

Detroit Public
Schools



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Year Ended
June 30, 2014

Single Audit Act
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Detroit Public Schools

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

November 15, 2014

Emergency Manager
Detroit Public Schools
Detroit, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Detroit Public Schools* (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report thereon dated Month XX, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.





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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Pass Through Entity	Pass-through/ Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Breakfast Program:			
Project number 121970	10.553	MDE	121970
Project number 131970	10.553	MDE	131970
Project number 141970	10.553	MDE	141970
National School Lunch Program:			
Noncash assistance (commodities) - Entitlement Commodities			
	10.555	MDE	-n/a-
Cash assistance:			
Project number 131960	10.555	MDE	131960
Project number 141960	10.555	MDE	141960
Summer School Food Program:			
Project number 130900	10.559	MDE	130900
Project number 131900	10.559	MDE	131900
Total Child Nutrition Cluster			
Child Care Food Program:			
Project number 131920	10.558	MDE	131920
Project number 132010	10.558	MDE	132010
Project number 141920	10.558	MDE	141920
Project number 142010	10.558	MDE	142010
Total Child Care Food Program			
Fresh Fruit and Vegetables Program:			
Project number 130950	10.582	MDE	130950
Project number 140950	10.582	MDE	140950
Total Fresh Fruit and Vegetables Program			
Total U.S. Department of Agriculture			
U.S. Department of Education			
Adult Basic Education:			
Project number 131130 131337	84.002	MDLEG	131130 131337
Project number 141120 145337	84.002	MDLEG	141120 145337
Project number 141130 141337	84.002	MDLEG	141130 141337
Total Adult Basic Education			

Approved Award Amount (Memo Only)	Prior Years Expenditures (Memo Only)	Accrued (Unearned) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 10,339,767	\$ 1,232,331	\$ -	\$ (204) *	\$ (204)	\$ -	\$ -
11,336,094	9,985,449	2,003,437	(5,087) *	3,348,995	1,350,645	-
9,994,900	-	-	-	9,096,687	9,994,900	898,213
1,572,647	-	-	-	1,572,647	1,572,647	-
23,131,284	20,178,778	4,100,489	-	7,052,995	2,952,506	-
20,023,736	-	-	-	18,302,007	20,023,736	1,721,729
1,316,994	651,614	651,614	(4,602) *	1,312,392	665,380	-
136,334	67,404	67,404	(481) *	135,853	68,930	-
		<u>6,822,944</u>	<u>(10,374)</u>	<u>40,821,372</u>	<u>36,628,744</u>	<u>2,619,942</u>
173,973	2,226	428,415	-	600,162	171,747	-
113,945	100,989	28,645	-	41,601	12,956	-
1,928,579	-	-	-	1,265,783	1,928,579	662,796
153,036	-	-	-	100,442	153,036	52,594
		<u>457,060</u>	<u>-</u>	<u>2,007,988</u>	<u>2,266,318</u>	<u>715,390</u>
655,957	655,957	112,976	-	112,976	-	-
1,692,366	-	-	-	1,478,767	1,692,366	213,599
		<u>112,976</u>	<u>-</u>	<u>1,591,743</u>	<u>1,692,366</u>	<u>213,599</u>
		<u>7,392,980</u>	<u>(10,374)</u>	<u>44,421,103</u>	<u>40,587,428</u>	<u>3,548,931</u>
200,000	-	-	-	28,200	14,363	(13,837)
5,000	-	-	-	4,789	4,789	-
60,000	-	-	-	60,000	60,000	-
		<u>-</u>	<u>-</u>	<u>92,989</u>	<u>79,152</u>	<u>(13,837)</u>

continued...

DETROIT PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Pass Through Entity	Pass-through/ Grantor Number
U.S. Department of Education (continued)			
Title I, Part A Cluster			
Title I, Part A:			
Project number 111700 1112	84.010	MDE	111700 1112
Project number 131530 1213	84.010	MDE	131530 1213
Project number 131700 1213	84.010	MDE	131700 1213
Project number 141520 1314	84.010	MDE	141520 1314
Project number 141530 1314	84.010	MDE	141530 1314
Project number 141700 1314	84.010	MDE	141700 1314
ARRA - Title I, Part A:			
Project number 101535 0910	84.389	MDE	101535-0910
Project number 101555 1011	84.389	MDE	101555-1011
Total Title I, Part A Cluster			
Migrant Education:			
Project number 131890 1213	84.011	MDE	131890-1213
Project number 131830 1213 (Summer)	84.011	MDE	131830-1213
Project number 141890 1314	84.011	MDE	141890-1314
Project number 1418930 1314	84.011	MDE	141830-1314
Total Migrant Education			
Career & Technical Education (Perkins II):			
Project number 133520 121224	84.048	MDE	133520-121224
Project number 143520 141224	84.048	MDE	143520-141224
Total Career & Technical Education (Perkins II)			
21st Century Community Learning Center:			
Project number 122110 F09020	84.287	MDE	122110 F09020
Project number 122110 D07035	84.287	MDE	122110 D07035
Project number 132110 F09017	84.287	MDE	132110 F09017
Project number 132110 F09020	84.287	MDE	132110 F09020
Project number 132110 F09022	84.287	MDE	132110 F09022
Project number 132110 G12019	84.287	MDE	132110 G12019
Project number 142110 H13023	84.287	MDE	142110 H13023
Project number 142110 2110	84.287	MDE	142110 2110
Project number 142110 F09017	84.287	MDE	142110 F09017
Project number 142110 F09022	84.287	MDE	142110 F09022
Project number 142110 G12019	84.287	MDE	142110 G12019
Project number 142110 H13025	84.287	MDE	142110 H13025
Project number 142110 F09020	84.287	MDE	142110 F09020
Total 21st Century Community Learning Center			

Approved Award Amount (Memo Only)	Prior Years Expenditures (Memo Only)	Accrued (Unearned) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 144,473	\$ 106,782	\$ (651)	\$ -	\$ (651)	\$ -	\$ -
151,041,746	102,954,643	26,797,769	(459,483) *	39,045,559	12,707,273	-
480,963	208,670	73,318	(1,339) *	174,918	102,939	-
12,000	-	-	-	5,540	6,415	875
145,378,333	-	-	-	83,179,600	100,259,161	17,079,561
315,578	-	-	-	39,418	123,167	83,749
149,429,745	-	(3,925)	-	(3,925)	-	-
1,193,808	1,013,617	4,153	-	-	-	4,153
		<u>26,870,664</u>	<u>(460,822)</u>	<u>122,440,459</u>	<u>113,198,955</u>	<u>17,168,338</u>
41,122	23,369	1,485	-	1,485	-	-
8,463	-	-	-	3,794	3,288	(506)
22,038	-	-	-	3,061	4,564	1,503
3,511	-	-	-	-	98	98
		<u>1,485</u>	<u>-</u>	<u>8,340</u>	<u>7,950</u>	<u>1,095</u>
3,286,636	2,434,276	475,401	(75,906) *	458,002	58,507	-
2,748,666	-	-	-	1,734,433	2,252,293	517,860
		<u>475,401</u>	<u>(75,906)</u>	<u>2,192,435</u>	<u>2,310,800</u>	<u>517,860</u>
675,000	624,084	(153)	-	-	-	(153)
675,000	641,049	(17)	-	-	-	(17)
675,000	570,233	136,992	(2,097) *	177,077	42,182	-
675,000	552,909	89,610	-	135,625	45,597	(418)
675,000	432,761	49,856	-	205,267	125,562	(29,849)
675,000	457,833	41,240	(7,262) *	234,940	200,962	-
675,000	-	-	-	345,729	418,584	72,855
675,000	-	-	-	345,535	332,026	(13,509)
675,000	-	-	-	417,345	506,802	89,457
675,000	-	-	-	386,547	475,535	88,988
675,000	-	-	-	352,641	401,003	48,362
675,000	-	-	-	337,061	433,218	96,157
675,000	-	-	-	354,629	483,367	128,738
		<u>317,528</u>	<u>(9,359)</u>	<u>3,292,396</u>	<u>3,464,838</u>	<u>480,611</u>

continued...

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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Pass Through Entity	Pass-through/ Grantor Number
U.S. Department of Education (concluded)			
Title III Limited English:			
Project number 120580 1112	84.365	MDE	120580-1112
Project number 130570 1112	84.365	MDE	130570-1112
Project number 130580 1112	84.365	MDE	130580-1213
Project number 140570 1314	84.365	MDE	140570-1314
Project number 140580 1314	84.365	MDE	140580-1314
Total Title III Limited English			
Title II, Part A Teacher Training/ Principal Training:			
Project number 100520 0910	84.367	MDE	100520-0910
Project number 130520 1213	84.367	MDE	130520-1213
Project number 140520 1314	84.367	MDE	140520-1314
Total Title II, Part A Teacher Training/ Principal Training			
School Improvement Grant Cluster:			
Formula School Improvement:			
Project number 111760 1112	84.377	MDE	111760-1112
Project number 101760 1112	84.377	MDE	101760-1112
Project number 111760 1213	84.377	MDE	111760-1213
Project number 101760 1213	84.377	MDE	101760-1213
Project number 121760 1213	84.377	MDE	121760-1213
ARRA - School Improvement Grant:			
Project number 101765 1011	84.388	MDE	101765-1011
Project number 101765 1112	84.388	MDE	101765-1112
Project number 101765 1112SIGII	84.388	MDE	101765-1112SIGII
Project number 101765 1213	84.388	MDE	101765-1213
Project number 101765 1213SIGII	84.388	MDE	101765-1213SIGII
Project number 131765 1314	84.388	MDE	131765-1314
Total School Improvement Grant Cluster			
Special Education Cluster:			
Individuals with Disabilities Education Act:			
Education of the Handicapped 11/12	84.027	WRESA	-n/a-
Education of the Handicapped 12/13	84.027	WRESA	-n/a-
Education of the Handicapped 13/14	84.027	WRESA	-n/a-
Center Expansion 12/13	84.027	WRESA	-n/a-
Center Expansion 13/14	84.027	WRESA	-n/a-
Assistive Technology Training and Information Center Grant - 12/13	84.027	WRESA	-n/a-
Assistive Technology Training and Information Center Grant - 13/14	84.027	WRESA	-n/a-
Preschool Incentive:			
Preschool Incentive - 11/12	84.173	WRESA	-n/a-
Preschool Incentive - 12/13	84.173	WRESA	-n/a-
Preschool Incentive - 13-14	84.173	WRESA	-n/a-
Total Special Education Cluster			
Total U.S. Department of Education			

Approved Award Amount (Memo Only)	Prior Years Expenditures (Memo Only)	Accrued (Unearned) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 2,762,395	\$ 501,734	\$ (53,814)	\$ -	\$ -	\$ -	\$ (53,814)
111,153	-	-	-	75,403	72,056	(3,347)
2,339,537	896,740	314,894	-	1,106,760	790,231	(1,635)
88,871	-	-	-	5,908	12,875	6,967
1,435,732	-	-	-	530,590	620,612	90,022
		<u>261,080</u>	<u>-</u>	<u>1,718,661</u>	<u>1,495,774</u>	<u>38,193</u>
33,663,836	16,095,386	46,980	(46,980) *	-	-	-
32,603,816	13,312,069	3,231,388	(427,054) *	8,360,424	5,556,090	-
30,783,309	-	-	-	13,005,826	13,656,409	650,583
		<u>3,278,368</u>	<u>(474,034)</u>	<u>21,366,250</u>	<u>19,212,499</u>	<u>650,583</u>
6,563,744	6,545,773	(77,916)	-	(59,944)	-	(17,972)
2,616,621	2,616,621	191,807	-	191,807	-	-
853,812	-	-	43,758 *	703,839	661,926	1,845
1,678,677	1,340,128	613,575	(42,460) *	603,686	32,571	-
3,092,253	2,287,723	405,643	(10,411) *	879,112	482,035	(1,845)
2,786,377	921,825	-	-	-	-	-
4,152,694	4,152,694	171,179	-	171,179	-	-
2,259,656	1,918,777	(11,805)	-	(11,805)	-	-
774,972	-	173,672	-	205,545	31,247	(626)
1,466,914	-	394,930	10,411 *	469,146	63,805	-
5,401,080	-	-	-	3,559,690	4,108,577	548,887
		<u>1,861,085</u>	<u>1,298</u>	<u>6,712,255</u>	<u>5,380,161</u>	<u>530,289</u>
16,312,140	14,168,261	1,597,634	-	3,341,513	1,743,879	-
12,562,119	11,779,159	2,179,497	-	1,420,892	715,392	1,473,997
10,488,565	-	-	-	5,571,887	7,886,247	2,314,360
3,360,050	3,511,178	886,914	(151,128) *	735,786	-	-
2,847,314	-	-	-	1,951,865	2,583,563	631,698
525,000	-	221,853	-	221,853	-	-
525,000	-	-	-	206,585	485,194	278,609
444,222	348,162	94,015	(16,693) *	77,322	-	-
497,412	-	82,620	-	59,403	39,791	63,008
458,163	-	-	-	287,191	398,680	111,489
		<u>5,062,533</u>	<u>(167,821)</u>	<u>13,874,297</u>	<u>13,852,746</u>	<u>4,873,161</u>
		<u>38,128,144</u>	<u>(1,186,644)</u>	<u>171,698,082</u>	<u>159,002,875</u>	<u>24,246,293</u>

continued...

DETROIT PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Pass Through Entity	Pass-through/ Grantor Number
U.S. Department of Health and Human Services			
Head Start Cluster:			
Head Start 12/13	93.600	CDI	-n/a-
Head Start 13/14	93.600	CDI	-n/a-
Total Head Start Cluster			
Medical Assistance Program -			
Medicaid Outreach 13-14	93.778	MDCH	-n/a-
HRRTEP:			
HRRTEP - 11/12	93.938	WRESA	-n/a-
HRRTEP - 12/13	93.938	WRESA	-n/a-
Total HRRTEP			
Total U.S. Department of Health and Human Services			
Total Federal Financial Assistance			

* Amount represents adjustments to prior year eligible expenditures

See accompanying notes to the schedule of expenditures of federal awards

Approved Award Amount (Memo Only)	Prior Years Expenditures (Memo Only)	Accrued (Unearned) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 5,066,509	\$ 5,043,176	\$ 2,076,107	\$ (50,642) *	\$ 2,099,440	\$ 73,975	\$ -
4,800,794	-	-	-	3,230,880	4,137,020	906,140
		<u>2,076,107</u>	<u>(50,642)</u>	<u>5,330,320</u>	<u>4,210,995</u>	<u>906,140</u>
406,567	-	-	-	406,567	406,567	-
250,656	-	91,315	(13,467) *	91,315	13,467	-
50,000	-	(37,040)	-	(37,040)	-	-
		<u>54,275</u>	<u>(13,467)</u>	<u>54,275</u>	<u>13,467</u>	<u>-</u>
		<u>2,130,382</u>	<u>(64,109) *</u>	<u>5,791,162</u>	<u>4,631,029</u>	<u>906,140</u>
		<u>\$ 47,651,506</u>	<u>\$ (1,261,127)</u>	<u>\$ 221,910,347</u>	<u>\$ 204,221,332</u>	<u>\$ 28,701,364</u>

concluded.

DETROIT PUBLIC SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Detroit Public Schools (the "District") under programs of the federal government for the year ended June 30, 2014. 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*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

2. RECONCILIATION OF BASIC FINANCIAL STATEMENTS

The following schedule reconciles federal sources reported in the financial statements to the expenditures reported on the schedule of expenditures of federal awards:

Federal sources reported in the financial statements	\$ 216,307,442
Adjustments to prior year federal expenditures	1,261,127
Less: Federal revenue related to qualified bond interest	<u>(13,347,237)</u>
Expenditures reported in the schedule of expenditures of federal awards	<u>\$ 204,221,332</u>

DETROIT PUBLIC SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Abbreviation	Pass-through Agency Name
CDI	Community Development Institute Head Start
MDCH	Michigan Department of Community Health
MDE	Michigan Department of Education
MDLEG	Michigan Department of Labor and Economic Growth
WRESA	Wayne County Regional Education Service Area





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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*

November 15, 2014

Emergency Manager
Detroit Public Schools
Detroit, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Detroit Public Schools* (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2014-FS-01 and -02 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-FS-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2014-FS-02.

Detroit Public Schools' Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Lobman LLC". The signature is written in a cursive, flowing style.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

November 15, 2014

Emergency Manager
Detroit Public Schools
Detroit, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of *Detroit Public Schools* (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which 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 as items 2014-SA-01 through -04. Our opinion on each major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-SA-01 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-SA-02 through -04 to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rehmann Johnson LLC



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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? X yes no

Identification of major programs/
Type of auditor's report issued on compliance for major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
84.010/84.389	Title I, Part A Cluster	Unmodified
84.027/84.173	Special Education Cluster	Unmodified
84.048	Career & Technical Education	Unmodified
84.287	21st Century Community Learning	Unmodified
84.367	Title II, Part A	Unmodified
84.377/84.388	School Improvement Grant Cluster	Unmodified
93.600	Head Start Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? yes X no

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-FS-01 - Material Audit Adjustments (repeat)

Finding Type. Material weakness in internal control over financial reporting

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles ("GAAP").

Condition. During our audit, we identified and proposed adjustments (which were approved and posted by management) that were material, either individually or in the aggregate to the District's financial statements.

Cause. Existing year-end closing procedures did not detect certain adjustments necessary to properly record year-end balances.

Effect. As a result, the following areas were initially misstated:

Unearned revenue related to the Great Start Readiness Program was understated by approximately \$4,500,000.

Receivables related to the Durant bond were overstated by approximately \$468,000.

Due to other governments related to Special Education was overstated by approximately \$2,350,000.

Interest payable on bonds was understated by approximately \$590,000.

Interest payable on State Aid notes was understated by approximately \$3,470,000.

Unearned revenue related to Consolidated Funds was overstated by approximately \$1,670,000.

Unearned revenue related to Durant receivable was overstated by approximately \$16,250,000.

Due to other governments related to the property tax chargeback liabilities was understated by approximately \$7,700,000.

Accounts receivable and revenue related to real estate transactions were overstated by approximately \$7,400,000.

Accounts payable and expenses were understated by approximately \$1,700,000.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Recommendation. We recommend that the District take steps to ensure that all year-end adjustments are identified and posted for financial reporting purposes.

View of Responsible Officials. Management concurs with the above finding. With the implementation of PeopleSoft 9.2, there were many distractions with daily ongoing tasks and many of the year-end adjustments occurred after the audit had started. Management will work with staff to strengthen year-end controls in recording the required adjustments.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-FS-02 - Budget (Repeat)

Finding Type. Material noncompliance; Material weakness in internal controls over financial reporting

Criteria. The State of Michigan requires governments to adopt budgets for the general fund and all special revenue funds. Expenditures may not be incurred in those funds prior to formal authorization through the approval or amendment of the budget. The District is prohibited from adopting a budget or a budget amendment that causes estimated total expenditures to exceed total estimated revenues and available fund balance. In addition, the Uniform Budgeting and Accounting Act prohibits governments from expending funds that are not authorized in the approved budget or from budgeting a deficit.

Condition. The District budgeted a fund deficit in the general fund, which violates the Uniform Budgeting and Accounting Act and the State School Aid Act, as well as its approved deficit elimination plan. In addition, expenditures exceeded appropriations by significant amounts as disclosed in the notes to the financial statements. The District's current procedure includes a process of budget overrides that inappropriately allows actual expenditures to exceed budgeted expenditures at the account level.

Cause. This was the result of weaknesses in the controls established and utilized in the financial system.

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

Recommendation. We recommend that the District modify its policies and procedures to ensure that all budget adjustments in the financial software are approved by the Emergency Manager. In addition, we recommend the District modify its policies and procedures to ensure that actual expenditures are monitored to ensure there are no expenditures that exceed approved budgeted amounts.

View of Responsible Officials. The Office of Management & Budget provides the following response:

- 1) The District budgeted a fund deficit in the general fund, which violates Section 141.436 of Public Act 2 of 1968. The office of OMB will take the appropriate steps to produce a balanced budget. New features and functionality within the new ERP system will enhance OMB's ability to properly adopt and maintain a balanced budget throughout the period.
- 2) Expenditures exceeded appropriations by significant amounts as disclosed in the notes to the financial statements. The District's current procedure includes a process of budget overrides that inappropriately allows actual expenditures to exceed budgeted expenditures at the account level. Controls over appropriations and expenditures will be strengthened with the implementation of the new ERP system. Budget development and monitoring will be intergraded within the new system. In addition, the District has enhanced the budgetary financial reporting system to properly monitor budget to actual activity more timely allowing OMB to be pro-active rather than re-active.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

2014-FS-03 - Property Taxes

Finding Type. Significant deficiency in internal control over financial reporting

Criteria. The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition. The levy amount used in the calculation of property tax revenue does not reconcile to taxable values reported to the State of Michigan by Wayne County. In addition, certain payments from the City were not supported by detail that allocated amounts by levy resulting in potential misallocation between District funds.

Cause. Information provided to the District by local taxing authorities is not sufficient to determine whether amounts collected and transmitted to the District and amounts reported to the State of Michigan properly reconcile. In addition, an evaluation of all tax receipts from the City was not performed to ensure that the payments received included appropriate reconciliations and support.

Effect. The result of these differences could have a significant impact on the amounts owed to the District by the City and the State.

Recommendation. We recommend that the District coordinate with the State of Michigan, Wayne County, the City of Detroit, and all applicable local tax increment financing authorities to ensure that amounts reported to the State and amounts collected and remitted to the District are consistent.

View of Responsible Officials. We concur with this finding. The District has and will continue to schedule ongoing meetings with the City, County and State to resolve any differences. However, in fiscal year 2014 there were many changes at the City which prevented the continuation of the meetings.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-SA-01 - Allowable Costs/Cost Principles - Payroll Documentation (Repeat)

Finding Type. Noncompliance; Material weakness in internal controls over compliance

Federal program(s)

U.S. Department of Education:

- Title I, Part A (CFDA# 84.010); Passed through MDE; All project numbers
- Special Education Cluster (CFDA# 84.027 & 84.173); Passed through WRESA; All project numbers
- Career & Technical Education (CFDA# 84.048); Passed through MDE; All project numbers
- 21st Century Learning Grants (CFDA# 84.287); Passed through MDE; All project numbers
- Title II, Part A (CFDA# 84.367); Passed through MDE; All project numbers
- School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Passed through MDE; All project numbers

U.S. Department of Health and Human Services -

- Head Start (CFDA# 93.600); Passed through CDI; All project numbers

Criteria. Per OMB Circular A-87, the District is required to support payroll charges to federal cost objectives with adequate documentation including semi-annual payroll certifications for employees charged 100% to a single federal cost objective and with Personnel Activity Reports for those who split their time between multiple cost objectives. Severance pay and payments for unused absence time are required to be allocated as a general administrative expense to all activities of the government.

Condition. The pay rate used in calculating certain employees' compensation did not agree to documentation in personnel files. Semi-annual certifications and Personnel Activity Reports did not match the time splits that were charged to the grants, and manual timesheets did not match what was recorded as hours worked in the system. Certain semi-annual certifications and Personnel Activity Reports were not prepared for the charges in question or were prepared for incorrect funding sources. In addition, the District charged severance pay and payments for unused absence time as direct costs to federal programs rather than as allocated indirect costs.

Cause. This appears to have been caused by a combination of the complex and manual payroll process utilized by the District that can be prone to human error.

Effect. Pay rates used to calculate compensation for 4 of 114 payroll disbursements selected for testing did not agree to the approved pay rates documented in the personnel files. We noted four instances in which the Personnel Activity Report did not match the split charged to the grant, and two timesheets that did not match the hours recorded in the payroll system. We noted six instances in which certifications were prepared for incorrect funding sources and six instances in which the certifications were not prepared for the time period in question until after being selected during our audit procedures. In addition, severance pay and payments for unused absence time, which were separately identified in their entirety by the pay code used in the accounting system, were charged directly to the grants.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Questioned Costs. Known questioned costs identified during our testing were as follows:

- Special Education Cluster - \$63,000
- Title I, Part A - \$301,817
- Title II, Part A - \$22,518
- 21st Century - \$243
- Consolidated funds - \$556,172, which includes federal, state and local sources.

Recommendation. We recommend that the District modify its payroll process to ensure that pay rates in the payroll system agree with approved pay rates included in the personnel files. We also recommend that the District modify its procedures to ensure that severance pay and payments for unused leave are not charged as direct costs to grants. In addition, we recommend that the District update its procedures to ensure that all documentation is maintained to support payments to employees.

View of Responsible Officials. Management concurs with the finding. With the implementation of PeopleSoft 9.2, the timesheets will match the hours recorded in the payroll system. The District's time was recorded in PeopleSoft since April 2014. The District's Personnel Activity Reports (PARs) and certifications are monitored by an external auditing firm on a quarterly basis to alert the District of any issue with the PARs or certifications and to cover policies and procedures as required. Staff has been instructed on the policies and procedures that severance pay and payment for unused absence time should not be charged directly to grants. The Controller of Finance will monitor quarterly to be sure staff is adhering to all policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2014-SA-02 - Allowable Costs/Cost Principles - In-kind Contributions (Repeat)

Finding Type. Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s)

U.S. Department of Health and Human Services -

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

Criteria. OMB Circular A-87 indicates that charges to a federal program used for matching must meet the same criteria as reimbursable costs, including reasonableness and adherence to federal cost principles.

Condition. The District charged building supplies to the 2013-14 Regular Head Start program based on a projected per square foot rate plus paper supplies; however, the District was unable to support that actual costs had been incurred. Also, there were five instances in which support could not be provided, five instances in which the supporting documentation did not support the amounts charged and two instances in which the documentation was not properly reviewed and approved.

Cause. This appears to be a misunderstanding on how in-kind costs must be documented based on federal guidelines.

Effect. \$3,567 of in-kind contributions used as matching funds lacked proper documentation and support.

Questioned Costs. \$3,567

Recommendation. We recommend that the District provide training to staff responsible for accumulating, calculating, and reporting in-kind costs. Also, we recommend that District develop procedures to ensure review and approval of donated time sheets is properly performed.

View of Responsible Officials. Management concurs. Training will be provided to staff on accumulating, calculating and reporting in-kind costs. This will be verified by the Inspector General at least twice a year.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2014-SA-03 - Cash Management

Finding Type. Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s)

U.S. Department of Education -

- Title I, Part A (CFDA# 84.010); Passed through MDE; All project numbers
- Special Education Cluster (CFDA# 84.027 & 84.173); Passed through WRESA; All project numbers
- Career & Technical Education (CFDA# 84.048); Passed through MDE; All project numbers
- Title II, Part A (CFDA# 84.367); Passed through MDE; All project numbers
- School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Passed through MDE; All project numbers

U.S. Department of Health and Human Services -

- Head Start (CFDA# 93.600); Passed through CDI; All project numbers

Criteria. The Michigan School Auditing Manual indicates that local education agencies are permitted to request cash for federal grants passed through the Michigan Department of Education on a reimbursement basis only.

Condition. The District was requesting reimbursement for payroll accruals for 26 pay employees prior to the payment of the related expenditures.

Cause. This condition appears to be the result of District not modifying its procedures used to prepare cash requests to compensate for changes made to the process used to accrue payroll costs for 26 pay employees.

Effect. As a result of this condition, the District requested approximately \$15 million before the expenditures were paid.

Questioned Costs. None, inasmuch as subsequent cash requests were decreased for the amounts initially requested improperly, and interest earned on the advances was inconsequential.

Recommendation. The District should implement procedures to ensure that reimbursement requests are made for costs that have already been incurred and paid.

View of Responsible Officials. Management concurs with the finding. Staff was instructed to follow policies and procedures already in place. As a result, this practice was discontinued in future cash requests.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

2014-SA-04 - Adequate Voucher Documentation

Finding Type. Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s)

U.S. Department of Health and Human Services -

- Head Start (CFDA# 93.600); Passed through CDI; All project numbers

Criteria. According to OMB Circular A-87, expenditures should be for actual costs that are adequately documented.

Condition. The District charged expenditures for payments made to individual schools for purchases of items to be used in classrooms that were not adequately documented.

Cause. Management has not implemented adequate internal controls to ensure that disbursements charged to federal grant programs are for actual costs incurred and are adequately documented.

Effect. As a result of this condition, the District was reimbursed for \$3,975 of expenditures that were not for actual costs and were incorrectly documented.

Questioned Costs. \$3,975

Recommendation. We recommend the District modify its procedures to ensure that expenditures charged to federal programs are for actual costs incurred and are adequately documented.

View of Responsible Officials. Management concurs with this finding. Procedures will be modified to ensure expenditures are for actual costs incurred and that there is appropriate documentation.

DETROIT PUBLIC SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

Finding 2013-SA-01 - Allowable Costs/Cost Principles - Payroll Documentation

Title I, Part A Cluster (CFDA# 84.010 & 84.389); Special Education Cluster (CFDA# 84.027, 84.173, 84.391, 84.392); Career & Technical Education (CFDA# 84.048); 21st Century Learning Education (CFDA# 84.287); Title II, Part A (CFDA# 84.367); School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Head Start (CFDA# 93.600)

This finding was not adequately resolved. See finding 2014-SA-01 in the current year Schedule of Findings and Questioned Costs.

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

Head Start Cluster (CFDA# 93.600)

This finding was not adequately resolved. See finding 2014-SA-02 in the current year Schedule of Findings and Questioned Costs.

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

Title I, Part A Cluster (CFDA# 84.010 & 84.389); Special Education Cluster (CFDA# 84.027, 84.173, 84.391, 84.392); Career & Technical Education (CFDA# 84.048); 21st Century Learning Education (CFDA# 84.287); Title II, Part A (CFDA# 84.367); School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Head Start (CFDA# 93.600)

This finding was adequately resolved.

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

Head Start Cluster (CFDA# 93.600)

This finding was adequately resolved.

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

Head Start Cluster (CFDA# 93.600)

This finding was adequately resolved.

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

Title I, Part A Cluster (CFDA# 84.010 & 84.389)

This finding was not adequately resolved. See finding 2014-SA-03 in the current year Schedule of Findings and Questioned Costs.





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