,435	-	43,894	18,459	-
Infant Interagency 06-07 Project number not available		87,938	-	-	-	44,000	57,302	13,302
Total Preschool Incentive		2,591,453	1,548,018	(65,841)	-	593,226	717,790	58,723
Total Special Education Cluster		111,246,598	76,185,538	892,025	-	24,747,587	32,039,484	8,183,922
Medicaid Cluster:								
	93.778							
U.S. Department of Health and Human Services - Passed through the Wayne County ISD - Medical Assistance Program:								
Medicaid Outreach 05-06		585,675	1,171,350	-	-	564,159	564,159	-
Medicaid Outreach 06-07		-	1,295,547	-	-	352,413	352,413	-
Pupil Transportation		-	575,394	-	-	755,249	755,249	-
Total Medicaid Cluster		585,675	3,042,291	-	-	1,671,821	1,671,821	-
Other federal awards:								
U.S. Project HRRTEP:								
Project number not available		496,721	496,421	-	-	-	-	-
Project number not available		225,604	173,146	-	-	-	-	-
Project number not available		225,604	69,740	69,740	-	201,955	132,216	1
Project number not available		231,745	-	-	-	69,503	69,503	-
Total U.S. Project HRRTEP		1,179,674	739,307	69,740	-	271,458	201,719	1
Carol M. White Physical Fitness 04/05	94.215F	292,096	104,298	49,298	-	109,009	59,711	-
Carol M. White Physical Fitness 05/06		373,671	125,688	-	-	194,099	215,564	21,465
Carol M. White Physical Fitness 06/07		292,096	-	-	-	-	133,181	133,181
Total		957,863	229,986	49,298	-	303,108	408,456	154,646
Project Success	84.184A	601,609	-	-	-	601,322	601,322	-
Linking Kids to Learning	84.364A	280,125	272,326	(4,930)	-	-	-	(4,930)
Linking Kids to Learning		322,214	284,990	-	-	-	-	-
Total		602,339	557,316	(4,930)	-	-	-	(4,930)
Transition to Teaching Best	84.350A	363,666	571,227	-	-	-	-	-
Transition to Teaching Best		566,092	235,428	-	-	-	-	-
Transition to Teaching Best		284,000	89,273	(30,883)	-	3,855	34,738	-
Transition to Teaching Best		285,500	-	-	-	81,666	70,163	(11,503)
Total		1,499,258	895,928	(30,883)	-	85,521	104,901	(11,503)

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30, 2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
21st Century Comm Learning Center 042110 21st079	84.287	850,000	-	(38,617)	-	-	26,116	(12,501)
21st Century Comm Learning Center 052110 21st078		875,000	742,457	50,554	-	116,373	65,819	-
21st Century Comm Learning Center 062100 21st04-030		850,000	683,827	39,635	-	203,388	163,753	-
21st Century Comm Learning Center 062110 21st03-063		850,000	780,417	37,876	-	69,214	31,338	-
21st Century Comm Learning Center 062100 21st03-062		850,000	715,663	(76,830)	-	28,237	105,067	-
21st Century Comm Learning Center 062110 21st04-029		850,000	721,203	721,203	-	758,783	37,580	-
21st Century Comm Learning Center 062100 21st04-032		850,000	718,156	344,604	-	447,946	103,342	-
21st Century Comm Learning Center 052100 21st02-79		875,000	611,392	611,392	-	716,287	104,895	-
21st Century Comm Learning Center 062100 21st03-060		850,000	743,699	743,699	-	822,080	78,381	-
21st Century Comm Learning Center 062100 21st03-061		850,000	754,776	754,776	-	822,812	68,036	-
21st Century Comm Learning Center 062100 21st064		850,000	744,043	744,043	-	806,941	62,898	-
21st Century Comm Learning Center 062100 21st065		850,000	671,024	671,024	-	772,701	101,677	-
21st Century Comm Learning Center 062110 21st02-078		875,000	-	-	-	705,107	715,409	10,302
21st Century Comm Learning Center 062110 21st02-079		875,000	-	-	-	653,551	688,416	34,865
21st Century Comm Learning Center 072110 21st04-029		850,000	-	-	-	481,647	780,421	298,774
21st Century Comm Learning Center 072110 21st04-030		850,000	-	-	-	474,425	720,064	245,639
21st Century Comm Learning Center 072110 21st04-032		850,000	-	-	-	732,619	774,116	41,497
21st Century Comm Learning Center 072110 21st03-060		850,000	-	-	-	713,925	774,581	60,656
21st Century Comm Learning Center 072110 21st03-061		850,000	-	-	-	649,322	705,970	56,648
21st Century Comm Learning Center 072110 21st03-062		850,000	-	-	-	658,629	688,860	30,231
21st Century Comm Learning Center 072110 21st03-063		850,000	-	-	-	705,234	744,412	39,178
21st Century Comm Learning Center 072110 21st03-064		850,000	-	-	-	719,449	762,803	43,354
21st Century Comm Learning Center 072110 21st03-065		850,000	-	-	-	679,866	717,377	37,511
Smaller Learning Community		2,200,000	1,580,868	(4,064)	-	201,254	205,318	-
Smaller Learning Community Phase 2		2,500,000	1,132,112	(155,862)	-	412,330	647,164	78,972
Total 21st Century Community Learning Centers		24,350,000	10,599,637	4,443,433	-	13,352,120	9,873,813	965,126

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30,2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
The National Science Foundation - Direct program - Detroit Urban Systemic Initiative - Project number ESR-9908234	47.049	11,500,000	6,014,134	(38,257)	-	-	13,089	(25,168)
Total noncluster direct programs		40,690,743	19,036,308	4,488,401	-	14,613,529	11,203,300	1,078,172
Other federal awards (Continued): U.S. Department of Education: Passed through the Michigan Department of Education: Education Consolidation and Improvement Act:	84.010							
Title 1:								
Chapter I regular (Title 1 Part A) 04-05 - Project number 041530 0304		-	-	-	-	(526,689)	(526,689)	-
Chapter I regular (Title 1 Part A) 04-05 - Project number 051530 0405		100,545,288	100,545,288	-	-	(841,665)	(841,665)	-
Chapter I regular (Title 1 Part A) 04-05 - Project number 051530 0405		19,500,705	16,547,470	1,537,502	-	4,490,736	2,953,234	-
Chapter I regular (Title 1 Part A) 05-06 - Project number 061530 0506 051530rc0506		95,341,577	80,219,002	16,075,891	-	31,198,466	15,122,575	-
Chapter I regular (Title 1 Part A) 06-07 - Project number 071530 0607		129,445,134	-	-	2,588,970	63,251,399	115,868,699	55,206,271
Chapter I regular (Title 1 Part A) 06-07 - Project number 061530 0607		39,995,426	-	-	652,855	25,496,134	39,995,426	15,152,147
Title One 2% School Improve 0041550 0405		1,593,195	1,593,195	(949,505)	-	(949,505)	-	-
Title One 2% School Improve 0041550 0405		5,085,000	455,262	455,262	-	5,085,000	4,629,738	-
Title One 2% School Improve 071550 0607		1,985,000	-	-	-	100,120	183,993	83,873
Title 1 Schoolwide Plan Grants 05120 0506		24,000	10,500	5,000	-	15,500	10,500	-
Title 1 Part D 04-05 - Project number 051700 0405	84.013	397,141	300,880	-	-	-	-	-
Title 1 Part D 05-06 - Project number 051700 0506	84.013	70,000	67,501	67,501	-	77,749	10,248	-
Title 1 Part D 06-07 - Project number 071700 0607	84.013	197,573	-	-	-	60,469	67,835	7,366
Total Title 1		394,180,039	199,739,098	17,191,651	3,241,825	127,457,714	177,473,894	70,449,657
Migrant Education:	84.011							
Project number 051830 2005		198,772	198,772	-	-	-	-	-
Project number 051830 2006		325,472	13,474	13,474	-	325,472	311,998	-
Project number 061890 0506		395,666	206,165	21,786	-	39,177	17,391	-
Project number 071890 0607		237,923	-	-	-	-	174,324	174,324
Project number 061830 2007 (Summer)		69,800	-	-	-	-	36,217	36,217
Total Migrant Education		1,227,633	418,411	35,260	-	364,649	539,930	210,541
Title III Limited English								
Project number 040580 0405	84.365	289,778	289,778	-	-	-	-	-
Project number 050580 0405		861,987	861,987	-	-	-	-	-
Project number 050580 0506		310,077	175,000	-	-	135,077	135,077	-
Project number 060580 0506		1,666,975	745,502	79,299	-	176,122	96,823	-
Project number 070570 0607		824,650	-	-	333,313	533,688	200,375	-
Project number 070580 0607		1,269,426	-	-	-	655,532	677,807	22,275
Total Title III Limited English		5,222,893	2,072,267	79,299	333,313	1,500,419	1,110,082	22,275

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30, 2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Other federal awards (Continued):								
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
Education Consolidation and Improvement Act (Continued):								
State Grants for Innovative Programs:								
Project number 040250 0405	84.298	665,815	665,815	-	-	-	-	-
Project number 050250 0405		1,248,196	1,489,164	-	-	-	-	-
Project number 050250 0506		370,362	132,767	(25,289)	-	212,306	237,595	-
Project number 060250 0506		1,394,262	881,587	18,816	-	(142,393)	(161,209)	-
Project number 060250 0607		673,884	-	-	195,098	195,098	666,442	666,442
Project number 070250 0607		711,841	-	-	-	268,711	711,841	443,130
Total Education Consolidation and Improvement Act - Title V		5,064,360	3,169,333	(6,473)	195,098	533,722	1,454,669	1,109,572
Drug-free Schools and Communities Nat'l Program:								
Project number 042600 0CS03A	84.184	93,272	91,267	(2,005)	-	-	-	(2,005)
Project number 042600 0CS03B		91,189	91,189	-	-	-	-	-
Project number 042600 CS205		10,500	7,607	(2,893)	-	-	-	(2,893)
		194,961	190,063	(4,898)	-	-	-	(4,898)
Safe and Drug-free Schools and Communities:								
Project number 032860 0304	84.186	37,450	-	-	-	(9,904)	(9,904)	-
Project number 032860 0304		659,554	-	-	-	(29,072)	(29,072)	-
Project number 042860 0304		1,346,427	1,317,354	-	-	-	-	-
Project number 052860 0405		1,939,688	1,939,688	-	-	-	-	-
Project number 052860 0506		834,396	238,406	-	-	591,091	591,092	1
Project number 062860 0506		2,792,100	1,212,181	(626,238)	-	184,528	810,766	-
Project number 062860 0607		767,302	-	-	28,165	544,488	590,098	73,775
Project number 072860 0607		2,177,477	-	-	41,405	1,717,700	1,006,948	(669,347)
Total Safe and Drug-free Schools and Communities		10,554,394	4,707,629	(626,238)	69,570	2,998,831	2,959,928	(595,571)
Homeless Children and Youths:								
Project number 02320-001C 0405	84.196	12,429	-	-	-	-	-	-
Project number 052320 0405		325,739	325,739	-	-	-	-	-
Project number 052320 0506-C		17,040	17,040	-	-	-	-	-
Project number 062320 0506		284,426	171,191	67,693	-	144,919	77,226	-
Project number 072320 0607		231,454	-	-	-	131,432	149,107	17,675
Project number 062320 0607-C		36,009	-	-	-	-	-	-
Total Homeless Children and Youths		907,097	513,970	67,693	-	276,351	226,333	17,675
Other federal awards (Continued):								
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
Handicapped Preschool & School Program								
Handicapped Preschool & School Program	84.027	23,160	23,160	23,160	-	23,160	-	-
Total Handicapped Preschool & School Program		23,160	23,160	23,160	-	23,160	-	-

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30, 2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Adult Basic Education:	84.002							
Project number 041130 510335		659,144	-	-	-	-	-	-
Project number 051120 55000394		23,061	22,199	(862)	-	(862)	-	-
Project number 051130 510335		805,619	781,606	(848)	-	(848)	-	-
Project number 061120 6500395		25,000	16,285	6,823	-	6,838	-	(15)
Project number 061130 610336		1,725,700	1,310,485	(79,185)	-	(75,428)	3,757	-
Project number 071120 7500397		22,300	-	-	-	16,610	17,631	1,021
Project number 071130 710337		1,000,000	-	-	-	751,770	986,953	235,183
Total Adult Basic Education		4,260,824	2,130,575	(74,072)	-	698,080	1,008,341	236,189
Comprehensive School Reform Demonstration:	84.332							
Project number 051870		781,000	575,166	(34,224)	-	125,309	159,533	-
Project number 061870 0607		675,000	675,000	-	123,674	140,001	467,559	451,232
Total Comprehensive School Reform Demonstration		1,456,000	1,250,166	(34,224)	123,674	265,310	627,092	451,232
Other federal awards (Continued):								
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
Vocational Education - Basic Grants to States (Perkins II):	84.048							
Project number 063520 6012-24		4,159,430	3,564,383	723,944	-	1,318,991	595,047	-
Project number 053490 60191		10,000	-	-	-	10,000	10,000	-
Project number 063520 7012-24		339,184	-	-	-	339,184	339,184	-
Project number 073520 7012-24		4,339,485	-	-	94,389	2,889,658	3,436,907	641,638
Total Vocational Education - Basic Grants to States (Perkins II)		8,848,099	3,564,383	723,944	94,389	4,557,833	4,381,138	641,638
Vocational Education Tech Prep:	84.243							
Project number 053450 5014-24		147,944	135,736	-	-	-	-	-
Project number 063540 6014-24		168,172	72,302	2,831	-	65,620	62,789	-
Project number 073540 7014-24		153,562	-	-	-	73,245	69,655	(3,590)
Total Vocational Education Tech Prep		469,678	208,038	2,831	-	138,865	132,444	(3,590)
Technology Literacy Challenge:	84.318							
Project number 034280-2		802,000	800,722	-	(1,278)	(1,278)	-	-
Project number 044290 0405		1,008,637	1,075,457	-	-	-	-	-
Project number 054280-3		2,174,674	53,250	-	-	-	-	-
Project number 054280-4		799,750	145,584	(2,898)	-	(2,898)	-	-
Project number 005280 5A		2,012,633	31,201	-	-	-	-	-
Project number 054290 0405		3,284,393	2,350,423	-	-	-	-	-
Project number 054290 0506		933,970	126,888	(46,288)	-	807,082	853,370	-
Project number 064290 0506		2,525,364	-	(350,000)	-	1,487,043	1,837,043	-
Project number 074290 0607		1,321,694	-	-	-	373,847	196,930	(176,917)
Total Technology Literacy Challenge		14,863,115	4,583,525	(399,186)	(1,278)	2,663,796	2,887,343	(176,917)

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years) Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30,2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Reading First State Grants Project number 042930 0505	84.357		-	-	(819,436)	-	-	(819,436)
Reading First State Grants Project number 052930 0506		7,222,065	4,581,090	965,724	819,436	2,464,490	642,825	(36,505)
Reading First State Grants Project number 052910 050601A		112,447	112,447	112,447	-	112,447	-	-
Reading First State Grants Project number 062920 050601B		16,931	16,931	-	-	-	-	-
Reading First State Grants Project number 062930 040302		589,630	530,161	233,205	-	292,674	36,406	(23,063)
Reading First State Grants Project number 072930 0607		7,501,907	-	-	209,047	5,453,152	7,045,560	1,801,454
Total Reading First State Grants		15,442,980	5,240,629	1,311,376	1,028,483	8,322,763	7,724,791	922,450
Title II , Part A Teacher Training/ Principal Training Project number 040520 0405	84.367	1,174,155	1,174,765	-	-	-	-	-
Title II , Part A Teacher Training/ Principal Training Project number 050520 0405		21,400,904	22,071,704	-	-	-	-	-
Title II , Part A Teacher Training/ Principal Training Project number 060520 0506		4,331,241	20,016,534	18,842,277	-	19,410,495	568,218	-
Title II , Part A Teacher Training/ Principal Training Project number 050520 0506		204,672	204,672	-	-	1,693,459	1,693,459	-
Title II , Part A Teacher Training/ Principal Training Project number 060520		543,612	-	-	388,120	388,120	502,355	502,355
Title II , Part A Teacher Training/ Principal Training Project number 070520 0607		22,296,300	-	-	4,498,262	15,541,304	17,335,693	6,292,651
Total Title II , Part A Teacher Training		49,950,884	43,467,675	18,842,277	4,886,382	37,033,378	20,099,725	6,795,006
Hurricane Katrina Relief	84.938							
Project ID number 064120 1		84,318	-	-	-	84,318	84,318	-
Project ID number 064120 NON-COR		16,650	-	-	-	16,650	16,650	-
Project ID number 064120 NON-FRIE		6,000	-	-	-	6,000	6,000	-
Project ID number 064120 NON-JES		12,000	-	-	-	12,000	12,000	-
Project ID number 064120 NON-LUTH		26,250	-	-	-	26,250	26,250	-
		145,218	-	-	-	145,218	145,218	-
Total noncluster programs passed through the Michigan Department of Education		512,811,335	271,278,922	37,132,400	9,971,456	186,980,089	220,770,928	80,075,258
Other federal awards (Continued):								
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
MDE Gear-up 04-05		569,706	484,274	632	-	-	-	632
MDE Gear-up 05-06		-	290,252	177,138	-	211,565	141,156	106,729
Total U.S. Department of Education noncluster programs		569,706	774,526	177,770	-	211,565	141,156	107,361

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years) Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30,2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Other federal awards (Continued):								
U.S. Department of Health and Human Services:								
Passed through the City of Detroit Neighborhood Services Department - Headstart:								
Headstart 04-05 - Project number not available	93.600	7,272,529	7,737,790	723,152	(709,242)	-	-	13,910
Headstart 05-06 - Project number not available		8,794,855	2,974,432	-	709,242	1,798,136	1,088,894	-
Headstart 06-07 - Project number not available		3,637,379	-	-	-	529,356	2,281,324	1,751,968
Headstart Special Education 04-05 - Project number not available		147,120	166,104	(6,091)	-	-	-	(6,091)
Headstart Special Education 05-06 - Project number not available		161,431	165,594	-	-	27,702	27,702	-
Headstart Special Education 06-07 - Project number not available		200,172	-	-	-	12,473	57,805	45,332
Total noncluster programs passed through the City of Detroit		<u>20,213,486</u>	<u>11,043,920</u>	<u>717,060</u>	<u>-</u>	<u>2,367,667</u>	<u>3,455,725</u>	<u>1,805,118</u>
Total U.S. Department of Health and Human Services noncluster programs		<u>20,213,486</u>	<u>11,043,920</u>	<u>717,060</u>	<u>-</u>	<u>2,367,667</u>	<u>3,455,725</u>	<u>1,805,118</u>
Other federal awards (Continued):								
U.S. Department of Agriculture - Passed through the Michigan Department of Education:								
Food Distribution:								
Entitlement commodities	10.550	2,349,225	2,091,419	-	-	2,155,040	2,155,040	-
Bonus commodities		<u>533,270</u>	<u>147,997</u>	<u>-</u>	<u>-</u>	<u>54,520</u>	<u>54,520</u>	<u>-</u>
Total Food Distribution		<u>2,882,495</u>	<u>2,239,416</u>	<u>-</u>	<u>-</u>	<u>2,209,560</u>	<u>2,209,560</u>	<u>-</u>
Child Care Food Program:								
Project number 041920	10.558	-	-	-	(13,673)	(13,673)	-	-
Project number 061920		127,031	189,708	53,377	2,135	59,815	6,333	2,030
Project number 062010		21,553	8,928	-	3,788	2,133	6,542	8,197
Project number 071920		114,874	-	-	69,975	518,082	595,167	147,060
Project number 072010		<u>75,697</u>	<u>31,537</u>	<u>-</u>	<u>-</u>	<u>28,236</u>	<u>75,697</u>	<u>47,461</u>
Total Child Care Food Program		<u>339,155</u>	<u>230,173</u>	<u>53,377</u>	<u>62,226</u>	<u>594,594</u>	<u>683,739</u>	<u>204,747</u>

Detroit Public Schools  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Unaudited (Memo Only) Prior Years Expenditures	Unaudited Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	June 30,2007 Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Summer Food Service Program for Children	10.559							
Project number 050900		21,540	21,540	-	-	-	-	-
Project number 051900		2,230	2,230	-	-	-	-	-
Total Summer Food		<u>23,770</u>	<u>23,770</u>	-	-	-	-	-
Total U.S. Department of Agriculture noncluster programs		3,245,420	2,493,359	53,377	62,226	2,804,154	2,893,299	204,747
U.S. Department of Housing and Urban Development:								
Passed through the City of Detroit Department of Health and Human Services -								
Passed through City of Detroit								
WIA Breithaupt CTC IN School 04-05		306,000	279,848	-	-	-	-	-
WIA Breithaupt CTC IN School 05-06		-	160,581	-	-	-	16,646	16,646
WIA Breithaupt CTC IN School 06-07		229,000	-	-	-	-	197,310	197,310
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 06-07		<u>16,000</u>	-	-	-	-	-	-
		700,192	487,629	108,354	-	108,354	213,956	213,956
U.S. Department of Labor:								
Carnegie Cognitive Algebra	17.255	129,000	105,804	-	-	29,625	31,963	2,338
Carnegie Cognitive Algebra		-	78,188	52,185	-	-	-	52,185
Work first Adult		606,700	551,302	-	-	-	-	-
Work first Adult		509,628	475,695	(6,331)	-	-	-	(6,331)
Work first Adult		509,628	273,616	273,616	-	384,785	111,169	-
Work first Adult 06-07		<u>443,376</u>	-	-	-	-	<u>328,498</u>	<u>328,498</u>
		2,198,332	1,484,605	319,470	-	414,410	471,630	376,690
<b>Total federal awards</b>		<b><u>\$ 744,097,626</u></b>	<b><u>\$ 425,881,695</u></b>	<b><u>\$ 45,775,986</u></b>	<b><u>\$ 10,033,681</u></b>	<b><u>\$ 257,562,346</u></b>	<b><u>\$ 303,639,042</u></b>	<b><u>\$ 101,066,928</u></b>



## DETROIT PUBLIC SCHOOLS

### Notes to Schedule of Expenditures of Federal Awards

June 30, 2007

**(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) Grants Section Auditor's Report**

Management prepared the schedule of expenditures of federal awards using information from Form R-7120 and the CMS Grant Auditor Report. Unreconciled differences, if any, have been disclosed to the auditor's.

**(4) Adjustments and Transfers**

During the year ended June 30, 2007, adjustments and transfers in the amount of \$10,033,681 were made due to a timing difference between when the Michigan Department of Education released the funds for payment and the School District's receipt of the funds.



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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***

The Detroit Board of Education  
Detroit Public Schools:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Public Schools (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 17, 2007.

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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (2007-01 through 2007-44) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not



necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies noted above, we consider items 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, and 2007-06 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's 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 items 2007-45 and 2007-46.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Detroit Board of Education, others within the District, the State of Michigan, the City of Detroit, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

December 17, 2007

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

- (a) The type of report issued on the financial statements: Unqualified
- (b) Significant deficiencies 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: No
- (e) Significant deficiencies in internal control over major programs were disclosed by the audit: Yes
- (f) Material Weaknesses: Yes
- (g) 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>
Child Nutrition (CFDA# Various)	Vocational Education (CFDA# 84.048) 21 <sup>st</sup> Century Community Learning Centers (CFDA# 84.287) Reading First (CFDA# 84.357) Special Education Cluster (CFDA# Various) Title II, Part A (CFDA# 84.367) Title I, Part A (CFDA # 84.010) Head Start (CFDA# 93.600)

- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: Yes
- (g) Major programs: Title I, Part A (CFDA # 84.010); Vocational Education (CFDA # 84.048); 21st Century Community Learning Centers(CFDA # 84.287); Reading First (CFDA # 84.357); Title II, Part A (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

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

**2007-01 Preparation of Financial Statements**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Financial Reporting, Financial Statements:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.

***Condition***

During our review over the financial statements, related footnotes disclosures, and supplementary information, we noted that certain amounts presented in the draft financial statements and footnote disclosures did not agree to the corresponding trial balances. Additionally, we also noted that the financial statements and related information were not prepared soon enough after year-end to result in timely financial reporting.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluating and preparing the financial statements are not properly designed to ensure that the financial statements, related footnotes disclosures, and supplementary information are properly recorded and fairly stated. Therefore, financial statements were not properly reviewed for completeness, accuracy, and existence. As a result, the financial statements were not prepared in a timely manner as of June 30, 2007, thereby creating a delay in the financial reporting process.

***Recommendation***

Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of prepared draft financial statements so that errors, omissions, or irregularities could be detected by the reviewer. Additionally, we recommend that individuals responsible for preparation and review of the financial statements be well experienced in this area and receive ongoing professional training on governmental accounting and financial reporting.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-02 Wire Transfer Authorizations**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Management Authorization of Wire Transfers:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.01, internal accounting control is generally defined as the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that transactions are executed in accordance with management’s general or specific authorization.

***Condition***

During our testwork over wire transfers, we selected a sample of 128 wire transfers totaling \$269,849,198. Within our sample, we noted five (5) wire transfers totaling \$17,048,265 that were not reviewed by management until after they were prepared and faxed to the bank for submission.

***Possible Asserted Cause and Effect***

The individual responsible for processing wire transfers circumvented the internal control policy in order to expedite time-sensitive payments. Circumvention of internal controls could cause unauthorized payments to be made by the District.

***Recommendation***

Individuals that circumvent internal controls should be subject to personnel actions, including additional monitoring and training.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-03 Fraud Risk Management**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

An effective fraud risk management program has internal controls designed to: 1) reduce the risk of fraud and misconduct from occurring (prevention controls); 2) discover fraud and misconduct when it occurs (detection controls); and 3) take corrective action and remedy the harm caused by the fraud or misconduct (responsive controls).

***Condition***

The District has not adopted a comprehensive and integrated approach to fraud risk management that takes all relevant considerations into account.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

The District has not planned and conducted the evaluation of design and operating effectiveness of its antifraud controls. The District faces a variety of fraud and misconduct risks that are increased as a result of not having a comprehensive and integrated approach to fraud risk management.

***Recommendation***

The District should undertake designing and implementing a comprehensive program that contains the following elements: 1) prevention controls such as a fraud and misconduct risk assessment, development of a code of conduct, employee education on code of conduct and related regulations, employee and third-party due diligence, and process-specific fraud risk controls; 2) detection controls such as establishing a hotline and whistleblower mechanisms, establishing internal audit, implementing monitoring activities, and conducting proactive forensic data analysis; and 3) responsive controls such as internal investigation protocols, enforcement and accountability protocols, disclosure protocols, and remedial action protocols.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-04          Establishing Internal Audit**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

It is essential that all organizations seeking a sound internal control environment establish a tone at the top that supports internal audit as an essential component to achieving financial, technological, and operational success. The internal audit department can provide monitoring of internal control activities as well as assessments of whether internal controls are designed appropriately and operating effectively. An internal audit department also is able to assist with monitoring and assessing compliance with laws, regulations, grant agreements, and contracts.

***Condition***

The District does not have an internal audit department.

***Possible Asserted Cause and Effect***

An internal audit department has not yet been established due to the extended period of time under which a search for an internal audit executive has taken place. A lack of an internal audit department is a detriment to the entire internal control environment. Not having internal audit reduces the effectiveness of deterring and detecting errors, irregularities, or fraud.

***Recommendation***

Internal audit should be established immediately, and its scope of work should not be limited and should be based on appropriate risk assessments of District operations.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-05          Accounts Payable Cutoff**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

*Accounts Payable:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.02, Paragraph A.02 (C), expenditures for services are recorded when the services are performed. Expenditures for materials and supplies are recorded when the items are placed in service. If supply items are purchased for future use, the transaction is recorded in an inventory account. A charge to an expense account is made when the item is requisitioned for use. Expenses paid that cover future periods, such as for a three-year insurance policy, are recorded as prepaid expenditures to the extent of the portion not yet expired.

***Condition***

During our walk-through of accounts payable procedures, we noted that the policy for submitting and recording invoices in the proper period is not consistently followed. All invoices are not being sent to the accounts payable department directly and therefore can be delayed significantly before they are recorded and processed. The cutoff procedures used to capture and record invoices in the proper period are not effective.

**Possible Asserted Cause and Effect**

The internal control procedures related to capturing, recording, evaluating and reviewing accounts payable is not properly designed to ensure that expenditures are recorded in the proper period. As a result, certain invoices are processed as expenditures in the wrong fiscal years.

**Recommendation**

We recommend that management strengthen the enforcement of current accounts payable policies and supplement the existing policies with additional measures. All invoices should be sent directly to the accounts payable department. The accounting division should receive copies of all contracts, grant agreements, and other financial documents. Multiperiod contracts and agreements should be evaluated to determine the appropriate accounting treatment including the year in which the expenditure should be recorded. Additional communications should be circulated at year-end to all departments to reiterate the accounts payable and expenditure accounting policies. Individuals that violate the internal control policies should be subject to personnel actions, which at a minimum should include additional training. The accounting division should conduct detailed analysis of data files at year-end to assist in ensuring that expenditures are recorded in the proper period.

**Views of Responsible Officials**

We understand and agree with the noted observation and are working toward corrective actions.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-06 Capital Asset Impairments Assessment**

**Finding Type: Internal Control over Financial Reporting – Material Weakness**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Capital Asset Impairment:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The adequacy of the accounting systems depends on whether both current and historical information is available for decision-making purposes. The accounting system should be designed to demand accuracy and a reasonable degree of internal control. A school district accounting system should be consistent with generally accepted governmental accounting principles. GASB 42, Par. 16: Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Capital assets impaired from construction stoppage also should be reported at the lower of carrying value or fair value.INSERT OBJECT

***Condition***

During our testwork over capital asset impairment, we selected all schools that were subjected to impairment testing according to GASB 42. Through discussion with management and inspection of related documentation, we noted that documentation was not retained by the District for the calculation of the impairment that it recorded during the year ended June 30, 2007. The initial impairment analysis provided by the District indicated an impairment of \$2,099,088; however, since documentation was not retained, the District conducted another analysis and as a result indicated an additional impairment amount of \$2,397,716.

***Possible Asserted Cause and Effect***

The procedures used to calculate impairment did not include an appropriate document retention or management review policy

***Recommendation***

Internal control and accounting procedures should include a document retention policy. Additionally, all procedures that result in accounting entries should include a review of the calculations and underlying supporting documentation by another member of management to ensure that calculations are accurate, assumptions are reasonable, and that supporting documentation is available and supports the conclusions reached.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-07 Bond Series V Retention**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Retention:* Per Detroit Public Schools contract terms and conditions, General Condition, Article 9, Payments and Completion, Section 3.1, on or before the 20th of the month or as determined by the owner, each contractor shall submit an itemized rough draft of the application for payment identifying the work completed, if any, during the current calendar month, review same with the owner and obtain a preliminary approved copy of the draft for official submission. On or before the 25th day of each month, each contractor shall submit to the owner, an itemized application notarized for payment for work completed during the current calendar month subsequent to the contractor’s submission of that month’s application for payment.

***Condition***

During our test work over the schedule of retainage for Bond Series V, we selected a sample of 20 application and certification for payment forms with a retainage totaling \$4,036,434. Within our sample, we noted that one (1) application and certification for payment form with a retainage totaling \$1,234,606 was not notarized by a public notary.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluating and recording retention is designed to ensure that all required documentation is completed and signed as required by District policies. However, the retention application and certification for payment form was not properly reviewed for completeness. As a result, the retainage was recorded on the schedule of retention as a liability as of June 30, 2007 without the appropriate signatures required for retention.

***Recommendation***

We recommend that management improve control procedures by introducing procedures to monitor and review the operation of control procedures during the year to ensure that they are being followed.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-08 Accounting for Contingencies – Legal Case Reserves**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Legal Reserve:* Per FASB Statement 5, Accounting for Contingencies, when a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. A. Probable – The future event or events are likely to occur. B.

## DETROIT PUBLIC SCHOOLS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Reasonably possible – The chance of the future event or events occurring is more than remote but less than likely. C. Remote – The chance of the future event or events occurring is slight. *Paragraph 8*, An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met: 1. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. 2. *Paragraph 9*, Disclosure of the nature of an accrual made pursuant to the provisions of *Paragraph 8*, and in some circumstances the amount accrued, may be necessary for the financial statements not to be misleading. *Paragraph 10*, If no accrual is made for a loss contingency because one or both of the conditions in *Paragraph 8* are not met, or if an exposure to loss exists in excess of the amount accrued pursuant to the provisions of *Paragraph 8*, disclosure of the contingency shall be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted, and there is a reasonable possibility that the outcome will be unfavorable.

#### **Condition**

During our evaluation of legal reserves, we noted that upon our initial request of the Litigation Case Status Summary Report, the District did not provide proper documentation of an appropriate accounting assessment of legal reserves in accordance with FASB Statement No. 5.

#### **Possible Asserted Cause and Effect**

The internal control procedures related to evaluating and recording legal reserve is not properly designed to ensure that all reserves are recorded in accordance with FASB Statement 5. Therefore, reserves were not properly reviewed prior to our audit inquiries on such matters.

#### **Recommendation**

We recommend that management assess contingent liabilities based on the criteria contained in FASB Statement No. 5 and record accounting entries as appropriate.

#### **Views of Responsible Officials**

We understand and agree with the noted observation and are working toward corrective actions.

#### **2007-09 Workers' Compensation Accrual**

#### **Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

#### **Requirement**

*Workers' Compensation and General Liability:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees.

## DETROIT PUBLIC SCHOOLS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2007

#### *Condition*

During our test work over the workers' compensation and general liability, we selected a sample of 30 claims. Within our sample, we noted that the "date of loss" recorded on four (4) accident reports did not agree with the dates noted in the TPA (third-party administration) Report. We also noted that due to the lack of information and data in the TPA Report submitted by the District, the consulting actuary could not rely on the report and therefore had to use industrywide data to determine the estimate of the accrual.

#### *Possible Asserted Cause and Effect*

The procedures related to the collection, maintenance, and reporting of claims data were not designed to capture and report the data necessary for actuarial purposes. As a result, the data lacked sufficient information as of June 30, 2007 to be utilized in the estimating process and industry data had to be used.

#### *Recommendation*

We recommend that management revise the procedures to result in a more complete and consistent documentation of workers' compensation data.

#### *Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

#### **2007- 10 Procurement – Receiving**

#### **Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

#### *Requirement*

*Procurement:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.07, approved purchase orders should be used for all purchases in accordance with district policy; receiving documents should be attached to and filed with applicable invoices; and internal controls should exist to prevent duplicate payment of invoices.

#### *Condition*

During our test work over procurement, we noted that the District's system is designed to track receiving documents, and to require a three-way match of a receiver, purchase order, and invoice before payment is made; however, third-party receiving documents and closed purchase orders are not retained. Therefore, the District was unable to provide to us third-party receiving documentation for goods and services obtained from vendors. As a result, the District we were unable to verify that a three-way matching of purchase order, receiving document, and invoice occurred prior to disbursing funds.

#### *Possible Asserted Cause and Effect*

The internal control procedures are not designed to retain third-party receiving documents. Therefore, the District is at greater risk of inappropriate payments being made, including payments for goods and services never received.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Recommendation***

We recommend that no funds are disbursed against invoices unless matched to both a valid purchase order or contract and a corresponding receiving document evidencing that the goods and services were properly received. The District should consider strengthening its internal control procedures by requiring third-party receiving documents to be faxed to a central location.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-11          Accounts Payable Subledger Reconciliation**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

*Accounts Payable:* Best practices in internal controls indicate that the ordinary course of operating activities should serve to monitor the effectiveness of internal control procedures. They include regular management and supervisory activities, comparisons, reconciliations, and other routine actions. In carrying out its regular management activities, operating management should obtain evidence that the system of internal control continues to function. When operating reports are integrated or reconciled with the financial reporting system and used to manage operations on an ongoing basis, significant inaccuracies or exceptions to anticipated results are likely to be spotted quickly. Virtually all employees play some role in effecting control. They may produce information used in the internal control system or take other actions needed to effect control. These actions may include performing reconciliations, following up on exception reports, performing physical inspections or investigating reasons for cost variances or other performance indicators. The care with which those activities are performed directly affects the effectiveness of the internal control system.

***Condition***

During our test work over accounts payable, we noted that a complete and accurate reconciliation between the accounts payable subledger and the general ledger was not performed. Per review of the account payable detail listing, we noted that the balance per the subledger was \$35,973,704; however, the balance of the general ledger was \$35,744,119, therefore, noting a difference of \$229,585. This difference was not investigated and resolved in a timely manner by an employee in the normal course of their duties.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluating and reviewing accounts payable is not properly designed to ensure that the subledger and general ledger reconcile. Therefore, accounts payable is not properly reviewed for completeness and accuracy.

***Recommendation***

We recommend that all subledgers are reconciled to the general ledger on a monthly basis and all differences discovered are investigated and resolved immediately.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-12 Transaction Coding**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Accounts Payable:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.

***Condition***

During our test work over procurement, we selected a sample of 15 expenditures totaling \$10,955,726. Within our sample we noted that the invoice description for two (2) invoices totaling \$3,363,505 did not correlate to the trial balance account description.

***Possible Asserted Cause and Effect***

Individuals responsible for affixing account codes to requisitions, purchase orders, and invoices do not always use the correct accounts. Using incorrect expenditure account codes can result in misclassifications in the financial statements and can result in erroneous budgetary reports.

***Recommendation***

Individuals responsible for affixing account codes to requisitions, purchase orders, and invoices should receive regular communications from the accounting division and should receive ongoing periodic training.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-13 Prepaid Expenditures**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Accounts Payable:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.02, Paragraph A.02 (C), expenditures for services are recorded when the services are performed. Expenditures for materials and supplies are recorded when the items are placed in service. If supply items are purchased for future use, the transaction is recorded in an inventory account. A charge to an expense account is made when the item is

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

requisitioned for use. Expenses paid that cover future periods, such as for a three-year insurance policy, are recorded as prepaid expenditures to the extent of the portion not yet expired.

***Condition***

During our test work over procurement, we selected a sample of 161 accounts payable general fund expenditures totaling \$50,568,370. Within our sample we noted that one (1) prepaid totaling \$438,187 was recorded in fiscal year 2007; however, \$346,898 of the prepaid previously noted, should have been recorded as prepaid assets and expended in fiscal year 2008. In addition, we also selected a sample of 89 nonaccounts payable general fund expenditures totaling \$162,327,167. Within our sample we noted that three (3) prepaids totaling \$1,829,894 were recorded in fiscal year 2007; however, \$213,256 of the prepaids previously noted, should have been recorded as prepaid assets and expended in fiscal year 2008.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluating and recording expenditures payable is not properly designed to ensure that all expenditures are recorded properly. Therefore, liabilities were not properly reviewed for completeness and accuracy. As a result, the invoices were improperly recorded as of June 30, 2007, therefore, creating an overstatement in the general fund.

***Recommendation***

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of expenditures.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-14 Payroll and Human Resources – Vacation Accruals and Payouts**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per Michigan Public School Accounting Manual, Section VI, A.07, *Expenditures*, changes in employment status should be properly authorized, approved, and documented in personnel files. Procedures should be in place to document vacation, holiday, and sick days taken. *Section II, Paragraph A.01*, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.

***Condition***

During our test work over payroll vacation accrual, we noted that employees that were not eligible for vacation were improperly included in the vacation accrual estimate. We also noted that two employees with accrued

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

vacation time were not paid for accumulated vacation time after they switched positions and were therefore entitled to a payout.

***Possible Asserted Cause and Effect***

The internal control procedures related to calculating the vacation accrual estimate were not properly designed to ensure that only appropriate individuals were included in the calculation. Additionally, the internal control procedures related to identifying and making required payouts failed to identify two individual payouts that should have been made.

***Recommendation***

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of vacation accruals and required vacation payouts.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-15          Accounting Policies – Reimbursements**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

*Revenue:* Per NCGAS1, most expenditures and transfers out are measurable and should be recorded when the related liability is incurred. Revenues and other governmental fund financial resource increments (e.g., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

***Condition***

During our test work over revenue, we noted that reimbursements from the unions related to salary and benefits paid to unions’ staff were recorded as miscellaneous income. However, reimbursements from the unions should be recorded as a reduction to expenses rather than revenue.

***Possible Asserted Cause and Effect***

The established practice of recording reimbursements as income was not in accordance with U.S. generally accepted accounting principles (GAAP). Accounting policies and practices should be in accordance with GAAP to ensure a proper financial statement presentation.

***Recommendation***

Individuals responsible for establishing accounting policies and practices should be experienced and well-trained. Management should review all of its accounting policies and practices to ensure compliance with GAAP and the Michigan Public School Accounting Manual.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-16 Accounting Policies – Vendor Rebates**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Revenue:* Per NCGAS1, most expenditures and transfers out are measurable and should be recorded when the related liability is incurred. Revenues and other governmental fund financial resource increments (e.g., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

***Condition***

During our test work over revenue, we noted that rebates from vendors were improperly recorded as revenue. The District accounting practice for vendor rebates had been that all rebates shall be recorded as miscellaneous income and not charged back to the individual expense accounts. However, rebates should be recorded as a reduction in expenses rather than revenue.

***Possible Asserted Cause and Effect***

The established practice of recording rebates as income was not in accordance with GAAP. Accounting policies and practices should be in accordance with GAAP to ensure a proper financial statement presentation.

***Recommendation***

Individuals responsible for establishing accounting policies and practices should be experienced and well-trained. Management of the District should review all of its accounting policies and practices to ensure compliance with GAAP and the Michigan Public School Accounting Manual.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-17 Revenue Recognition – Payroll Bank Account Reconciliation**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per NCGAS1, most expenditures and transfers out are measurable and should be recorded when the related liability is incurred. Revenues and other governmental fund financial resource increments (e.g., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual – that is, when

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

they become both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

***Condition***

During our test work over revenue, we noted that the District improperly recorded revenue related to a write-off of \$1.8 million of outstanding checks. The District recorded the write-off by reducing the liability and increasing revenue. However, the District should have reduced expenses rather than increased revenue.

***Possible Asserted Cause and Effect***

The established practice of recording write-offs of outstanding checks as income was not in accordance with GAAP. Accounting policies and practices should be in accordance with GAAP to ensure a proper financial statement presentation.

***Recommendation***

Individuals responsible for establishing accounting policies and practices should be experienced and well-trained. Management should review all of its accounting policies and practices to ensure compliance with GAAP and the Michigan Public School Accounting Manual.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-18 SEFA Preparation and Reconciliation**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Reporting:* Each State and local agency shall maintain full and complete records concerning Program operations (7 CFR section 246.25(a)). To be acceptable for audit purposes, all financial and Program performance reports shall be traceable to source documentation (7 CFR section 246.25(d)).

***Condition***

During our test work of the Schedule of Expenditures for Federal Awards (SEFA), we noted that management does not perform a reconciliation of the expenditures recorded on the SEFA to the expenditures recorded on the general ledger.

***Possible Asserted Cause and Effect***

The District prepares their SEFA based on the revenues received and has not implemented an internal control procedure to reconcile expenditures from the General Ledger to the SEFA. Not having such a control procedure could result in inaccuracies in the SEFA.

## DETROIT PUBLIC SCHOOLS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2007

#### ***Recommendation***

We recommend that management reconcile the expenditures and revenues recorded on the general ledger to the SEFA. We also recommend that management implement a control procedure that includes a reconciliation of the recorded federal revenues to the source documents. These reconciliations should be performed by an individual that is independent of the person responsible for preparing the SEFA and grant drawdown requests.

#### ***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

#### **2007-19 Capital Assets – Use of Service Organizations**

#### **Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

#### ***Requirement***

*Capital Assets:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The adequacy of the accounting system depends on whether both current and historical information are available for decision-making purposes.

Per Statement on Auditing Standards No. 70, *Service Organizations*, in any audit, the auditor is required to obtain a sufficient understanding of internal control necessary to plan the audit. When the audited entity uses a service organization to process transactions, issues may arise relating to how the auditor is to obtain the necessary understanding of internal controls located at the service organization. In these situations, it is common for the auditor to obtain a service auditor's report or SAS No. 70 report, based on Statement on Auditing Standards (SAS) No. 70, *Service Organizations* (AICPA, Professional Standards, vol. 1, AU sec. 324), as amended, that describes the service organization's internal control. In a Type 2 SAS No. 70 engagement, the service auditor performs tests of specific controls to evaluate their operating effectiveness. The service auditor's report includes an opinion as to whether the controls tested were operating with sufficient effectiveness to provide reasonable but not absolute assurance that the related control objectives were achieved during the period specified. When management is relying on a service organization to process transactions or conduct record keeping on its behalf, management is still responsible for establishing and maintaining sound internal controls. In order to properly assess internal controls at a service organization, management must evaluate the internal controls at the organization or obtain a Type 2 SAS 70 report.

#### ***Condition***

The District uses a service organization to maintain certain aspects of its records for capital assets. Therefore, a Type 2 SAS 70 report should have been obtained and reviewed by District management; therefore, we could not initially obtain a sufficient understanding of internal control. Subsequently, through additional testing, we were able to obtain a comfortable level of understanding over internal control.

## DETROIT PUBLIC SCHOOLS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2007

#### *Possible Asserted Cause and Effect*

The internal control procedures related to evaluating independent verification of AssetMax's own internal controls are not properly designed to ensure that the Type 2 SAS 70 report requirements are met. Therefore, the internal controls are not adequately recorded. As a result, independent verification of AssetMax's own internal controls was not vouched for as of June 30, 2007. Physical inspection of the assets is a critical component of the internal control activities over disposals and therefore the control procedures over physical inspection of capital assets should be assessed and monitored on a regular basis.

#### *Recommendation*

We recommend that management improve the control procedures to result in a more consistent and thorough review of the SAS 70 report to ensure independent verification of AssetMax's own internal controls.

#### *Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

#### **2007-20 Capital Assets – Construction-in-progress Accounting**

#### **Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

#### *Requirement*

*Construction in Progress:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local; state, and federal authorities; and school employees. The adequacy of the accounting system depends on whether both current and historical information is available for decision-making purposes. Paragraph B.03, (B) Capital Asset Accounts: This account group is used to account for capital assets (land, buildings, and equipment) of the school district. Capital assets do not represent financial resources available for expenditure but are items for which financial resources have been used – though the cost of capital assets acquired are charged to expenditures as incurred in another governmental fund, continuing accountability for those assets should be maintained by the school district.

#### *Condition*

To maintain continuing accountability and compliance with U.S. generally accepted accounting principles, capital projects that are physically completed in service should be reclassified to depreciable status. There are several district wide projects that are using multiple bond series throughout multiple years and even though certain aspects of the projects have been completed and the corresponding assets placed into service, they have not been reclassified into depreciable status.

#### *Possible Asserted Cause and Effect*

District wide projects are accounted for as a group, and are not reclassified into depreciable status until all assets in the group are completed and placed into service. For example, swimming pools constructed for several schools are treated this way. As a result, a swimming pool that is completed in year one of a multiple year project could be placed into service in year one, however, depreciation on the pool will not start until the last year of the

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

project when the last pool is placed into service. This could cause the pools that were completed first to have exhausted their economic useful lives even though there are still costs left to depreciate.

***Recommendation***

Major components of district wide projects should be put into depreciable status when they are 90% complete and placed into service. The accounting policies of the district should be modified to reflect this change and individuals responsible for the accounting for capital assets should be trained on appropriate accounting treatment for capital assets.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-21      Sale and Lease Contracts – Retention of Executed Copies**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Signature of Leases:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The adequacy of the accounting system depends on whether both current and historical information are available for decision-making purposes. Per Michigan Public School Accounting Manual, Section IV, Paragraph A.01, internal accounting control is generally defined as the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that transactions are recorded as necessary to maintain accountability for assets.

***Conditions***

During our testwork over specific lease or sales agreements of closed schools, we selected a sample of 20 schools. Within our sample, we noted five (5) contracts were not signed by the lessee.

***Possible Asserted Cause and Effect***

Individuals responsible for contract execution, document retention, and contract maintenance did not follow acceptable methods to ensure that transactions with third parties are based on valid agreements. Individuals responsible for ensuring that accounting entries and disclosures are based on final executed copies of contracts/agreements failed to ensure that executed copies were obtained for accounting purposes. Agreements with third parties should be based on signed contracts or the contracts may not be legally binding. Also, if accounting entries are recorded based on copies that are not signed, then there is a risk that the copy that the accounting entry is based on is not the final version of the agreement.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Recommendation***

Policies and procedures regarding contract management should be reviewed to ensure that they are properly designed to achieve the commercial objectives of the district. The policies should include procedures whereby members of management are monitoring compliance and adhere to the policies. Individuals responsible for these areas should be trained on a regular basis.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-22            Cash Receipts – Segregation of Duties**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

Per the Committee of Sponsoring Organizations of the Treadway Commission (the Internal Control – Integrated Framework COSO Report): Segregation of Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them, and handling the related asset are divided. A manager authorizing credit sales would not be responsible for maintaining accounts receivable records or handling cash receipts. Similarly, salespersons would not have the ability to modify product price files or commission rates.

***Condition***

During our testwork over cash, we noted that there is a lack of segregation of duties in respect to the receiving and recording of cash receipts and checks.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluating and recording cash are not properly designed to ensure proper segregation of duties. Therefore, cash is not properly reviewed for completeness, accuracy, and existence. As a result, cash is received and recorded by the same individual, therefore, creating a possibility of errors or misappropriation of assets.

***Recommendation***

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of segregation of duties between key accounting functions.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-23 Bank Reconciliations – Segregation of Duties**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per the Committee of Sponsoring Organizations of the Treadway Commission (the Internal Control – Integrated Framework COSO Report): Segregation of Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them, and handling the related asset are divided. A manager authorizing credit sales would not be responsible for maintaining accounts receivable records or handling cash receipts. Similarly, salespersons would not have the ability to modify product price files or commission rates.

***Condition***

During our test work over cash, we noted that there is a lack of segregation of duties in respect to preparing bank reconciliations, depositing cash receipts and checks for the same accounts.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluating and recording cash are not properly designed to ensure proper segregation of duties. Therefore, cash is not properly reviewed for completeness, accuracy, and existence. As a result, the bank reconciliations are prepared by the same individual who is responsible for depositing cash receipts and checks; therefore, creating a possibility of errors or misappropriation of assets.

***Recommendation***

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of segregation of duties between key accounting functions.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-24 Bank Reconciliations – Timeliness**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Bank Reconciliations:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.02, (C), bank accounts should be reconciled monthly.

***Condition***

During our review over bank reconciliations, we noted that one bank reconciliation was not prepared and/or reviewed on a timely basis. The Concentration Account reconciliation was prepared on July 24, 2007, however, the reconciliation received a final manager review on August 22, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

The individuals responsible for preparing the reconciliation and reviewing the reconciliation did not complete their duties as timely as would be expected.

***Recommendation***

Control procedures should be monitored by management to ensure that they are being followed as designed. If individuals are found to not follow the policies and procedures in place, they should be subject to personnel actions that at a minimum should include additional monitoring and training.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-25 Payroll Account Bank Reconciliation – Stale Items**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Outstanding and Unclaimed Payroll Checks:* Per Michigan Uniform Unclaimed Property (Excerpt) Act 29 of 1995, item 567.236 Unpaid Wages, Sec. 16 (1) unpaid wages greater than \$50.00, including wages represented by unrepresented payroll checks greater than \$50.00, owing in the ordinary course of the holder's business that remain unclaimed by the owner for more than one year after becoming payable are presumed abandoned.

***Condition***

During our testwork over payroll, we noted that there was one payroll account (#466536), which had outstanding checks that were several years old that amounted to \$612,952. This account could possibly have checks that should be escheated back to the State of Michigan.

***Possible Asserted Cause and Effect***

The checks in question were issued when the old payroll system was in place; prior to the implementation of PeopleSoft. This was several years ago. By not investigating and resolving these items, the District is possibly out of compliance with the State's escheatment law.

***Recommendation***

All reconciling items should be completely investigated and resolved in a timely manner.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-26          Accounts Payable Bank Reconciliations – Unexplained Variances**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

*Bank Reconciliations:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.01, Internal accounting control is generally defined as the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Paragraph A.02 (C) states that bank accounts should be reconciled monthly.

***Condition***

During our testwork over accounts payable, we noted that the District could not provide supporting documentation or an explanation for the variance of \$257,031 in account #765106. In addition, we also noted that the variance fluctuates from month to month depending on the flow of cash. Furthermore, individuals responsible for the reconciliation of this account have not investigated these variances throughout the year.

***Possible Asserted Cause and Effect***

Individuals responsible for reconciling this account have not investigated and compared the transactions that are processed by the bank to the transactions that are recorded in the general ledger at a level of detail sufficient enough to discover the nature and cause of the unexplained variance. Unexplained variances could impact the cash balances as recorded and increase the risk that an error or fraud would go undetected.

***Recommendation***

All bank reconciliation variances should be investigated and resolved fully on an ongoing and timely basis. Management personnel that are responsible for reviewing the reconciliations should ensure that all variances are explainable and appropriate.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-27          Individual Schools Bank Reconciliations – Nonperformance**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year:    July 1, 2006 to June 30, 2007**

***Requirement***

*Bank Reconciliations:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.01, Internal accounting control is generally defined as the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that: the recorded accountability for assets is compared with existing assets at

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

reasonable intervals and appropriate action is taken with respect to any differences. Paragraph A.02 (C) states that bank accounts should be reconciled monthly.

***Condition***

During our testwork over cash, we noted that monthly bank reconciliations for the individual schools accounts were not being consistently performed throughout the 2007 fiscal year for 141 individual schools. Additionally, 62 schools were identified as not performing any monthly bank reconciliations for the full 2007 fiscal year.

***Possible Asserted Cause and Effect***

The individuals responsible for preparing and reviewing the schools bank reconciliations did not follow the prescribed internal control policies and procedures of the District. Additionally, the individual responsible for monitoring compliance throughout the year did not actively conduct monitoring activities. Bank accounts without appropriate reconciliations increase the risk of misappropriation of cash and errors that would go undetected.

***Recommendation***

Individuals not following policies of the District should be subject to personnel actions, including additional monitoring and training. The policy should also be revised to include specific actions to be taken when schools don't comply with the policy.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-28 Investment Management – Reporting**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per Detroit Public Schools Investment Policy, Number 12.0, Reporting: The investment manager shall prepare an investment report at least monthly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. Quarterly reports shall be prepared and made available for review by the investment manager within 15 days of quarter-end. The report will include the following: a listing of individual securities held at the end of the reporting period; average weighted yield to maturity of portfolio on District investments as compared to applicable benchmarks; listing of investments by maturity date; the percentage of the total portfolio that each type of investment represents; the percentage of the total portfolio that each institution is holding; the percentage of the total portfolio broken down by defined maturity periods; and principal and type of investment by fund.

***Condition***

During our testwork over investments and per inquiry of management, we noted that a quarterly investment report could not be provided by management, as the report is not prepared as required.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

The individual responsible for preparing the reports did not comply with the Policy. Following and monitoring established policies are critical components of internal controls that if not performed could lead to control failures.

***Recommendation***

Individuals not following internal control policies should be subject to personnel actions, including additional monitoring and training.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-29      Journal Entry Documentation Retention**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Missing Journal Entry Voucher and support:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The adequacy of the accounting system depends on whether both current and historical information are available for decision-making purposes.

***Condition***

During our testwork over financial reporting, we selected a sample of 30 journal entries totaling \$5,128,349,233. Within our sample, we noted that one (1) physical journal entry totaling \$5,260,183 could not be provided by the client.

***Possible Asserted Cause and Effect***

The internal control procedures related to evaluation and preparing accounting records are not properly designed to ensure that all accounting records are maintained. Therefore, the journal entry was not properly reviewed for completeness, accuracy, and existence. As a result, the journal entry could not be provided as of June 30, 2007, therefore, reducing the effectiveness of the audit trail.

***Recommendation***

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of the custody of accounting records.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-30 Journal Entries – Authorization**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Nonperformance of Journal Vouchers:* Per Michigan Public School Accounting Manual, Section VI, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The adequacy of the accounting system depends on whether both current and historical information is available for decision-making purposes. The accounting system should be designed to demand accuracy and a reasonable degree of internal control. If so designed, it will automatically assist those who are performing daily work on the records as well as those who supervise them.

***Condition***

During our testwork over financial reporting, we selected a sample of 30 journal entries totaling \$5,128,349,233. Within our sample, we noted five (5) large data journal entry transactions totaling \$4,981,840,632 that were uploaded to the accounting system; however, they did not have a journal voucher or evidence of management review and approval.

***Possible assertion cause and effect***

Large data journal entries involve many lines of data and are therefore not processed in the same manner as most other manual journal entries. An absence of management review on such journal entries increases the risk that a journal entry with errors in it could be posted to the general ledger.

***Recommendation***

All journal entries and the related supporting documentation should be reviewed by a member of management prior to posting the entry to the general ledger.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-31 Recording and Reconciling Payroll Deductions**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

*Accrued Payroll Liabilities:* Per Michigan Public School Accounting Manual, Section II, Paragraph A.02, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state and federal authorities; and school employees. The adequacy of the accounting system depends on whether

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

both current and historical information are available for decision-making purposes. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal control.

***Condition***

During our testing of the payroll reconciliation, we noted that the flexible spending account does not properly receive credit entries for employee withholdings. As a result, a debit balance builds in this withholding account.

***Possible Asserted Cause and Effect***

The payroll module is not properly mapped to the general ledger. Incorrect mappings need to be corrected manually and therefore pose a greater risk of an error occurring.

***Recommendation***

System mapping errors should be investigated and resolved on a timely basis.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-32      Overriding Procurement Controls**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks that threaten achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our inquiry and testwork over procurement, we noted that employees are capable of overriding controls to expedite the procurement process. As evidenced through our observation, employees can enter a requisition for material, and then approve the order without the permission of a supervisor, the purchase order is issued and the employee requesting the order receives the material. Materials are received at the warehouse, various departments, schools, and other locations.

***Possible Asserted Cause and Effect***

The internal controls related to procurement are not properly designed as overriding the internal control procedures is not properly controlled.

***Recommendation***

We recommend that management improve the control procedures to result in more consistent and thorough procurement of material and services. We recommend that all material be received at a central warehouse and

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

delivered to the individual locations from the warehouse. If delivery is made to another location, the vendor should fax a delivery notification to the warehouse so that the warehouse staff can confirm delivery with the school or other location.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-33 IT General Controls – Program Change Testing**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over IT general controls, we could not ascertain if all program changes are tested prior to implementation to production. We inspected a selection of 15 Change and Migration Request forms and noted that 14 of the 15 forms did not have evidence that testing was carried out. Additionally, 1 of the 15 forms was not formally approved by the Application Support Manager.

***Possible Asserted Cause and Effect***

Inadequate testing may result in business operations disruptions. Additionally, absence of formal change approval may result in unauthorized changes being migrated to production.

***Recommendation***

We recommend that all changes are tested and approved prior to implementation. Testing and approval details should be captured in the change records.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-34 IT General Controls – Program Change – Systems Configuration**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and, segregation of duties.

***Condition***

During our testwork over IT program change controls, we noted that a formal process for making configuration changes to PeopleSoft HR/ Financials is not in place.

***Possible Asserted Cause and Effect***

Absence of a formal configuration change process may result in unauthorized configuration changes resulting in business disruption and/or loss of application integrity.

***Recommendation***

We recommend that all configuration changes should follow the common change control process, whereby the change requests are recorded, authorized, impact analyzed, tested, and approved prior to implementation to production.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-35 IT General Controls – Program Change – Access to Libraries**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Condition***

During our testwork over IT program change controls, we noted that access to production application libraries is not restricted appropriately. Developers have access to PeopleSoft HR/ Financials application shares. Additionally, “Everyone” has “change” access to some of the production application shares.

***Possible Asserted Cause and Effect***

Inappropriate production programs access increases the risk of unauthorized changes to the production environment (computer programs currently being used by the District).

***Recommendation***

We recommend that access to production programs should be restricted immediately on an absolute need-to-know basis. Developers should not have update or modify access to the production environment.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-36 IT General Controls – Physical Access to Servers**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over access controls, we noted physical security for domain servers at some of the school locations is inadequate.

***Possible Asserted Cause and Effect***

Unrestricted physical access to domain servers increases the risk of compromise of District information systems.

***Recommendation***

We recommend that all domain servers be adequately protected in secured locations.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-37 IT General Controls – Physical Access to Data Center**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over controls over access to the data center, we noted that a formal process is not in place to periodically review users with access to the data center to ensure that their access rights remain in agreement with their current job responsibilities.

***Possible Asserted Cause and Effect***

Access to the data center could be inappropriately assigned, thereby increasing the risk of system compromise.

***Recommendation***

A process should be instituted for periodic review of users with access to the data center and any discrepancies should be addressed in a timely manner.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-38 IT General Controls – Logging Critical System Activity**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over system access controls, we noted that audit policy settings are not defined for the DPS Active Directory domain.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Possible Asserted Cause and Effect*

Absence of audit policy settings defined for the domain increases the risk that unauthorized system activity may not be detected in a timely manner.

*Recommendation*

Audit policy settings should be defined appropriately for the DPS domain to ensure all critical system activity is logged. Audit logs should be reviewed for any inappropriate system activity.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-39 IT General Controls – Inadequate Security Settings**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

*Requirement*

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

*Condition*

During our testwork over IT access controls, we noted that default security settings for the UNIX PeopleSoft HR/Financials Database servers were inadequate. Password aging, account lockout, and password complexity settings have not been enabled.

*Possible Asserted Cause and Effect*

Absence of adequate password controls increases the risk of unauthorized system access through password guessing or hacking.

*Recommendation*

Password control settings for the UNIX systems should be strengthened.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-40 IT General Controls – Inappropriate Contractor Access to Systems**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our test work over IT access controls, we noted that a process is not in place to ensure that system access for District contractors that leave the organization is disabled and removed in a timely manner. We noted some of the UNIX user accounts belong to contractors who no longer work for DPS or do not require such access.

***Possible Asserted Cause and Effect***

Users having access that is not necessary increases the risk of system compromise.

***Recommendation***

A process should be put in place to ensure that system access is removed and/or disabled in a timely manner for all third party vendors that no longer need the access.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-41 IT General Controls – Direct Update Access to PeopleSoft**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over IT General Controls, we noted that one of the Oracle Database user accounts has update and modify access to critical PeopleSoft financials tables.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Possible Asserted Cause and Effect*

Direct update access to critical PeopleSoft Financials database tables increases the risk of unauthorized (accidental or intentional) database changes. Additionally, direct database updates increase the risk of loss of database referential integrity.

*Recommendation*

We recommend that direct update access to PeopleSoft Financials database tables should be restricted.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-42 IT General Controls – Domain Administration Access**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

*Requirement*

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

*Condition*

During our testwork over IT General Controls, we noted a number of users including field services staff were found to have domain administration capabilities for the DPS domain, which is inappropriate. The default “administrator” ID has not been renamed.

*Possible Asserted Cause and Effect*

User access beyond what is required for their job role increases the risk of unauthorized system access. Use of default “administrator” ID increases the risk of compromise of super user accounts through password guessing or hacking.

*Recommendation*

We recommend that administrative access should be restricted on an absolute need to know basis. Additionally, a periodic user access review should be carried out for all powerful user accounts to ensure access is appropriately restricted to those individuals who need it for their job functions.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-43 IT General Controls – Access Review – Segregation of Duties**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over IT General Controls, we noted that a detailed segregation of duties review process is not in place for PeopleSoft HR/Financials.

***Possible Asserted Cause and Effect***

Absence of an appropriate segregation of duties assessment process may result in users with access to conflicting application roles, which may result in unauthorized system activity.

***Recommendation***

We recommend that management consider creating a formal Segregation of Duties Matrix, which would identify potential conflicting PeopleSoft roles and would ensure that users' access is appropriately segregated. The matrix should be reviewed on a periodic basis to ensure compliance.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-44 IT General Controls – Production Job Errors Tracking**

**Finding Type: Internal Control over Financial Reporting – Significant Deficiency**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

***Condition***

During our testwork over IT General Controls, we noted that there is no procedure to ascertain that all production problems and/or job errors are resolved in a timely manner and tracked to completion.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

Absence of tracking of production job errors to resolution may result in delayed response increasing the risk of system downtime and business operations disruption.

***Recommendation***

We recommend that all production errors and incidents be tracked to completion to ensure timely resolution.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-45      Durant Fund Expenditures**

**Finding Type: Other Matters – Compliance with Laws and Regulations**

**Fiscal Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per Michigan Compiled Laws: MCL 388.1611f lists the limitations as to the use of Durant fund received. Durant funds may be used for textbooks, electronic instructional material, software, technology, infrastructure or infrastructure improvements, school buses, school security, training for technology, early intervening program described in section (8), or to pay debt service on voter improved bonds issued by the district or intermediate district before the effective date of this section.

***Condition***

During our testwork over the Durant expenditures, we selected a sample of 40 invoices totaling \$1,769,508. Within our sample, we noted that six (6) invoices totaling \$333,858 were paid with Durant Funds, which were not specifically allowable under Michigan Compiled Laws, MCL 388.1611f. Additionally, we noted that budget transfers were processed that transferred Durant Funds of \$1,500,000 to departments that would not typically expend funds in the approved categories for Durant Funds

***Possible Asserted Cause and Effect***

The internal controls were not properly designed to prevent the use of restricted funds for only their intended purposes.

***Recommendation***

We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of procurements and expenditures. Management should develop, update, and implement policies and procedures to ensure that procurement of materials and services are properly evaluated to ensure that an appropriate funding source is available for use and that expenditures are correctly charged to the proper budget categories. The budget categories can be amended with board approval during the year if needed. All employees should be made aware of the contracting, procurement, and budget policies to ensure that they will be followed.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**2007-46 Procurement Bidding Process**

**Finding Type: Other Matters – Compliance with Laws and Regulations**

**Fiscal Year: July 1, 2006 to June 30, 2007**

*Requirement*

MCL 380.1267 requires that before construction begins on a new school building, or addition to or repair or renovation of an existing school building, except repair in emergency situations, the school district abides by the following bidding requirements: 1) obtain competitive bids; 2). Advertisement for bids; 3). Explicitly state in advertisements (a). Date and time, which all bid must be received; (b). Bids received after the date and time specified for bid submission will not be honored; (c). Date and time of the public meeting where the bid is opened and read aloud; (d). Bid shall be accompanied by a sworn and notarized statement disclosing and any relationship existing between the owner or any employee of the bidder and the board; 4). Each bidder must file a security in the amount of 1/20 of the amount of the bid conditioned to secure the school district from loss or damage by reason of the withdrawal of the bid or failure of the bidder to enter a contract for performance; 5). No bid should be opened, considered, or accepted after the date specified in the advertisement noted above; 6). At a public meeting identified in the advertisement for bids described in subsection (3), the board or it's designee shall open and read aloud each bid that the board received before the time and date for bid submission specified in the advertisement for bids; 7). This section does not apply to buildings or repairs costing less than \$19,653.

*Condition*

During our testwork over procurement and inquiry of District personnel, we noted that certain individuals in the purchasing department did not appear aware of the state requirements for purchasing and the procurement of vendors for new construction and remodeling projects. The Purchasing Department of the District established a pool of vendors by bidding a hypothetical project using a RS Means pricing system. However, this process does not allow for security bonds, as no actual projects exist at the time of solicitation. Once the vendors have been selected, then individual projects are awarded to the vendors who price the project according to the RS Means Indexing system. In addition, we also noted that the purchasing department could not provide a copy of the advertisement for any bids or support to confirm any public hearings.

*Possible Asserted Cause and Effect*

All individuals responsible for purchasing should be trained and currently aware of state purchasing requirements and regulations.

*Recommendation*

We recommend that management improve the control procedures to result in a more consistent and thorough following of the bidding procedures required by state law. The District should also maintain copies of the actual ads from the newspapers. Monitoring procedures should be designed and implemented to ensure that policies are being followed. Individuals should be trained on a regular basis.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**Section III – Findings and Questioned Costs Related to Federal Awards**

**2007-47                      Special Tests and Provisions – Verification of Free & Reduced Price Applications**

**Finding Type:              Noncompliance**

**CFDA #:                      10.553/10.555 – Child Nutrition Cluster**

**Federal Agency:          U.S. Department of Agriculture**

**Pass-through Entity:    Michigan Department of Education**

**Federal Award Year:    July 1, 2006 to June 30, 2007**

*Requirement*

Per Michigan School Auditing Manual, Compliance Supplement over the Child Nutrition Cluster, Section III, Paragraph M, the Verification Summary Report is to be completed and submitted annually online before March 1st.

*Condition*

During our testwork over Verification of Free and Reduced Price Applications we received a copy of the online submission of the Verification Summary Report. It was certified as submitted on March 29, 2007.

*Questioned Costs*

None

*Possible Asserted Cause and Effect*

Technological issues were experienced while trying to submit the report resulting in late submission.

*Recommendation*

We recommend that internal control procedures be strengthened to reduce the risk of late submission of the Verification Summary Report.

*Views of Responsible Officials*

We understand and agree with the noted observation.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-48**                      **Cash Management – Advance Interval**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.357 – Reading First**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to July 31, 2007**

***Requirement***

Per 31 CFR 205.12, Subpart 4 and the Cash Management Improvement Act, States and local education agencies may request a cash advance when the funds will be paid out in a lump sum in not more than three business days.

***Condition***

During our testwork over Cash Management we discovered that the District is using a 30-day cash advance projection instead of a 3-day cash advance.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The past practice of the District was to use a 30-day cash advance projection. This caused the District to be in noncompliance with Federal Regulations.

***Recommendation***

We recommend that the District implement the 3 day cash advance projection when requesting funds from the State.

***Views of Responsible Officials***

MDE had allowed the District to use a 30 day cash advance projection and provided the District with a memo on May 29, 2007 indicating that it would have to comply with the 3-day cash advance projection beginning July 1, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-49**                      **Cash Management – Supervisor Review**

**Finding Type:**              **Significant deficiency**

**CFDA #:**                      **84.357 – Reading First**

**Federal Agency:**        **U.S. Department of Education**

**Pass-through Entity:**   **Michigan Department of Education**

**Federal Award Year:**   **July 1, 2006 to July 31, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the cash reimbursement request amount.

***Condition***

During our testwork over Cash Management, management informed us that supervisory review of the cash reimbursement requests and maintenance of supporting documentation was implemented in December 2006. However, we selected requests after that date, inspected the documents, and noted that some items contained no evidence of the review by signature.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The internal control procedure as designed did not include a requirement for the reviewer to sign and date as an indicator of the review being performed or a requirement to maintain supporting documentation. The lack of a reviewer’s signature makes a control procedure difficult to monitor.

***Recommendation***

We recommend that the District implement supervisory review and approval evidenced by signature and date of all cash reimbursement requests as well as maintenance of supporting documentation.

***Views of Responsible Officials***

The appropriate supervisors are currently reviewing and approving by signing cash reimbursement requests.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-50**                      **Cash Management – Excess Drawdown Amounts**

**Finding Type:**              **Material noncompliance and material weakness**

**CFDA #:**                      **84.357 – Reading First**

**Federal Agency:**         **U.S. Department of Education**

**Pass-through Entity:**    **Michigan Department of Education**

**Federal Award Year:**    **July 1, 2006 to July 31, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

***Condition***

During our testwork over Cash Management we noted that 3 of the 16 cash reimbursement requests selected for testing exceeded the amount of expenditures paid by the District.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The process used to determine the amount of cash draws is overly dependent on the amount of expenditures in the general ledger without a proper consideration of the expected payment dates.

***Recommendation***

We recommend that the District only request reimbursement for those amounts paid for expenditures prior to or within three days of the date of the draw request.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-51**                      **Procurement – Approvals**  
**Finding Type:**              **Significant deficiency**  
**CFDA #:**                      **84.357 – Reading First**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Michigan Department of Education**  
**Federal Award Year:**      **July 1, 2006 to July 31, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment, the District is required to have adequate controls in place to facilitate compliance with regulations, contracts, and grants.

***Condition***

During our testwork over procurement we noted that 1 of the 13 contracts selected for testing was not reviewed and approved by the Compliance Officer. Management informed us that this as a key control over the procurement process.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The control procedure was not followed as designed; therefore, a contract was entered into without the review and approval of the Compliance Officer.

***Recommendation***

Internal control procedures should be followed as designed.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-52**                      **Procurement – Suspension and Debarment**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.357 – Reading First**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to July 31, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the District’s procurement policy, each contractor that is awarded a contract must certify that their organization and principals are not suspended or debarred. Alternatively, the District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

During our testwork over Procurement and Suspension and Debarment we noted that 7 of 13 contracts selected for testing did not contain evidence that the District had verified that the vendor was not suspended or debarred.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Internal controls procedures were not followed as designed; therefore, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could inadvertently enter into contract with a suspended or debarred contractor.

***Recommendation***

We recommend that the District follow and monitor internal control procedures to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-53**                      **Procurement – Open Competition**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.357 – Reading First**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to July 31, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment, Common Rule A-102, and the District’s 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, full and open competition, rationale to limit competition, and appropriate cost or price analysis.

***Condition***

During our testwork over procurement, we noted that 2 of 13 contracts selected for testing did not contain supporting documentation related to whether the contract provided full and open competition, and if not, the rationale for limiting competition.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Contracts were entered into without maintaining supporting documentation of required components of the procurement process. As a result, the District could procure goods and services that are not allowable within the requirements of the program.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all supporting documentation is maintained as evidence that contracts undergo the proper procurement process.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-54 Allowable Costs/Cost Principles – Fringe Benefits**

**Finding Type: Noncompliance and significant deficiency**

**CFDA #: 84.357 – Reading First**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to July 31, 2007**

***Requirement***

In accordance with the District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 40 employee time sheets of the Reading First program for the year ended June 30, 2007. We found that 8 of 40 employee’s fringe benefit amounts were not recorded accurately.

***Questioned Costs***

\$167.25

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all fringe benefit amounts are calculated accurately.

***Views of Responsible Officials***

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-55 Allowable Costs/Cost Principles – Fringe Benefits**

**Finding Type: Noncompliance and significant deficiency**

**CFDA #: 84.357 – Reading First**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to July 31, 2007**

***Requirement***

In accordance with the District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 50 employee time sheets of the Title I, Part A program for the year ended June 30, 2007. We found that 2 of 50 employee’s fringe benefit amounts were not recorded accurately and 4 of 50 employees were underpaid.

***Questioned Costs***

\$127.33

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that District enhance the internal controls to ensure that all fringe benefit amounts are calculated accurately.

***Views of Responsible Officials***

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-56 Allowable Costs/Cost Principles – Payroll Certifications**

**Finding Type: Material noncompliance and material weakness**

**CFDA #: 84.010 – Title I, Part A**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to September 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section, an employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

***Condition***

We reviewed a sample of 50 employees of the Title I program for the year ended June 30, 2007. We found that for 12 of 50 employees, the entity was unable to provide the required semi-annual teacher certification.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Internal control procedures of the District were not consistently followed; therefore semiannual certifications were not maintained for all Title I, Part A employees.

***Recommendation***

We recommend that the District monitor and enforce internal control procedures to ensure that all required semiannual certifications are prepared and maintained.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-57**                      **Cash Management – Advance Interval**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.010 – Title I, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**    **Michigan Department of Education**  
**Federal Award Year:**    **July 1, 2006 to September 30, 2007**

***Requirement***

Per 31 CFR 205.12, Subpart 4 and the Cash Management Improvement Act, States and local education agencies may request a cash advance when the funds will be paid out in a lump sum in not more than three business days.

***Condition***

During our testwork over Cash Management we discovered that the District is using a 30-day cash advance projection instead of a 3-day cash advance.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The past practice of the District was to use a 30-day cash advance projection. This caused the District to be in noncompliance with Federal Regulations.

***Recommendation***

We recommend that the District implement the 3 day cash advance projection when requesting funds from the State.

***Views of Responsible Officials***

MDE had allowed the District to use a 30 day cash advance projection and provided the District with a memo on May 29, 2007 indicating that it would have to comply with the 3-day cash advance projection beginning July 1, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-58**                      **Cash Management – Supervisory Review**

**Finding Type:**              **Significant deficiency**

**CFDA #:**                      **84.010 – Title I, Part A**

**Federal Agency:**         **U.S. Department of Education**

**Pass-through Entity:**    **Michigan Department of Education**

**Federal Award Year:**    **July 1, 2006 to September 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the cash reimbursement request amount.

***Condition***

During our testwork over Cash Management, management informed us that supervisory review of the cash reimbursement requests and maintenance of supporting documentation was implemented in December 2006. However, we selected requests after that date, inspected the documents, and noted that some items contained no evidence of the review by signature.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The internal control as designed did not include a requirement for supervisory review to include a signature and date or a requirement to maintain supporting documentation. The control was not implemented until December 2006. This caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District implement supervisory review and approval evidenced by signature and date of all cash reimbursement requests as well as maintenance of supporting documentation.

***Views of Responsible Officials***

The appropriate supervisors are currently reviewing and approving by signing cash reimbursement requests.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-59**                      **Cash Management – Excess Draw Amounts**  
**Finding Type:**            **Material noncompliance and Material Weakness**  
**CFDA #:**                    **84.010 – Title I, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to September 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

***Condition***

We reviewed the cash management process and selected all 25 cash reimbursement requests for testing. Reimbursement requests exceeded expenditures in 9 of 25 cases.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The process used to determine the amount of cash draws is overly dependent on the amount of expenditures in the general ledger without a proper consideration of the expected payment dates.

***Recommendation***

We recommend that the District only request reimbursement for those amounts paid for expenditures prior to or within three days of the date of the draw request.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-60                      Equipment and Real Property Management – Identification**

**Finding Type:              Significant deficiency**

**CFDA #:                      84.010 – Title I, Part A**

**Federal Agency:          U.S. Department of Education**

**Pass-through Entity:    Michigan Department of Education**

**Federal Award Year:    July 1, 2006 to September 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, dated March 2007, entities are required to maintain adequate internal controls to ensure compliance with the Federal requirements related to Equipment and Real Property Management.

***Condition***

We reviewed the Equipment and Real Property Management internal control process. The entity uses a third party, Maximus, to tag equipment additions twice per year. Due to the timing of Maximus tagging the equipment the listing provided does not result in an accurate and complete listing as of the fiscal year end.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The timing of the process as designed does not necessarily correlate to the fiscal or program year end.

***Recommendation***

We recommend that the District tag equipment additions often enough to ensure that all additions have been identified at fiscal or program year ends.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-61                      Equipment and Real Property Management – Physical Count**

**Finding Type:              Material noncompliance and material weakness**

**CFDA #:                      84.010 – Title I, Part A**

**Federal Agency:          U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to September 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement over Equipment and Real Property Management, a physical inventory count shall be taken at least once every two years and reconciled to the equipment records.

***Condition***

The District is unable to provide evidence of a physical inventory count during the past two years.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

A physical inventory of Title I equipment was not performed. This caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District implement a policy to perform a physical inventory of Title I assets once every two years.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-62                      Period of Availability**

**Finding Type:              Noncompliance and significant deficiency**

**CFDA #:                      84.010 – Title I, Part A**

**Federal Agency:          U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to September 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education, CFDA #84.000 of the cross-cutting section, expenditures should be charged to grants when incurred.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Condition***

We selected 50 invoices for review during our testwork over period of availability for the Title I program. 2 of the 50 invoices were charged to the incorrect grant period.

***Questioned Costs***

\$2,243.67

***Possible Asserted Cause and Effect***

Management has not implemented adequate internal controls over the period of availability compliance requirement to ensure expenditures are charged to the proper grant period.

***Recommendation***

We recommend that the District implement additional controls over the period of availability compliance requirement to ensure expenditures are charged to the proper grant.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-63                      Procurement and Suspension and Debarment**  
**Finding Type:              Material noncompliance and material weakness**  
**CFDA #:                      84.010 – Title I, Part A**  
**Federal Agency:            U.S. Department of Education**  
**Pass-through Entity:      Michigan Department of Education**  
**Federal Award Year:      July 1, 2006 to September 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the District's procurement policy, each contractor that is awarded a contract must certify that their organization and principals are not suspended or debarred. Alternatively, the District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

We reviewed 50 contracts of the Title I program for the year ended June 30, 2007. We found that 21 of 50 contracts did not contain evidence that the District had verified that the vendor was not suspended or debarred.

***Questioned Costs***

None

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could enter into contract with a suspended or debarred contractor which could result in loss of funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-64                      Procurement and Suspension and Debarment – Open Competition**

**Finding Type:                      Material noncompliance and material weakness**

**CFDA #:                              84.010 – Title I, Part A**

**Federal Agency:                  U.S. Department of Education**

**Pass-through Entity:          Michigan Department of Education**

**Federal Award Year:          July 1, 2006 to September 30, 2007**

***Requirement***

In accordance with OMB Circular A-133, Common Rule A-102, and the School District’s 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, full and open competition, rationale to limit competition, appropriate cost or price analysis, and various others.

***Condition***

We reviewed 50 contracts of the Title I program for the year ended June 30, 2007. We found that 12 of 50 contracts did not contain supporting documentation that the contract provided full and open competition, the rationale to limit competition in those cases where competition was limited, and appropriate cost analysis was performed.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Contracts were entered into without maintaining supporting documentation of required components of the procurement process. As a result, the District could procure goods and services that are not allowable within the requirements of the program.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all supporting documentation is maintained as evidence that contracts undergo the proper procurement process.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-65                      Reporting**  
**Finding Type:              Noncompliance and significant deficiency**  
**CFDA #:                      84.010 – Title I, Part A**  
**Federal Agency:            U.S. Department of Education**  
**Pass-through Entity:      Michigan Department of Education**  
**Federal Award Year:      July 1, 2006 to September 30, 2007**

***Requirement***

Per the Michigan School Auditing Manual, CFDA #84.010, Part II, the final expenditure report (DS-4044) is due on 11/30/2006.

***Condition***

We reviewed the annual report for the Title I program. The report was due to the state electronically on 11/30/2006 but was submitted on 12/13/2006.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District failed to adhere to the due date. This has caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District increase the monitoring of internal controls to ensure the annual final expenditure report is submitted on time.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-66                      Special Tests and Provisions – Schoolwide Plans**

**Finding Type:              Material noncompliance and material weakness**

**CFDA #:                      84.010 – Title I, Part A**

**Federal Agency:          U.S. Department of Education**

**Pass-through Entity:    Michigan Department of Education**

**Federal Award Year:    July 1, 2006 to September 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section over the Schoolwide Program requirement, a schoolwide plan must contain the following component: Transition plans for assisting preschool children in the successful transition to the schoolwide program.

***Condition***

Of 31 schoolwide plans selected for review, 8 of the plans were missing the transition plans for assisting preschool children in the successful transition to the schoolwide program. Also, one school did not have a current year schoolwide plan available for review.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Some of the schoolwide programs did not contain all of the required components and one school was missing its plan for the 06/07 school year.

***Recommendation***

We recommend that District management critically review all schoolwide programs to ensure that they contain the required components and that all schools have prepared plans.

***Views of Responsible Officials***

The transition plans for preschools has been added to the schoolwide plans.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-67**                      **Special Tests and Provisions – Comparability**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.010 – Title I, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to September 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section over the Comparability requirement, an entity may receive funds under Title I, Part A only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the District is providing in schools not receiving Title I, Part A funds.

***Condition***

We obtained the Comparability reports for the 2006-2007 school year and noted that 5 elementary schools and 9 high schools out of a total of 206 Title I schools did not meet the comparability requirements.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the comparability requirement, some of the Title I schools did not meet the requirement. This has caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District ensure all Title I schools meet the comparability requirement.

***Views of Responsible Officials***

The District will develop procedures for compliance with the comparability requirement and implement those procedures manually. The District will also maintain records which document that the services provided with state and local funds in Title I schools are comparable to those provided in non – Title I schools.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-68**                      **Allowable Costs/Cost Principles**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **93.600 – Head Start**  
**Federal Agency:**        **U.S. Department of Health and Human Services**  
**Pass-through Entity:**   **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**   **November 1, 2006 to October 31, 2007**

***Requirement***

In accordance with the School District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 38 employee time sheets of the Head Start program for the year ended June 30, 2007. We found that 19 of 38 employee’s fringe benefit amounts were not recorded accurately.

***Questioned Costs***

\$3,685.46

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that District enhance the internal controls to ensure that all fringe benefit amounts are calculated accurately.

***Views of Responsible Officials***

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-69 Allowable Costs/Cost Principles – Requisition**

**Finding Type:** Significant deficiency  
**CFDA #:** 93.600 – Head Start  
**Federal Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** City of Detroit Neighborhood Services Department  
**Federal Award Year:** November 1, 2006 to October 31, 2007

***Requirement***

Per OMB Circular A-133 Compliance Supplement, the entity is required to maintain adequate internal controls to ensure compliance with the allowable cost requirement.

***Condition***

We selected 40 purchase orders for testwork. There was 1 instance where we were unable to view signatures of approval for the purchase requisition.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

One of the 40 purchase orders did not have a requisition.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all purchase requisitions are properly approved.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-70 Allowable Costs/Cost Principles – Expenditures**

**Finding Type:** Noncompliance and significant deficiency  
**CFDA #:** 93.600 – Head Start  
**Federal Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** City of Detroit Neighborhood Services Department  
**Federal Award Year:** November 1, 2006 to October 31, 2007

***Requirement***

Per OMB Circular A-133 Compliance Supplement, the entity is required to maintain adequate internal controls to ensure compliance with the allowable costs requirement.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Condition***

We selected 40 purchase orders for testwork. There was 1 instance where the individual that prepared the journal entry failed to split the expended amounts between the account numbers listed on the purchase order.

***Questioned Costs***

\$5,995.00

***Possible Asserted Cause and Effect***

The journal voucher contained an error.

***Recommendation***

We recommend that the District internal controls related to reviewing journal entries are enhanced, monitored, and enforced to ensure that all purchase requisitions are charged to the proper general ledger accounts.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-71                      Matching, Level of Effort, and Earmarking**  
**Finding Type:              Noncompliance and significant deficiency**  
**CFDA #:                      93.600 – Head Start**  
**Federal Agency:            U.S. Department of Health and Human Services**  
**Pass-through Entity:      City of Detroit Neighborhood Services Department**  
**Federal Award Year:      November 1, 2006 to October 31, 2007**

***Requirement***

Per the A-133 Compliance Supplement for Head Start, Section G, Part c, Paragraph (1), at least 90% of the enrollees must come from families whose income is below the official Federal poverty guidelines and or who are receiving public assistance.

***Condition***

Per discussion with management and a review of the Director’s Reports, Quarterly Reports, and Enrollment Audit, the District was unable to provide support that they were in compliance with the requirement that at least 90% of the enrollees must come from families whose income is below the Federal poverty guidelines or who are receiving public assistance.

***Questioned Costs***

None

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that the District prepare a report that illustrates that at least 90% of enrollees in the Head Start program come from families whose income is below the Federal poverty guidelines or who are receiving public assistance.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-72                      Procurement and Suspension and Debarment**  
**Finding Type:              Material noncompliance and material weakness**  
**CFDA #:                      93.600 – Head Start**  
**Federal Agency:            U.S. Department of Health and Human Services**  
**Pass-through Entity:      City of Detroit Neighborhood Services Department**  
**Federal Award Year:      November 1, 2006 to October 31, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the District’s procurement policy, each contractor that is awarded a contract must certify that their organization and principals are not suspended or debarred. Alternatively, the District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

We selected a sample of 12 contracts to verify the District compliance with the Procurement and Suspension and Debarment compliance requirement. Of the 12 contracts selected for review, none of the contracts had documentation indicating that the contractor was not suspended or debarred.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could enter into contract with a suspended or debarred contractor which could result in loss of funding.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

A system has been put in place where all contracts are checked against the Federal Excluded Parties List.

**2007-73                      Special Tests and Provisions – Parental Involvement**

**Finding Type:              Noncompliance and significant deficiency**

**CFDA #:                      93.600 – Head Start**

**Federal Agency:            U.S. Department of Health and Human Services**

**Pass-through Entity:      City of Detroit Neighborhood Services Department**

**Federal Award Year:      November 1, 2006 to October 31, 2007**

***Requirement***

Per the 2006 – 2007 Head Start contract, Exhibit A, Section on Parent Involvement, Policy Committee meeting minutes will be sent to the City within 5 working days of the subsequent month.

***Condition***

Management informed us that the District has failed to deliver the Parent Policy Committee meeting minutes, to the City of Detroit, within 5 working days of the subsequent month.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to implement internal controls to ensure that Parent Policy Committee meeting minutes are delivered to the City of Detroit within 5 working days of the subsequent month. This has caused the District to be in noncompliance with the contract provisions.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that Parent Policy Committee meeting minutes are delivered to the City of Detroit within 5 working days of the subsequent month.

***Views of Responsible Officials***

This process will be changed immediately to submit the minutes within 5 working days of the subsequent month. When 85% attendance is not achieved, the plan for contacting parents, incentive plans, and the reasons for absences are recorded on monthly and quarterly status reports.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-74**                      **Special Tests and Provisions – Social Services**  
**Finding Type:**              **Material noncompliance and material weakness**  
**CFDA #:**                      **93.600 – Head Start**  
**Federal Agency:**          **U.S. Department of Health and Human Services**  
**Pass-through Entity:**      **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**      **November 1, 2006 to October 31, 2007**

***Requirement***

Per the Head Start 2006-2007 contract, Exhibit A, Section on Social Services, the Contractor shall achieve and maintain, during its 2006-2007 program year, average daily attendance of 85% or higher of said full enrollment level (758 children).

***Condition***

We reviewed the Department of Human Services Child Development Division Monthly Enrollment Status Reports. For the Social Services compliance requirement, Head Start failed to attain the 85% or higher average daily attendance for 9 out of 10 months.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to achieve the average daily attendance of 85% or higher. This has caused the District to be in noncompliance with the contract provisions.

***Recommendation***

We recommend that District take additional steps to increase enrollment.

***Views of Responsible Officials***

When 85% attendance is not achieved, the plan for contacting parents, incentive plans, and the reasons for absences are recorded on monthly and quarterly status reports.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-75**                      **Special Tests and Provisions – Social Services**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **93.600 – Head Start**  
**Federal Agency:**        **U.S. Department of Health and Human Services**  
**Pass-through Entity:**    **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**    **November 1, 2006 to October 31, 2007**

***Requirement***

Per the Head Start 2006-2007 contract, Exhibit A, Section on Social Services, the Contractor will have attained 10% enrollment of children with disabilities within 90 days of the beginning of classes.

***Condition***

We reviewed the Department of Human Services Child Development Division Monthly Enrollment Status Reports. For the Social Services compliance requirement, Head Start failed to attain the 10% enrollment of children with disabilities within 90 days of the beginning of classes or throughout the 2006-2007 school year.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to ensure compliance with the requirement of 10% enrollment of children with disabilities within 90 days of the beginning of classes or throughout the 2006-2007 school year. This has caused the District to be in noncompliance with the contract provisions.

***Recommendation***

We recommend that the District to ensure 10% enrollment of children with disabilities within 90 days of the beginning of classes or throughout the 2006-2007 school year.

***Views of Responsible Officials***

Increased recruitment of children with certified disabilities is occurring in collaboration with the District's Office of Student Specialized Services and other local agencies serving young children. Earlier screening is the goal.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-76**                      **Special Tests and Provisions – Social Services**  
**Finding Type:**              **Significant deficiency**  
**CFDA #:**                      **93.600 – Head Start**  
**Federal Agency:**          **U.S. Department of Health and Human Services**  
**Pass-through Entity:**      **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**      **November 1, 2006 to October 31, 2007**

***Requirement***

Per the Head Start 2006-2007 contract, Exhibit A, Section on Social Services, the Contractor shall submit, on a monthly basis, weekly enrollment and attendance reports beginning 30 days after the opening of the school year. Reports shall be submitted by the 6th working day of the following month.

***Condition***

Management informed us that there is no documentation available to verify that on a monthly basis, weekly enrollment and attendance reports were submitted by the 6th working day of the following month to the City of Detroit.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to implement internal controls to ensure compliance can be verified with the requirement that weekly enrollment and attendance reports were submitted by the 6th working day of the following month to the City of Detroit.

***Recommendation***

We recommend that the District enhance internal controls to ensure that evidence is maintained that weekly enrollment and attendance reports are submitted by the 6th working day of the following month to the City of Detroit.

***Views of Responsible Officials***

The weekly reports were submitted but evidence of e-mails and faxes were not maintained. This has been corrected for FY 2008.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-77**                      **Special Tests and Provisions – Disability Services**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **93.600 – Head Start**  
**Federal Agency:**        **U.S. Department of Health and Human Services**  
**Pass-through Entity:**   **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**   **November 1, 2006 to October 31, 2007**

***Requirement***

Per the Head Start 2006-2007 contract, Exhibit A, Section on Disability Services, the Contractor shall provide an Individual Education Plan (IEP) for each child professionally diagnosed with disabilities. This Plan shall include annual goals and short term objectives based on parent and/or family input, staff input, diagnosticians input, and other medical and/or professional input as appropriate.

***Condition***

We selected a sample of 40 files of children diagnosed with disabilities. Of the 40 files selected, 19 files did not contain an Individual Education Plan.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to implement adequate internal controls to ensure compliance with the requirement that an IEP be created for each child professionally diagnosed with disabilities. This has caused the District to be in noncompliance with the contract provisions.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that each child professionally diagnosed with disabilities have an IEP. the District Head start is working with the Offices of Student Specialized Services to insure that each student’s IEP is provided to the classroom teacher and in Central Office files.

***Views of Responsible Officials***

The District Head start is working with the Offices of Student Specialized Services to insure that each student’s IEP is provided to the classroom teacher and in Central Office files.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-78**                      **Special Tests and Provisions – Education**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **93.600 – Head Start**  
**Federal Agency:**        **U.S. Department of Health and Human Services**  
**Pass-through Entity:**   **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**   **November 1, 2006 to October 31, 2007**

***Requirement***

Per the Head Start 2006-2007 contract, Exhibit A, Section on Education, the teaching staff will conduct 2 home visits and 2 parent teacher conferences annually.

***Condition***

We selected a sample of 40 files of children. Of the 40 files selected, 28 did not have documentation of 2 home visits and 35 of 40 did not have documentation of 2 parent teacher conferences.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to implement adequate internal controls to ensure compliance with the requirement that teaching staff will conduct 2 home visits and 2 parent teacher conferences annually. This has caused the District to be in noncompliance with the contract provisions.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that teaching staff will conduct 2 home visits and 2 parent teacher conferences annually.

***Views of Responsible Officials***

Contact sheets/documentation is now provided to show that a parent did not want a home visit as required. The visits and conferences are scheduled and offered but we cannot compel a parent to participate.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-79**                      **Special Tests and Provisions – Personnel Files**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **93.600 – Head Start**  
**Federal Agency:**        **U.S. Department of Health and Human Services**  
**Pass-through Entity:**   **City of Detroit Neighborhood Services Department**  
**Federal Award Year:**   **November 1, 2006 to October 31, 2007**

***Requirement***

Per the Head Start 2006-2007 contract, Exhibit A, Section on Personnel, the Contractor shall maintain an up-to-date personnel file for each employee which shall include verification of credentials, a certified copy of their degree(s) or Educational Record, if applicable, a completed and signed employment contract, documentation of a yearly physical exam and current TB testing, and a release of information form for the CDA Training Program.

***Condition***

We selected a sample of 30 personnel files. None of the 30 personnel files included all the required documentation and 6 of 30 files were unavailable for viewing.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The District has failed to implement adequate internal controls to ensure compliance with the requirement of maintaining an up-to-date personnel file for each employee. This has caused the District to be in noncompliance with the contract provisions.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that an up-to-date personnel file is maintained for each employee

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-80**                      **Allowable Costs/Cost Principles**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with the District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 40 employee time sheets of the 21st Century program for the year ended June 30, 2007. Thirty-three of forty employee’s fringe benefit amounts were not recorded accurately.

***Questioned Costs***

\$2,196.15

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that District enhance the internal controls to ensure that all fringe benefit amounts are calculated accurately.

***Views of Responsible Officials***

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-81**                      **Allowable Costs/Cost Principles**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section, an employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

***Condition***

We reviewed a sample of 40 employees of the 21st Century program for the year ended June 30, 2007. For all 40 employees, the entity was unable to provide the required semi-annual payroll certification.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to a lack of adequate internal control procedures semiannual certifications were not maintained for 21st Century employees. This caused the program to be in noncompliance.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all required semiannual teacher certifications be performed and supporting documentation maintained.

***Views of Responsible Officials***

The District has developed procedures to ensure the timely return and tracking of outstanding employee certifications.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-82**                      **Allowable Costs/Cost Principles**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, the entity is required to maintain supporting documentation to ensure compliance with federal program regulations.

***Condition***

We selected 38 invoices for review during our testwork over costs other than payroll for the 21st Century program and noted that the entity was unable to provide one of the invoices.

***Questioned Costs***

\$206.48

***Possible Asserted Cause and Effect***

Due to a lack of adequate internal control procedures one invoice was unavailable for review. This caused the program to be in noncompliance.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all copies of all invoices are maintained.

***Views of Responsible Officials***

The District was unable to locate the invoice.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-83**                      **Cash Management – Advance Interval**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per 31 CFR 205.12, Subpart 4 and the Cash Management Improvement Act, States and local education agencies may request a cash advance when the funds will be paid out in a lump sum in not more than three business days.

***Condition***

During our testwork over Cash Management we discovered that the District is using a 30-day cash advance projection instead of a 3-day cash advance.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The past practice of the District was to use a 30-day cash advance projection. This caused the District to be in noncompliance with Federal Regulations.

***Recommendation***

We recommend that the District implement the 3 day cash advance projection when requesting funds from the State.

***Views of Responsible Officials***

MDE had allowed the District to use a 30 day cash advance projection and provided the District with a memo on May 29, 2007 indicating that it would have to comply with the 3-day cash advance projection beginning July 1, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-84**                      **Cash Management – Supervisor Review**

**Finding Type:**              **Significant deficiency**

**CFDA #:**                      **84.287 – 21st Century**

**Federal Agency:**         **U.S. Department of Education**

**Pass-through Entity:**    **Michigan Department of Education**

**Federal Award Year:**    **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the cash reimbursement request amount.

***Condition***

During our testwork over Cash Management, management informed us that supervisory review of the cash reimbursement requests and maintenance of supporting documentation was implemented in December 2006. However, we selected requests after that date, inspected the documents, and noted that some items contained no evidence of the review by signature.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The internal control as designed did not include a requirement for supervisory review to include a signature and date or a requirement to maintain supporting documentation. The control was not implemented until December 2006. This caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District implement supervisory review and approval evidenced by signature and date as well as maintenance of supporting documentation of all cash reimbursement requests.

***Views of Responsible Officials***

The appropriate supervisors are currently reviewing and approving by signing cash reimbursement requests.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-85**                      **Cash Management – Excess Draws**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

***Condition***

We reviewed the cash management process and selected all 107 cash reimbursement requests for testing. Reimbursement requests exceeded expenditures in 29 of 107 cases.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The process used to determine the amount of cash draws is overly dependent on the amount of expenditures in the general ledger without a proper consideration of the expected payment dates.

***Recommendation***

We recommend that the District only request reimbursement for those amounts paid for expenditures prior to or within three days of the date of the draw request.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-86**                      **Period of Availability**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education, CFDA #84.000 of the cross-cutting section, expenses are considered expenditures when incurred.

***Condition***

We selected 38 invoices for review during our testwork over period of availability for the 21st Century program and the entity was unable to provide one invoice. One invoice was not entered into the system in a timely manner. The invoice date was September 1, 2005 but was charged to the 06/07 grant.

***Questioned Costs***

\$3,642.66

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure costs are charged to the appropriate grant.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-87**                      **Procurement**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment, the District is required to have adequate controls in place to facilitate compliance with regulations, contracts, and grants.

***Condition***

We reviewed 10 contracts of the 21st Century program for the year ended June 30, 2007. Six of ten contracts were not provided.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Contracts were not readily available.

***Recommendation***

Contracts should be maintained and filed in an orderly manner that facilitates retrieval.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-88**                      **Procurement and Suspension and Debarment**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.287 – 21st Century**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the District's procurement policy, each contractor that is awarded a contract must certify that their organization and

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

principals are not suspended or debarred. Alternatively, the District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

We selected a sample of 10 contracts to verify the District compliance with the Procurement and Suspension and Debarment compliance requirement. Of the 10 contracts selected for review, none of the contracts had documentation indicating that the contractor was not suspended or debarred. 6 of 10 contracts were unavailable for review and 4 of 10 contracts did not contain evidence of the verification.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could enter into contract with a suspended or debarred contractor which could result in loss of funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

A system has been put in place where all contracts are checked against the Federal Excluded Parties List.

**2007-89                      Procurement – Open Competition**  
**Finding Type:              Material noncompliance and material weakness**  
**CFDA #:                      84.287 – 21st Century**  
**Federal Agency:            U.S. Department of Education**  
**Pass-through Entity:      Michigan Department of Education**  
**Federal Award Year:      July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with OMB Circular A-133, Common Rule A-102, and the School District’s 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, full and open competition, rationale to limit competition, appropriate cost or price analysis, and various others.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Condition***

We reviewed 10 contracts of the 21st Century program for the year ended June 30, 2007. Six of ten contracts did not contain supporting documentation that the contract provided full and open competition, the rationale to limit competition in those cases where competition was limited, and appropriate cost analysis was performed. The entity was unable to provide the 6 of 10 contracts.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Contracts were entered into without maintaining supporting documentation of required components of the procurement process. As a result, the District could procure goods and services that are not allowable within the requirements of the program.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all supporting documentation is maintained as evidence that contracts undergo the proper procurement process.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**2007-90                      Special Tests and Provisions – Schoolwide Plans**

**Finding Type:              Material noncompliance and material weakness**

**CFDA #:                      84.287 – 21st Century**

**Federal Agency:          U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section over the Schoolwide Program requirement, a schoolwide plan must contain the following component: Transition plans for assisting preschool children in the successful transition to the schoolwide program.

***Condition***

Of 31 schoolwide plans selected for review, 8 of the plans were missing the transition plans for assisting preschool children in the successful transition to the schoolwide program. Also, one school did not have a current year schoolwide plan available for review.

***Questioned Costs***

None



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

***Possible Asserted Cause and Effect***

Some of the schoolwide programs did not contain all of the required components and one school was missing its plan for the 06/07 school year.

***Recommendation***

We recommend that District management critically review all schoolwide programs to ensure that they contain the required components and that all schools have prepared plans.

***Views of Responsible Officials***

The transition plans for preschools has been added to the schoolwide plans.

**2007-91 Allowable Costs/Cost Principles – Fringe Benefits**

**Finding Type: Noncompliance and significant deficiency**

**CFDA #: 84.367 – Title II, Part A**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with the District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 30 employee time sheets of the Title II, Part A program for the year ended June 30, 2007. Eighteen of thirty employee’s fringe benefit amounts were not recorded accurately.

***Questioned Costs***

\$2,199.92

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that District enhance the internal controls to ensure that all fringe benefit amounts are calculated accurately.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

*Views of Responsible Officials*

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.

**2007-92 Allowable Costs/Cost Principles – Missing Invoice**

**Finding Type: Noncompliance and significant deficiency**

**CFDA #: 84.367 – Title II, Part A**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to June 30, 2007**

*Requirement*

Per OMB Circular A-133 Compliance Supplement, the entity is required to maintain supporting documentation to ensure compliance with federal program regulations.

*Condition*

We selected 30 invoices for review during our testwork over costs other than payroll for the Title II, Part A program and noted that the entity was unable to provide one of the invoices.

*Questioned Costs*

\$200.00

*Possible Asserted Cause and Effect*

Due to a lack of adequate internal control procedures one invoice was unavailable for review. This caused the program to be in noncompliance.

*Recommendation*

We recommend that the District maintain adequate internal controls to ensure that all copies of all invoices are maintained.

*Views of Responsible Officials*

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-93**                      **Cash Management – Advance Interval**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.367 – Title II, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per 31 CFR 205.12, Subpart 4 and the Cash Management Improvement Act, States and local education agencies may request a cash advance when the funds will be paid out in a lump sum in not more than three business days.

***Condition***

During our testwork over Cash Management we discovered that the District is using a 30-day cash advance projection instead of a 3-day cash advance.

***Questioned Costs***

None

Possible Asserted Cause and Effect: The past practice of the District was to use a 30-day cash advance projection. This caused the District to be in noncompliance with Federal Regulations.

***Recommendation***

We recommend that the District implement the 3 day cash advance projection when requesting funds from the State.

***Views of Responsible Officials***

MDE had allowed the District to use a 30 day cash advance projection and provided the District with a memo on May 29, 2007 indicating that it would have to comply with the 3-day cash advance projection beginning July 1, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-94**                      **Cash Management – Supervisor Review**

**Finding Type:**              **Significant deficiency**

**CFDA #:**                      **84.367 – Title II, Part A**

**Federal Agency:**          **U.S. Department of Education**

**Pass-through Entity:**      **Michigan Department of Education**

**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the cash reimbursement request amount.

***Condition***

During our testwork over Cash Management, management informed us that supervisory review of the cash reimbursement requests and maintenance of supporting documentation was implemented in December 2006. However, we selected requests after that date, inspected the documents, and noted that some items contained no evidence of the review by signature.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The internal control as designed did not include a requirement for supervisory review to include a signature and date or a requirement to maintain supporting documentation. The control was not implemented until December 2006. This caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District implement supervisory review and approval evidenced by signature and date as well as maintenance of supporting documentation of all cash reimbursement requests.

***Views of Responsible Officials***

The appropriate supervisors are currently reviewing and approving by signing cash reimbursement requests.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-95**                      **Cash Management – Excess Drawdowns**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.367 – Title II, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

***Condition***

We reviewed the cash management process and selected 16 of 16 cash reimbursement requests for testing. Reimbursement requests exceeded expenditures in 3 of 16 cases.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The process used to determine the amount of cash draws is overly dependent on the amount of expenditures in the general ledger without a proper consideration of the expected payment dates.

***Recommendation***

We recommend that the District only request reimbursement for those amounts paid for expenditures prior to or within three days of the date of the draw request.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-96**                      **Period of Availability**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **84.367 – Title II, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the A-133 Compliance Supplement over Period of Availability, where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

***Condition***

Three of thirty invoices selected for testwork were charged to the incorrect grant period and one invoice was not provided.

***Questioned Costs***

\$2,264.40

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all costs are charged to the appropriate grant.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-97**                      **Procurement**  
**Finding Type:**            **Noncompliance and significant deficiency**  
**CFDA #:**                    **84.367 – Title II, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment, the District is required to have adequate controls in place to facilitate compliance with regulations, contracts, and grants.

***Condition***

We reviewed 4 contracts of the Title II program for the year ended June 30, 2007. Three of four contracts were not provided and 1 of 4 contracts was not properly approved by the Compliance Officer.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement process, a contract was entered into without the review and approval of the Compliance Officer.

***Recommendation***

We recommend that the District have the Compliance Officer review and approve all contracts that are entered into.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-98**                      **Procurement and Suspension and Debarment**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.367 – Title II, Part A**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the District's procurement policy, each contractor that is awarded a contract must certify that their organization and principals are not suspended or debarred. Alternatively, the School District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

We reviewed 4 contracts of the Title II program for the year ended June 30, 2007. One of four contracts did not contain evidence that the District had verified that the vendor was not suspended or debarred. 3 of 4 contracts were unavailable for review.

***Questioned Costs***

None

Possible Asserted Cause and Effect: Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could enter into contract with a suspended or debarred contractor which could result in loss of funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

A system has been put in place where all contracts are checked against the Federal Excluded Parties List.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-99 Procurement – Open Competition**  
**Finding Type: Material noncompliance and material weakness**  
**CFDA #: 84.367 – Title II, Part A**  
**Federal Agency: U.S. Department of Education**  
**Pass-through Entity: Michigan Department of Education**  
**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with OMB Circular A-133, Common Rule A-102, and the School District’s 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, full and open competition, rationale to limit competition, appropriate cost or price analysis, and various others.

***Condition***

We reviewed 4 contracts of the Title II program for the year ended June 30, 2007. Three of four contracts did not contain supporting documentation that the contract provided full and open competition, the rationale to limit competition in those cases where competition was limited, and appropriate cost analysis was performed. The entity was unable to provide these 3 contracts.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without maintaining supporting documentation to show that the District complied with the procurement and suspension and debarment compliance requirement. This has caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District maintain adequate supporting documentation to show that they have complied with Federal regulations over procurement.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-100**                      **Procurement – Approvals**  
**Finding Type:**              **Significant deficiency**  
**CFDA #:**                      **84.367 – Title II, Part A**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Michigan Department of Education**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per the District’s procurement policy, a purchase requisition is to be entered in the system and approved, and then a purchase order created, followed by receipt of an invoice.

***Condition***

We selected 30 invoices for review during our testwork over costs other than payroll for the Title II, Part A program and noted that 3 of 30 invoices had purchase order dates after the invoice dates.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The purchase order approval is the control for the grant compliance department to approve the purchase as appropriate for the grant. If purchases are made and purchase orders are created after the invoice, then the grant approval did not happen in time to prevent inappropriate expenditures against the grant.

***Recommendation***

We recommend that all purchases made with grant funds are approved at time of purchase.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-101                      Special Tests and Provisions – Schoolwide Programs**

**Finding Type:                Material noncompliance and material weakness**

**CFDA #:                      84.367 – Title II, Part A**

**Federal Agency:            U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section over the Schoolwide Program requirement, a schoolwide plan must contain the following component: Transition plans for assisting preschool children in the successful transition to the schoolwide program.

***Condition***

Of 31 schoolwide plans selected for review, 8 of the plans were missing the transition plans for assisting preschool children in the successful transition to the schoolwide program. Also, one school did not have a current year schoolwide plan available for review.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Some of the schoolwide programs did not contain all of the required components and one school was missing its plan for the 06/07 school year.

***Recommendation***

We recommend that District management critically review all schoolwide programs to ensure that they contain the required components and that all schools have prepared plans.

***Views of Responsible Officials***

The transition plans for preschools has been added to the schoolwide plans.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-102 Allowable Costs/Cost Principles – Payroll Certifications**

**Finding Type: Material noncompliance and material weakness**

**CFDA #: 84.367 – Title II, Part A**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section, an employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

***Condition***

We reviewed a sample of 30 employees of the Title II program for the year ended June 30, 2007. For 4 of 30 employees, the entity was unable to provide the required semi-annual payroll certification.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to a lack of adequate internal control procedures semiannual certifications were not maintained for all Title II, Part A employees. This caused the program to be in noncompliance.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all required semiannual teacher certifications be performed and supporting documentation maintained.

***Views of Responsible Officials***

The District has developed procedures to ensure the timely return and tracking of outstanding employee certifications.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-103 Allowable Costs/Cost Principles – Payroll Certifications**

**Finding Type: Material noncompliance and material weakness**

**CFDA #: 84.027, 84.173 – Special Education Cluster**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Wayne County RESA**

**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section, an employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

***Condition***

We reviewed a sample of 40 employees of the Special Education program for the year ended June 30, 2007. For 28 of 40 employees, the entity was unable to provide the required semi-annual payroll certification.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to a lack of adequate internal control procedures semiannual certifications were not maintained for all Special Education employees. This caused the program to be in noncompliance.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all required semiannual payroll certifications be performed and supporting documentation maintained.

***Views of Responsible Officials***

The District has developed procedures to ensure the timely return and tracking of outstanding employee certifications.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-104 Allowable Costs/Cost Principles – Fringe Benefits**

**Finding Type: Noncompliance and significant deficiency**

**CFDA #: 84.027, 84.173 – Special Education Cluster**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Wayne County RESA**

**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with the District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 40 employee time sheets of the Special Education program for the year ended June 30, 2007. Seven of forty employee’s fringe benefit amounts were not recorded accurately.

***Questioned Costs***

\$127.33

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that District enhance the internal controls to ensure that all fringe benefit amounts are calculated accurately.

***Views of Responsible Officials***

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-105**                      **Cash Management – Advance Interval**  
**Finding Type:**              **Material noncompliance and material weakness**  
**CFDA #:**                      **84.027, 84.173 – Special Education Cluster**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Wayne County RESA**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per 31 CFR 205.12, Subpart 4 and the Cash Management Improvement Act, States and local education agencies may request a cash advance when the funds will be paid out in a lump sum in not more than three business days.

***Condition***

During our testwork over Cash Management we discovered that the District is using a 30-day cash advance projection instead of a 3-day cash advance.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The past practice of the District was to use a 30-day cash advance projection. This caused the District to be in noncompliance with Federal Regulations.

***Recommendation***

We recommend that the District implement the 3 day cash advance projection when requesting funds from the State.

***Views of Responsible Officials***

MDE had allowed the District to use a 30 day cash advance projection and provided the District with a memo on May 29, 2007 indicating that it would have to comply with the 3-day cash advance projection beginning July 1, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-106**                      **Cash Management – Supervisor Review**  
**Finding Type:**              **Significant deficiency**  
**CFDA #:**                      **84.027, 84.173 – Special Education Cluster**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Wayne County RESA**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the cash reimbursement request amount.

***Condition***

During our testwork over Cash Management, management informed us that supervisory review of the cash reimbursement requests and maintenance of supporting documentation was implemented in December 2006. However, we selected requests after that date, inspected the documents, and noted that some items contained no evidence of the review by signature.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The internal control procedure as designed did not include a requirement for the reviewer to sign and date as an indicator of the review being performed or a requirement to maintain supporting documentation. The lack of a reviewer’s signature makes a control procedure difficult to monitor.

***Recommendation***

We recommend that the District implement supervisory review and approval evidenced by signature and date of all cash reimbursement requests as well as maintenance of supporting documentation.

***Views of Responsible Officials***

The appropriate supervisors are currently reviewing and approving by signing cash reimbursement requests.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-107**                      **Cash Management – Excess Drawdowns**  
**Finding Type:**              **Material noncompliance and material weakness**  
**CFDA #:**                      **84.027, 84.173 – Special Education Cluster**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Wayne County RESA**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

***Condition***

We reviewed the cash management process and selected all 18 cash reimbursement requests for testing. Reimbursement requests exceeded expenditures in 10 of 18 cases.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The process used to determine the amount of cash draws is overly dependent on the amount of expenditures in the general ledger without a proper consideration of the expected payment dates.

***Recommendation***

We recommend that the District only request reimbursement for those amounts paid for expenditures prior to or within three days of the date of the draw request.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-108**                    **Procurement and Suspension and Debarment**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.027, 84.173 – Special Education Cluster**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Wayne County RESA**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the District's procurement policy, each contractor that is awarded a contract must certify that their organization and principals are not suspended or debarred. Alternatively, the School District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

We reviewed 2 contracts of the Special Education program for the year ended June 30, 2007. Both contracts did not contain evidence that the District had verified that the vendor was not suspended or debarred.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could enter into contract with a suspended or debarred contractor which could result in loss of funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

A system has been put in place where all contracts are checked against the Federal Excluded Parties List.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-109**                      **Procurement – Open Competition**  
**Finding Type:**              **Material noncompliance and material weakness**  
**CFDA #:**                      **84.027, 84.173 – Special Education Cluster**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Wayne County RESA**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with OMB Circular A-133, Common Rule A-102, and the School District’s 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, full and open competition, rationale to limit competition, appropriate cost or price analysis, and various others.

***Condition***

We reviewed 2 contracts of the Special Education program for the year ended June 30, 2007. For both contracts, we were not provided supporting documentation that the contract provided full and open competition, the rationale to limit competition in those cases where competition was limited, and appropriate cost analysis was performed.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without maintaining supporting documentation to show that the District complied with the procurement and suspension and debarment compliance requirement. This has caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District maintain adequate supporting documentation to show that they have complied with Federal regulations over procurement.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-110**                      **Special Tests and Provisions – Schoolwide Programs**

**Finding Type:**                **Material noncompliance and material weakness**

**CFDA #:**                        **84.027, 84.173 – Special Education Cluster**

**Federal Agency:**            **U.S. Department of Education**

**Pass-through Entity:**      **Wayne County RESA**

**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section over the Schoolwide Program requirement, a schoolwide plan must contain the following component: Transition plans for assisting preschool children in the successful transition to the schoolwide program.

***Condition***

Of 31 schoolwide programs selected for review, 8 of the programs were missing the transition plans for assisting preschool children in the successful transition to the schoolwide program. Also, one school did not have a current year schoolwide program available for review.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Some of the schoolwide programs did not contain all of the required components and one school was missing its plan for the 06/07 school year.

***Recommendation***

We recommend that District management critically review all schoolwide programs to ensure that they contain the required components and that all schools have prepared plans.

***Views of Responsible Officials***

The transition plans for preschools has been added to the schoolwide plans.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-111 Allowable Costs/Cost Principles – Fringe Benefits**

**Finding Type: Noncompliance and significant deficiency**

**CFDA #: 84.048 – Vocational Education**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

In accordance with the District’s policy and per discussion with management, Medical Insurance Premiums should not be calculated based on workshop time for staff.

***Condition***

We reviewed 45 employee time sheets of the Vocational Education program for the year ended June 30, 2007. Twenty-one of forty-five employee’s fringe benefit amounts were not recorded accurately.

***Questioned Costs***

\$941.00

***Possible Asserted Cause and Effect***

Inadequate internal control procedures could cause the program to be in noncompliance and possibly lose funding.

***Recommendation***

We recommend that District enhance the internal controls to ensure that all fringe benefit amounts are calculated accurately.

***Views of Responsible Officials***

The accounting control system has been enhanced to prevent improper assignment of fringe benefit costs. The process includes authorization from the respective project management team and compliance staff.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-112 Allowable Costs/Cost Principles – Payroll Certifications**

**Finding Type: Material noncompliance and material weakness**

**CFDA #: 84.048 – Vocational Education**

**Federal Agency: U.S. Department of Education**

**Pass-through Entity: Michigan Department of Education**

**Federal Award Year: July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section, an employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

***Condition***

We reviewed a sample of 45 employees of the Vocational Education program for the year ended June 30, 2007. For 29 of 45 employees, the entity was unable to provide the required semi-annual payroll certification.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to a lack of adequate internal control procedures semiannual certifications were not maintained for Vocational Education employees. This caused the program to be in noncompliance.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all required semiannual payroll certifications be performed and supporting documentation maintained.

***Views of Responsible Officials***

The District has developed procedures to ensure the timely return and tracking of outstanding employee certifications.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-113**                      **Cash Management – Advance Interval**  
**Finding Type:**              **Material noncompliance and material weakness**  
**CFDA #:**                      **84.048 – Vocational Education**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Michigan Department of Education**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per 31 CFR 205.12, Subpart 4 and the Cash Management Improvement Act, States and local education agencies may request a cash advance when the funds will be paid out in a lump sum in not more than three business days.

***Condition***

During our testwork over Cash Management we discovered that the District is using a 30-day cash advance projection instead of a 3-day cash advance.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The past practice of the District was to use a 30-day cash advance projection. This caused the District to be in noncompliance with Federal Regulations.

***Recommendation***

We recommend that the District implement the 3 day cash advance projection when requesting funds from the State.

***Views of Responsible Officials***

MDE had allowed the District to use a 30 day cash advance projection and provided the District with a memo on May 29, 2007 indicating that it would have to comply with the 3-day cash advance projection beginning July 1, 2007.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-114**                      **Cash Management – Supervisor Review**

**Finding Type:**                **Significant deficiency**

**CFDA #:**                      **84.048 – Vocational Education**

**Federal Agency:**          **U.S. Department of Education**

**Pass-through Entity:**      **Michigan Department of Education**

**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the cash reimbursement request amount.

***Condition***

During our testwork over Cash Management, management informed us that supervisory review of the cash reimbursement requests and maintenance of supporting documentation was implemented in December 2006. However, we selected requests after that date, inspected the documents, and noted that some items contained no evidence of the review by signature.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The internal control procedure as designed did not include a requirement for the reviewer to sign and date as an indicator of the review being performed or a requirement to maintain supporting documentation. The lack of a reviewer's signature makes a control procedure difficult to monitor.

***Recommendation***

We recommend that the District implement supervisory review and approval evidenced by signature and date of all cash reimbursement requests as well as maintenance of supporting documentation.

***Views of Responsible Officials***

The appropriate supervisors are currently reviewing and approving by signing cash reimbursement requests.



**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-115**                      **Cash Management – Excess Drawdown**  
**Finding Type:**              **Material noncompliance and material weakness**  
**CFDA #:**                      **84.048 – Vocational Education**  
**Federal Agency:**          **U.S. Department of Education**  
**Pass-through Entity:**      **Michigan Department of Education**  
**Federal Award Year:**      **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

***Condition***

We reviewed the cash management process and selected 14 of 14 cash reimbursement requests for testing. We notes that reimbursement requests exceeded expenditures in 2 of 14 cases.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The process used to determine the amount of cash draws is overly dependent on the amount of expenditures in the general ledger without a proper consideration of the expected payment dates.

***Recommendation***

We recommend that the District only request reimbursement for those amounts paid for expenditures prior to or within three days of the date of the draw request.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-116                      Equipment and Real Property Management – Identification**

**Finding Type:                Significant deficiency**

**CFDA #:                        84.048 – Vocational Education**

**Federal Agency:            U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, dated March 2007, entities are required to maintain adequate internal controls to ensure compliance with the Federal requirements related to Equipment and Real Property Management.

***Condition***

We reviewed the Equipment and Real Property Management internal control process. The District uses a third party, Maximus, to tag equipment additions twice per year. Due to the timing of Maximus tagging the equipment the listing provided does not result in an accurate and complete listing as of the fiscal year end.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

The timing of the process as designed does not necessarily correlate to the fiscal or program year end.

***Recommendation***

We recommend that the District tag equipment additions often enough to ensure that all additions have been identified at fiscal or program year ends.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-117                      Equipment and Real Property Management – Physical Count**

**Finding Type:                Material noncompliance and material weakness**

**CFDA #:                        84.048 – Vocational Education**

**Federal Agency:            U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement over Equipment and Real Property Management, a physical inventory shall be taken at least once every two years and reconciled to the equipment records.

***Condition***

The District is unable to provide evidence of a physical inventory count during the past two years.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

A physical inventory of Title I equipment was not performed. This caused the District to be in noncompliance with regulations.

***Recommendation***

We recommend that the District implement a policy to perform a physical inventory of Title I assets once every two years.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-118**                    **Procurement Approvals**  
**Finding Type:**            **Significant deficiency**  
**CFDA #:**                    **84.048 – Vocational Education**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment, the District is required to have adequate controls in place to facilitate compliance with regulations, contracts, and grants.

***Condition***

We reviewed 2 contracts of the Vocational Education program for the year ended June 30, 2007. One of the two contracts was not provided so we were unable to ensure it was properly approved by the Compliance Officer.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement process, a contract was entered into without the review and approval of the Compliance Officer.

***Recommendation***

We recommend that the District have the Compliance Officer review and approve all contracts that are entered into.

***Views of Responsible Officials***

We understand and agree with the noted observation and are working toward corrective actions.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-119**                    **Procurement and Suspension and Debarment**  
**Finding Type:**            **Material noncompliance and material weakness**  
**CFDA #:**                    **84.048 – Vocational Education**  
**Federal Agency:**        **U.S. Department of Education**  
**Pass-through Entity:**   **Michigan Department of Education**  
**Federal Award Year:**   **July 1, 2006 to June 30, 2007**

***Requirement***

Per the OMB Circular A-133 Compliance Supplement over Procurement and Suspension and Debarment and the School District's procurement policy, each contractor that is awarded a contract must certify that their organization and principals are not suspended or debarred. Alternatively, the School District can verify that the contractor is not suspended or debarred by accessing the Excluded Parties Listing System.

***Condition***

We reviewed 2 contracts of the Vocational Education program for the year ended June 30, 2007. One of the two contracts did not contain evidence that the District had verified that the vendor was not suspended or debarred. Also, 1 of 2 contracts was unable for review.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Due to lack of adequate internal controls over the procurement and suspension and debarment process, contracts were entered into without evidence that the contractor was not suspended or debarred. As a result, the District could enter into contract with a suspended or debarred contractor which could result in loss of funding.

***Recommendation***

We recommend that the District maintain adequate internal controls to ensure that all contractors awarded a contract are not suspended or debarred.

***Views of Responsible Officials***

A system has been put in place where all contracts are checked against the Federal Excluded Parties List.

**DETROIT PUBLIC SCHOOLS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**2007-120                      Special Tests and Provisions – Schoolwide Programs**

**Finding Type:                Material noncompliance and material weakness**

**CFDA #:                      84.048 – Vocational Education**

**Federal Agency:            U.S. Department of Education**

**Pass-through Entity:      Michigan Department of Education**

**Federal Award Year:      July 1, 2006 to June 30, 2007**

***Requirement***

Per OMB Circular A-133 Compliance Supplement, Part 4, Department of Education Cross-Cutting Section over the Schoolwide Program requirement, a schoolwide plan must contain the following component: Transition plans for assisting preschool children in the successful transition to the schoolwide program.

***Condition***

Of 31 schoolwide programs selected for review, 8 of the programs were missing the transition plans for assisting preschool children in the successful transition to the schoolwide program. Also, one school did not have a current year schoolwide program available for review.

***Questioned Costs***

None

***Possible Asserted Cause and Effect***

Some of the schoolwide programs did not contain all of the required components and one school was missing its plan for the 06/07 school year.

***Recommendation***

We recommend that District management critically review all schoolwide programs to ensure that they contain the required components and that all schools have prepared plans.

***Views of Responsible Officials***

The transition plans for preschools has been added to the schoolwide plans.