

Detroit Public
Schools



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Year Ended
June 30, 2015

Single Audit Act
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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

November 2, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report thereon dated November 2, 2015, 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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DETROIT PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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 141970	10.553	MDE	141970
Project number 151970	10.553	MDE	151970
National School Lunch Program:			
Noncash assistance (commodities) -			
Entitlement Commodities	10.555	MDE	-n/a-
Cash assistance:			
Project number 141960	10.555	MDE	141960
Project number 151960	10.555	MDE	151960
Summer School Food Program:			
Project number 140900	10.559	MDE	140900
Project number 141900	10.559	MDE	141900
Project number 150900	10.559	MDE	150900
Project number 151900	10.559	MDE	151900
Total Child Nutrition Cluster			
Child Care Food Program:			
Project number 131920	10.558	MDE	141920
Project number 132010	10.558	MDE	142010
Project number 141920	10.558	MDE	151920
Project number 142010	10.558	MDE	152010
Total Child Care Food Program			
Fresh Fruit and Vegetables Program:			
Project number 140950	10.582	MDE	140950
Project number 150950	10.582	MDE	150950
Total Fresh Fruit and Vegetables Program			
Total U.S. Department of Agriculture			
U.S. Department of Labor			
Workforce Investment Act Adult Program:			
WIA Adult Program	17.258	DESC	2013-20
WIA Adult Program	17.258	DESC	2015
Total U.S. Department of Labor			
U.S. Department of Education			
Adult Basic Education:			
Project number 131130 131337	84.002	MDLEG	131130 131337
Project number 151120 155337	84.002	MDLEG	151120 155337
Project number 151130 151337	84.002	MDLEG	151130 151337
Total Adult Basic Education			

Approved Award Amount (Memo Only)	Prior Years Expenditures (Memo Only)	Accrued (Unearned) Revenue at June 30, 2014	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2015
\$ 11,603,741	\$ 9,994,900	\$ 898,213	\$ -	\$ 2,507,054	\$ 1,608,841	\$ -
10,414,843	-	-	-	9,733,218	10,414,843	681,625
1,529,223	-	-	-	1,529,223	1,529,223	-
23,129,404	20,023,736	1,721,729	-	4,827,397	3,105,668	-
20,332,453	-	-	-	18,952,366	20,332,453	1,380,087
997,808	-	-	-	997,808	997,808	-
101,879	-	-	-	101,879	101,879	-
664,590	-	-	-	-	664,590	664,590
68,291	-	-	-	-	68,291	68,291
		<u>2,619,942</u>	<u>-</u>	<u>38,648,945</u>	<u>38,823,596</u>	<u>2,794,593</u>
2,163,996	1,928,579	662,796	-	898,213	235,417	-
172,588	153,036	52,594	-	72,146	19,552	-
1,712,597	-	-	-	1,330,191	1,712,597	382,406
197,238	-	-	-	165,478	197,238	31,760
		<u>715,390</u>	<u>-</u>	<u>2,466,028</u>	<u>2,164,804</u>	<u>414,166</u>
1,692,366	1,692,366	213,599	-	213,599	-	-
2,056,269	-	-	-	1,911,088	2,056,269	145,181
		<u>213,599</u>	<u>-</u>	<u>2,124,687</u>	<u>2,056,269</u>	<u>145,181</u>
		<u>3,548,931</u>	<u>-</u>	<u>43,239,660</u>	<u>43,044,669</u>	<u>3,353,940</u>
337,500	-	-	-	-	36,550	36,550
450,000	-	-	-	351,084	316,422	(34,662)
		<u>-</u>	<u>-</u>	<u>351,084</u>	<u>352,972</u>	<u>1,888</u>
200,000	14,363	(13,837)	13,837	-	-	-
5,000	-	-	-	4,450	4,450	-
60,000	-	-	-	60,000	60,000	-
		<u>(13,837)</u>	<u>13,837</u>	<u>64,450</u>	<u>64,450</u>	<u>-</u>

continued...

DETROIT PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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 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
Project number 151530 1415	84.010	MDE	151530 1415
Project number 151700 1415	84.010	MDE	151700 1415
ARRA - Title I, Part A:			
Project number 101555 1011	84.389	MDE	101555-1011
Total Title I, Part A Cluster			
Migrant Education:			
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
Project number 151890 1415	84.011	MDE	151890 1415
Total Migrant Education			
Career & Technical Education (Perkins II):			
Project number 143520 141224	84.048	MDE	143520-141224
Project number 153520 151224	84.048	MDE	153520 151224
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 F09020	84.287	MDE	132110 F09020
Project number 132110 F09022	84.287	MDE	132110 F09022
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
Project number 152110 G12019	84.287	MDE	152110 G12019
Project number 152110 H13023	84.287	MDE	152110 H13023
Project number 152110 H13024	84.287	MDE	152110 H13024
Project number 152110 H13025	84.287	MDE	152110 H13025
Total 21st Century Community Learning Center			

Approved Award Amount (Memo Only)	Prior Years Expenditures (Memo Only)	Accrued (Unearned) Revenue at June 30, 2014	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2015
\$ 12,000	\$ 6,415	\$ 875	\$ -	\$ 6,090	\$ 5,215	\$ -
145,378,333	100,259,161	17,079,561	-	46,470,313	29,692,569	301,817
315,578	123,167	83,749	-	161,618	77,870	1
109,201,530	-	-	-	78,175,162	95,566,276	17,391,114
200,587	-	-	-	136,739	154,147	17,408
1,193,808	-	4,153	(4,153)	-	-	-
		<u>17,168,338</u>	<u>(4,153)</u>	<u>124,949,922</u>	<u>125,496,077</u>	<u>17,710,340</u>
8,463	3,288	(506)	-	(506)	-	-
22,038	4,564	1,503	-	2,885	1,382	-
3,511	98	98	-	-	(98)	-
13,178	-	-	-	2,550	-	(2,550)
		<u>1,095</u>	<u>-</u>	<u>4,929</u>	<u>1,284</u>	<u>(2,550)</u>
2,748,666	2,252,293	517,860	-	566,083	48,223	-
3,000,819	-	-	-	1,988,507	2,667,633	679,126
		<u>517,860</u>	<u>-</u>	<u>2,554,590</u>	<u>2,715,856</u>	<u>679,126</u>
675,000	-	(153)	-	(153)	-	-
675,000	-	(17)	-	(17)	-	-
675,000	45,597	(418)	-	(418)	-	-
675,000	125,562	(29,849)	-	(29,849)	-	-
675,000	418,584	72,855	-	329,270	256,415	-
675,000	332,026	(13,509)	-	259,161	272,670	-
675,000	506,802	89,457	-	206,736	117,279	-
675,000	475,535	88,988	-	185,615	96,627	-
675,000	401,003	48,362	-	247,758	199,396	-
675,000	433,218	96,157	-	272,928	176,771	-
675,000	483,367	128,738	(200)	200,747	72,209	-
675,000	-	-	-	430,212	499,223	69,011
675,000	-	-	-	498,154	572,748	74,594
675,000	-	-	-	479,496	565,280	85,784
675,000	-	-	-	449,353	538,839	89,486
		<u>480,611</u>	<u>(200)</u>	<u>3,528,993</u>	<u>3,367,457</u>	<u>318,875</u>

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DETROIT PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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 1213	84.365	MDE	130570-1213
Project number 130580 1213	84.365	MDE	130580-1213
Project number 140570 1314	84.365	MDE	140570-1314
Project number 140580 1314	84.365	MDE	140580-1314
Project number 150580 1415	84.365	MDE	150580 1415
Total Title III Limited English			
Title II, Part A Teacher Training/ Principal Training:			
Project number 140520 1314	84.367	MDE	140520-1314
Project number 150520 1415	84.367	MDE	150520-1415
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 111760 1213	84.377	MDE	111760-1213
Project number 121760 1213	84.377	MDE	121760-1213
Project number 131761 1415	84.377	MDE	131761-1415
ARRA - School Improvement Grant:			
Project number 101765 1213	84.388	MDE	101765-1213
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 12/13	84.027	WRESA	-n/a-
Education of the Handicapped 13/14	84.027	WRESA	-n/a-
Education of the Handicapped 14/15	84.027	WRESA	-n/a-
Center Expansion 13/14	84.027	WRESA	-n/a-
Center Expansion 14/15	84.027	WRESA	-n/a-
Assistive Technology Training and Information Center Grant - 13/14	84.027	WRESA	-n/a-
Assistive Technology Training and Information Center Grant - 14/15	84.027	WRESA	-n/a-
Preschool Incentive:			
Preschool Incentive - 12/13	84.173	WRESA	-n/a-
Preschool Incentive - 13/14	84.173	WRESA	-n/a-
Preschool Incentive - 14/15	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, 2014	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2015
\$ 2,762,395	\$ -	\$ (53,814)	\$ -	\$ (53,814)	\$ -	\$ -
111,153	72,056	(3,347)	-	(3,347)	-	-
2,339,537	790,231	(1,635)	-	(1,635)	-	-
88,871	12,875	6,967	-	31,945	24,979	1
1,435,732	620,612	90,022	-	368,265	278,243	-
1,285,849	-	-	-	603,724	693,252	89,528
		<u>38,193</u>	<u>-</u>	<u>945,138</u>	<u>996,474</u>	<u>89,529</u>
30,783,309	13,656,409	650,583	-	3,679,175	3,051,109	22,517
30,833,214	-	-	-	13,932,044	15,242,800	1,310,756
		<u>650,583</u>	<u>-</u>	<u>17,611,219</u>	<u>18,293,909</u>	<u>1,333,273</u>
12,547,658	-	(17,972)	17,972	-	-	-
853,812	661,926	1,845	(1,845)	-	-	-
3,092,253	482,035	(1,845)	1,845	-	-	-
7,689,873	-	-	-	1,445,130	2,425,219	980,089
1,466,914	31,247	(626)	626	-	-	-
6,643,766	4,108,577	548,887	-	2,110,903	1,562,016	-
		<u>530,289</u>	<u>18,598</u>	<u>3,556,033</u>	<u>3,987,235</u>	<u>980,089</u>
12,562,119	715,392	1,473,997	-	1,890,502	423,133	6,628
10,504,232	7,886,247	2,314,360	-	4,493,432	2,617,985	438,913
10,717,334	-	-	-	5,234,881	6,757,541	1,522,660
2,847,964	2,583,563	631,698	-	895,449	264,401	650
3,225,275	-	-	-	2,182,938	3,225,275	1,042,337
525,000	485,194	278,609	-	318,415	39,806	-
547,512	-	-	-	375,869	547,512	171,643
497,412	39,791	63,008	-	65,046	-	(2,038)
458,163	398,680	111,489	-	157,992	59,483	12,980
542,511	-	-	-	366,514	449,646	83,132
		<u>4,873,161</u>	<u>-</u>	<u>15,981,038</u>	<u>14,384,782</u>	<u>3,276,905</u>
		<u>24,246,293</u>	<u>28,082</u>	<u>169,196,312</u>	<u>169,307,524</u>	<u>24,385,587</u>

continued...

DETROIT PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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 13/14	93.600	CDI	-n/a-
HRRTEP:			
HRRTEP - 12/13	93.938	WRESA	-n/a-
HRRTEP - 14/15	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, 2014	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2015
\$ 4,800,794	\$ 4,137,020	\$ 906,140	\$ (471,983)	\$ 434,157	\$ -	\$ -
50,000	-	-	-	41,470	8,839	(32,631)
50,000	-	-	-	-	33,721	33,721
		-	-	41,470	42,560	1,090
		906,140	(471,983)	475,627	42,560	1,090
		\$ 28,701,364	\$ (443,901)	\$ 213,262,683	\$ 212,747,725	\$ 27,742,505

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, 2015. 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	\$ 225,656,250
Adjustments to prior year federal expenditures	443,901
Less: Federal revenue related to qualified bond interest	<u>(13,352,426)</u>
Expenditures reported in the schedule of expenditures of federal awards	<u>\$ 212,747,725</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
MDE	Michigan Department of Education
DESC	Detroit Employment Solutions Corporation
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 2, 2015

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, 2015, 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 2, 2015.

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 2015-001, 2015-002, 2015-004, 2015-005 and 2015-006 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 items 2015-003 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items 2015-002 and 2015-005.

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.

Rehmann Lobson LLC

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

November 2, 2015

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 *2 CFR 200 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, 2015. 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.

Basis for Qualified Opinion on Title II program

As described in item 2015-007 in the accompanying schedule of findings and questioned costs, the District did not comply with the Allowable Costs/Cost Principles requirement applicable to its Title II, Part A program. Compliance with this requirement is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Title II program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Title II, Part A program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other 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 2015-008 through 2015-011. 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 certain deficiencies in internal control over compliance that we consider to be material weaknesses 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-007 through 2015-009 to be material weaknesses.

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 2015-010 and 2015-011 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 Lobson LLC



SEE IT
BELIEVE IT
DETROIT PUBLIC SCHOOLS

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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

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>
10.553/10.555/10.559	Child Nutrition Cluster	Unmodified
84.010/84.389	Title I, Part A Cluster	Unmodified
84.027/84.173	Special Education Cluster	Unmodified
84.287	21st Century Community Learning	Unmodified
84.367	Title II, Part A	Modified
84.377/84.388	School Improvement Grant 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, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-001 - 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:

- Interest payable on bonds was understated by approximately \$612,000.
- Interest payable on Durant bonds was overstated by approximately \$701,000.
- The chargeback liability related to property taxes was overstated by approximately \$1,255,000.
- Prepaid expenses was overstated by approximately \$190,000.
- Deferred inflows of resources related to the sale of future revenue was understated by approximately \$3,720,000.
- Accounts payable was overstated by approximately \$5,300,000.
- Unamortized loss on refunding was overstated by approximately \$10,600,000 and unamortized premium was overstated by \$19,200,000.
- Interest payable on State Aid notes was overstated by approximately \$2,647,000.
- Other receivables and unavailable rent revenue were understated by approximately \$5,500,000.
- Depreciation expense was overstated by approximately \$3,094,000.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

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 and provide training to current staff. With the downsizing of the central office staff, there have been numerous resignations and retirements in the Finance Section.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-002 - Budget (Repeat)

Finding Type. Material noncompliance; Material weakness in internal control 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 management and budget 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. The District has reduced general fund expenditures as reflected on the financial statements; but is unable to reduce the deficit due to the debt service payments. The District is assigned an Emergency Manager and is in constant communication with the Michigan Department of Education and the State Treasury Department.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-002 - Budget (Repeat)

- 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, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-003 - Property Taxes (repeat)

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, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-004 - Internal Controls over Pension Administration

Finding Type. Material weakness in internal control over financial reporting

Criteria. Management is responsible for providing complete and accurate payroll data to the plan administrator on a biweekly basis and for updating employees' information on the State Office of Retirement Services (ORS) website.

Condition. The District implemented GASB Statement No. 68 in the current year, which resulted in additional audit procedures over pension contributions. On a biweekly basis, the District uploads payroll information by employee to the plan administrator who recalculates the employee and employer contributions based on the plan elected by each participant. The payroll module of the District's accounting software also calculates the total contributions based on actual wages and software configurations. In all six periods selected for testing, the total employee and employer contributions as calculated by the payroll module of the general ledger did not agree to the totals uploaded to the plan administrator. In addition, of the twenty-five new employees selected for testing, two had not been setup on the plan administrator's website.

Cause. The primary cause of this condition is the lack of reconciliation between the general ledger payroll data and the information submitted to the plan administrator. The District has indicated that many of these variances relate to adjustments to previous periods. However, these corrections are not tracked.

Effect. As a result of this condition, the payroll data submitted to the plan administrator did not agree to actual amounts recorded in the District's payroll register. The two employees who were not set up on the plan administrator's website were having amounts deducted from their paychecks for the employee portion of plan contributions, but were not yet established as plan participants.

Recommendation. We recommend that reconciliations be prepared for each pay period to demonstrate that the ORS submission was complete and accurate. If designed appropriately, this process should identify instances in which an employee has not been established in the plan administrator's records. A copy of the report submitted to ORS should be retained along with the payroll register and related

View of Responsible Officials. The Human Resource and Payroll Departments will work with the Technology & Administrative Services Department to develop and design a reconciliation that would provide the information recommended by the auditors.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-005 - Late Payment of Required Pension Contributions

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

Criteria. The District is required by statute to contribute the full actuarially determined contribution billed by the Michigan Public School Employees Retirement System (“MPERS”) to fund pension benefits.

Condition. The District has not made the required pension contributions to MPERS. No employer contributions were made after November 18, 2014, and the balance outstanding as of June 30, 2015 for unpaid contributions amounted to \$69,529,234.

Cause. The District is behind on the required pension contributions as a result of the lack of available cash flow.

Effect. The District has not complied with the contribution requirements of MPERS. The \$69,529,234 owed at June 30, 2015 is accrued in the District’s financial statements.

Recommendation. The District should continue to work on a cash flow solution with key stakeholders.

View of Responsible Officials. The District has a written agreement with MPERS and is currently paying \$750,000 per month and is working closely with key stakeholders to find a permanent solution.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-006 - Accounting for Capital Assets

Finding Type. Material weakness in internal control over financial reporting

Criteria. Management is responsible for maintaining capital asset records in order to properly account for and record activity related to acquisitions, dispositions, depreciation and impairment.

Condition. The District began using new software in fiscal 2015 to account for capital assets. Several challenges were encountered during this ongoing implementation as follows:

- Depreciation was calculated incorrectly on many individual assets which resulted in an audit adjustment of approximately \$3,094,000.
- Assets transferred from the old system to the new system were not assigned the same activity codes. As a result, depreciation expense was not originally allocated to the proper activity.
- Differences between the new software and the general ledger were not reconciled.
- Prior year capital asset information has been transferred into the new software; however implementation challenges have prevented current year activity from being entered into the new software. As a result, current year additions and deletions are being maintained in Excel.
- Detailed records are not maintained for construction in progress. Such detail is not analyzed until the assets are ready to be placed in service and depreciated.

Cause. The implementation of the new software continues to be a challenge. In addition, internal control procedures, including supervision and review, have not been properly implemented to detect potential errors on a timely basis.

Effect. Depreciation expense was initially overstated by \$3,094,000. The adjustment was reviewed, approved, and posted by management. In addition, an inordinate amount of time was incurred by the District to implement and correct errors in the system.

Recommendation. The District should continue to identify and correct potential errors related to the implementation of the new software. In addition, a thorough review of capital asset activity should be conducted on a periodic basis.

View of Responsible Officials. The Finance Department will work with the Technology and Administrative Services Department in correcting any potential errors related to the implementation of the new software and will be able to review capital asset activity in the system on monthly basis in the future. The District will also evaluate the possibility of outsourcing this function.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2015-007 - Allowable Costs/Cost Principles - Payroll Documentation (Repeat)

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

Federal program(s)

U.S. Department of Education:

- Title II, Part A (CFDA# 84.367); Passed through MDE; All project numbers

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

Federal program(s)

U.S. Department of Education:

- 21st Century Learning Grants (CFDA# 84.287); Passed through MDE; 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.

Condition. We were unable to verify the pay rate used in calculating a certain employees' compensation because the personnel file was not available. Semi-annual certifications and Personnel Activity Reports were not prepared for bonus payments and one Personnel Activity Report indicated the incorrect grant being charged. In addition, we noted that an employee was able to review and approve their own timesheet.

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

Effect. Pay rates used to calculate compensation for one of 60 payroll disbursements selected for testing was not available. We noted five instances in which the Personnel Activity Report was not prepared and one instance where the grant did not match where the employee was charged. In addition, we noted one of 98 timesheets tested showed an employee reviewed and approved their own timesheet.

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

- Title II, Part A - \$4,735
- 21st Century - \$88

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. The District should also modify its procedures to ensure that employees are not authorized to approve their own timesheets. In addition, the District should update its procedures to ensure that all documentation is maintained to support time and effort by employees.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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. The District will modify the Human Resource and Payroll processes to ensure the pay rates in the payroll system agrees with approved rates in the personnel files.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2015

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

2015-008 - Procurement, Suspension and Debarment

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
- Title II, Part A (CFDA# 84.367); Passed through MDE; All project numbers
- Child Nutrition Cluster (CFDA# 10.553, 10.555 and 10.559); Passed through MDE; All project numbers
- 21st Century Learning Grants (CFDA# 84.287); Passed through MDE; All project numbers
- School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Passed through MDE; All project numbers

Criteria. 34 CFR section 80.36 requires that bidding procedures be used to ensure open competition for all contracts in excess of \$100,000. MCL 380.1274 lowers the threshold for requiring open competition on supplies, materials and equipment contracts to \$23,126. In addition, per the OMB Circular A-133 Compliance Supplement, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000. In addition, part of the District's controls over compliance includes the approval of grant-related requisitions by someone from the program department that is authorized to do so.

Condition. There were three items out of 107 items selected for testing for which the District did not properly document that it verified vendors for suspension and debarment before procuring good and services. The District was unable to provide requisitions for three of 60 items tested and documentation of proper approval for one out of 60 transactions tested.

Cause. The exceptions related to suspension and debarment and approval of requisitions appear to be the result of inconsistent application of the District's procedures. The three exceptions related to requisitions being unavailable appear to be because the District was unable to retrieve the information from a previous version of the software.

Effect. Three purchase orders were executed without proper verification that the vendor was not suspended or debarred. Additionally, three requisitions were unavailable to document approval and one requisition did not have the proper approval from the program department.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

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

Recommendation. We recommend that the District consistently apply procedures to verify vendors are not suspended or debarred before entering into a covered transaction and ensure that all requisitions are maintained and approved by grant program personnel before a purchase order is created.

View of Responsible Officials. The District is in the process of reviewing and updating policies and procedures that will assure the Procurement and Logistic staff have verified vendors are not suspended or debarred prior to entering into an agreement. The PeopleSoft system is set-up to automatically route grant purchases to the State and Federal Program Department. We will monitor this process to be sure it is working as designed.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2015

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

2015-009 - Cash Management

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

Federal program(s)

This finding relates to all CFDA and project numbers on the SEFA with the exception of CFDA numbers 10.553, 10.555, 10.558, 10.559 and 10.582.

Criteria. Federal allowable cost and cash management criteria require that expenditures be paid before federal reimbursement is requested.

Condition. During fiscal 2015, the District incurred \$80,549,948 of pension expenditures of which \$27,416,719 was charged to federal programs. As a result of cash flow limitations, pension payments totaled only \$19,133,654 during the year. During fiscal 2015, the District also requested and received federal reimbursement for the entire \$27,416,719 in advance of meeting the allowable cost criteria that expenditures are paid before being reimbursed.

Cause. The District does not have an effective monitoring system in place to ensure that pension expenditures have been paid prior to requesting federal reimbursement.

Effect. The District was reimbursed for pension expenditures in advance of meeting the allowable cost criteria. In October 2015, the Michigan Department of Education, in conjunction with federal grantors, granted a verbal waiver to retroactively approve the \$27,416,719 federal reimbursement of pension expenditures, despite the requirement that expenditures be paid before reimbursement is requested. The District is still obligated to make the required pension payments to the Michigan Public School Employees Retirement System.

Questioned Costs. As a result of the waiver, no costs have been questioned.

Recommendation. The District should implement procedures to ensure that federal reimbursement requests include only costs that have been incurred and paid, unless a waiver has been granted in advance.

View of Responsible Officials. The District concurs with this finding. There is presently an agreement in place with the Office of Retirement and the District is working with the state and other stakeholders to quickly resolve this issue. However, the District has requested a written waiver of this finding from the Michigan Department of Education.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

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

2015-010 - Adequate Voucher Documentation (Repeat)

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

Federal program(s)

U.S. Department of Education:

- 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

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

Condition. There were three out of 109 items selected for testing for which the District did not properly document expenditures for payments by providing receipts for travel and credit card expenses.

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

Effect. As a result of this condition, the District was reimbursed for expenditures that were not adequately documented.

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

- Title II, Part A - \$1,640

Recommendation. We recommend the District modify its procedures to ensure that expenditures charged to federal programs 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

Schedule of Findings and Questioned Costs (Concluded) For the Year Ended June 30, 2015

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

2015-011 - Period of Availability - Improper Reimbursement Request

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

Federal program(s)

U.S. Department of Education:

- 21st Century Learning Grants (CFDA# 84.287); Passed through MDE; Project number 142110 2110

Criteria. The District is required to obligate and liquidate costs within the period indicated by the grantor agency. The 2014 21st Century program period ended August 29, 2014 and the liquidation period was through November 29, 2014.

Condition. During our testing, we noted that \$97,431 of costs were not liquidated until two weeks after the end of the period of availability indicated by the grantor.

Cause. Procedures in place were not effective to ensure compliance with this requirement.

Effect. The District incurred costs of \$97,431 during the period of availability, but were not liquidated within the period required by the grantor.

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

- 21st Century - \$97,431

Recommendation. The District should implement procedures to ensure that final expenditure reports are made for costs that have already been paid.

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, 2015

Finding 2014-FS-01 - Material Audit Adjustment (Repeat)

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.

This finding was not adequately resolved. See finding 2015-001 in the current year Schedule of Findings and Questioned Costs.

Finding 2014-FS-02 - Budget (Repeat)

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.

This finding was not adequately resolved. See finding 2015-002 in the current year Schedule of Findings and Questioned Costs.

Finding 2014-FS-03 - Property Taxes

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.

This finding was not adequately resolved. See finding 2015-003 in the current year Schedule of Findings and Questioned Costs.

Finding 2014-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); 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)

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.

DETROIT PUBLIC SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

This finding was not adequately resolved. See finding 2015-007 in the current year Schedule of Findings and Questioned Costs.

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

Head Start Cluster (CFDA# 93.600)

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.

This finding was adequately resolved.

2014-SA-03 - Cash Management

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

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

This finding was adequately resolved.

2014-SA-04 - Adequate Voucher Documentation

Head Start Cluster (CFDA# 93.600)

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

This finding was adequately resolved.

