



DETROIT
PUBLIC
SCHOOLS

Detroit, Michigan

SINGLE AUDIT

For the Year Ended June 30, 2010



**DETROIT PUBLIC SCHOOLS
SINGLE AUDIT**

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DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2009	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2010
U.S. Department of Agriculture:								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast Program:								
Project number 091970	10.553	\$ 7,992,138	\$ 6,725,268	\$ 549,047	\$ -	\$ 1,815,917	\$ 1,266,870	\$ -
Project number 101970	10.553	10,202,607	-	-	-	8,091,743	10,202,607	2,110,864
Total National School Breakfast Program				<u>549,047</u>	<u>-</u>	<u>9,907,660</u>	<u>11,469,477</u>	<u>2,110,864</u>
National School Lunch Program:								
Noncash assistance (commodities) -								
Entitlement Commodities	10.555	2,241,659	2,241,659	-	-	2,402,776	2,402,776	-
Cash assistance:								
Project number 091950	10.555	2,362,006	1,928,313	-	-	433,693	433,693	-
Project number 091960	10.555	18,680,287	16,517,693	1,270,537	-	3,433,131	2,162,594	-
Project number 091980	10.555	455,835	248,694	138,322	-	345,463	207,141	-
Project number 101950	10.555	1,986,989	-	-	-	1,581,669	1,986,989	405,320
Project number 101960	10.555	16,270,243	-	-	-	12,930,972	16,270,243	3,339,271
Project number 101980	10.555	248,694	-	-	-	18,710	123,790	105,080
Total National School Lunch Program				<u>1,408,859</u>	<u>-</u>	<u>21,146,414</u>	<u>23,587,226</u>	<u>3,849,671</u>
Summer School Food Program	10.559	17,884	-	-	-	17,884	17,884	-
Total Child Nutrition Cluster				<u>1,957,906</u>	<u>-</u>	<u>31,071,958</u>	<u>35,074,587</u>	<u>5,960,535</u>
Child Care Food Program:								
Project number 091920	10.558	569,822	542,882	96,193	-	123,133	26,940	-
Project number 092010	10.558	33,564	32,009	5,777	-	7,332	1,555	-
Project number 101920	10.558	1,036,461	-	-	-	636,729	1,036,461	399,732
Project number 102010	10.558	64,178	-	-	-	38,784	64,178	25,394
Total Child Care Food Program				<u>101,970</u>	<u>-</u>	<u>805,978</u>	<u>1,129,134</u>	<u>425,126</u>
Team Nutrition Grant	10.574	590	-	-	-	590	590	-
ARRA - Child Nutrition Equipment	10.579	67,650	-	-	-	65,497	57,881	(7,616)
Fresh Fruit and Vegetable Program	10.582	351,878	-	-	-	-	326,678	326,678
Total U.S. Department of Agriculture				<u>2,059,876</u>	<u>-</u>	<u>31,944,023</u>	<u>36,588,870</u>	<u>6,704,723</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2009	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2010
U.S. Department of Justice - Passed through the City of Detroit Police Department - Edward Byrne Memorial Justice Assistance Grant	16.803	\$ 90,000	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000
The National Science Foundation - Direct Program - Detroit Urban Systemic Initiative - Project number ESR-9908234	47.049	11,500,000	-	(25,168)	-	-	-	(25,168)
Environmental Protection Agency - Passed through the Michigan Department of Environmental Quality - State Clean Diesel Grant Program	66.040	847,666	-	-	-	144	-	(144)
U.S. Department of Education: Direct Programs:								
Title VII Indian Education 08-09	84.060	41,085	-	(6,715)	-	-	-	(6,715)
Transition to Teaching Best	84.350	285,500	182,588	86,556	-	86,556	-	-
Linking Kids to Learning	84.364	280,125	56,011	30,728	(30,728) *	-	-	-
Total Direct Programs				110,569	(30,728)	86,556	-	(6,715)
Passed through the Michigan Department of Labor and Economic Growth - Adult Basic Education:								
Project number 081130 810337	84.002	1,700,000	1,523,514	(24,611)	-	-	-	(24,611)
Project number 081120 850397	84.002	22,300	4,885	(3,532)	-	-	-	(3,532)
Project number 091130 910337	84.002	1,000,000	983,336	583,296	-	547,965	-	35,331
Project number 091120 950397	84.002	22,000	6,644	5,028	(496) *	4,532	-	-
Project number 101130 910337	84.002	1,000,000	-	-	-	706,830	838,928	132,098
Project number 101120 950397	84.002	22,000	-	-	-	6,176	7,595	1,419
Total Adult Basic Education				560,181	(496)	1,265,503	846,523	140,705
Total passed through the Michigan Department of Labor and Economic Growth				560,181	(496)	1,265,503	846,523	140,705

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
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Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2009	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2010
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education:								
Title I, Part A Cluster:								
Title I, Part A:								
Project number 081530 0708	84.010	\$ 139,104,295	\$ 108,892,793	\$ 6,388,292	\$ (10) *	\$ 6,388,282	\$ -	\$ -
Project number 091530 0809	84.010	172,976,823	106,100,041	40,021,145	-	68,429,935	28,408,790	-
Project number 091550 0809	84.010	1,875,000	169,231	157,842	-	513,858	356,016	-
Project number 101530 0910	84.010	208,897,601	-	-	-	74,482,432	120,218,435	45,736,003
Project number 101550 0910	84.010	1,285,000	-	-	-	-	29,949	29,949
Total Title I, Part A				<u>46,567,279</u>	<u>(10)</u>	<u>149,814,507</u>	<u>149,013,190</u>	<u>45,765,952</u>
ARRA - Title I, Part A - Project number 101535 0910	84.389	148,585,582	-	-	-	33,808,780	53,015,419	19,206,639
ARRA - Title I, Part D - Project number 101705 0910	84.389	240,191	-	-	-	9,944	20,748	10,804
Total Title I, Part A Cluster				<u>46,567,279</u>	<u>(10)</u>	<u>183,633,231</u>	<u>202,049,357</u>	<u>64,983,395</u>
Migrant Education:								
Project number 081890 0708	84.011	298,133	252,506	(2,188)	-	-	-	(2,188)
Project number 091890 0809	84.011	197,062	197,062	58,955	(13,852) *	45,103	-	-
Project number 091830 2009 (Summer)	84.011	33,584	9,239	9,239	-	20,908	11,669	-
Project number 101890 0809	84.011	188,817	-	-	-	55,053	67,102	12,049
Project number 101830 2010 (Summer)	84.011	33,584	-	-	-	-	11,705	11,705
Total Migrant Education				<u>66,006</u>	<u>(13,852)</u>	<u>121,064</u>	<u>90,476</u>	<u>21,566</u>
Title I, Part D:								
Project number 091700 0809	84.013	386,433	103,291	8,430	-	68,485	60,055	-
Project number 101700 0910	84.013	386,433	-	-	-	26,528	191,411	164,883
Total Title I, Part D				<u>8,430</u>	<u>-</u>	<u>95,013</u>	<u>251,466</u>	<u>164,883</u>
Career & Technical Education (Perkins II):								
Project number 083520 801224	84.048	4,553,074	3,611,255	(10,917)	(54,705) *	(65,622)	-	-
Project number 093520 901224	84.048	4,562,215	3,788,588	931,271	-	1,215,949	284,678	-
Project number 103520 101224	84.048	3,493,453	-	-	-	2,221,358	3,063,221	841,863
Project number 103530 101024	84.048	18,000	-	-	-	-	3,813	3,813
Total Career & Technical Education (Perkins II)				<u>920,354</u>	<u>(54,705)</u>	<u>3,371,685</u>	<u>3,351,712</u>	<u>845,676</u>
Drug-free Schools and Communities National Program:								
Project number 042600 CS03A	84.184	93,272	91,267	(2,005)	-	-	-	(2,005)
Project number 042600 CS205	84.184	10,500	7,607	(2,893)	-	-	-	(2,893)
Total Drug-free Schools and Communities National Program				<u>(4,898)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,898)</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2009	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2010
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
Safe and Drug-free Schools and Communities:								
Project number 082860 0708	84.186	\$ 2,173,017	\$ 578,126	\$ (22,671)	\$ -	\$ -	\$ 22,671	\$ -
Project number 092860 0809	84.186	3,302,408	1,303,324	296,135	-	983,875	687,740	-
Project number 102860 0910	84.186	3,035,836	-	-	-	1,504,809	1,652,678	147,869
Total Safe and Drug-free Schools and Communities				<u>273,464</u>	<u>-</u>	<u>2,488,684</u>	<u>2,363,089</u>	<u>147,869</u>
Homeless Children and Youths:								
Project number 082320 0809-C	84.196	19,268	19,268	19,268	-	19,268	-	-
Project number 092320 0809	84.196	240,986	225,876	37,353	-	47,056	9,703	-
Project number 102320 0910	84.196	240,986	-	-	-	98,692	98,098	(594)
Total Homeless Children and Youths				<u>56,621</u>	<u>-</u>	<u>165,016</u>	<u>107,801</u>	<u>(594)</u>
ARRA - Homeless Children and Youths -								
Project number 082320 0809-C	84.196	164,212	-	-	-	-	71,079	71,079
Smaller Learning Community Phase 2								
	84.215	2,500,000	1,132,112	(198,337)	-	-	-	(198,337)
Vocational Education - Tech Prep:								
Project number 073540 701424	84.243	153,562	12,232	-	-	-	-	-
Project number 083540 801424	84.243	159,871	42,552	(271)	-	-	-	(271)
Project number 093540 901424	84.243	134,638	66,822	65,685	(12,438) *	53,247	-	-
Total Tech Prep				<u>65,414</u>	<u>(12,438)</u>	<u>53,247</u>	<u>-</u>	<u>(271)</u>
21st Century Community Learning Center:								
Project number 082110 21st03063	84.287	850,000	634,958	(1,890)	-	-	-	(1,890)
Project number 092110 D07027	84.287	750,000	545,356	124,706	-	248,527	123,821	-
Project number 092110 04029	84.287	850,000	537,788	156,335	-	224,178	67,843	-
Project number 092110 04030	84.287	850,000	594,051	163,904	-	255,828	91,924	-
Project number 092110 04032	84.287	850,000	664,760	232,645	-	278,396	45,751	-
Project number 092110 D07035	84.287	750,000	489,227	136,854	-	254,579	117,725	-
Project number 102110 D07027	84.287	750,000	-	-	-	604,180	719,184	115,004
Project number 102110 F09017	84.287	750,000	-	-	-	541,586	631,850	90,264
Project number 102110 F09020	84.287	750,000	-	-	-	514,484	617,789	103,305
Project number 102110 F09022	84.287	750,000	-	-	-	461,167	600,136	138,969
Project number 102110 D07035	84.287	750,000	-	-	-	511,505	575,236	63,731
Total 21st Century Community Learning Center				<u>812,554</u>	<u>-</u>	<u>3,894,430</u>	<u>3,591,259</u>	<u>509,383</u>
Title V, Part A:								
Project number 080250 0708	84.298	756,980	510,423	(177,616)	-	-	-	(177,616)
Title II, Part A Transfer-Project Number 090520 0809	84.298	2,687,358	1,742,522	-	(117,452) **	-	117,452	-
Total Title V, Part A				<u>(177,616)</u>	<u>(117,452)</u>	<u>-</u>	<u>117,452</u>	<u>(177,616)</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2009	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2010
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Concluded):								
Title II, Part D Cluster:								
Title II, Part D - Technology Literacy Challenge:								
Project number 084290 0708	84.318	\$ 1,911,160	\$ 959,812	\$ (51,727)	\$ -	\$ 6,666	\$ -	\$ (58,393)
Project number 094290 0809	84.318	2,222,506	471,064	47,140	-	1,229,393	1,178,753	(3,500)
Project number 104290 0910	84.318	634,229	-	-	-	-	36,888	36,888
Total Technology Literacy Challenge				<u>(4,587)</u>	<u>-</u>	<u>1,236,059</u>	<u>1,215,641</u>	<u>(25,005)</u>
ARRA - Title II, Part D - Technology Literacy Challenge - Project number 104295 0910	84.386	4,086,981	-	-	-	-	570,894	570,894
Total Title II, Part D Cluster				<u>(4,587)</u>	<u>-</u>	<u>1,236,059</u>	<u>1,786,535</u>	<u>545,889</u>
Comprehensive School Reform Demonstration - Project number 061870 0607	84.332	632,150	83,951	(6,235)	-	-	-	(6,235)
Reading First State Grants:								
Project number 082930 0708	84.357	8,453,590	7,195,260	(1,553)	-	-	1,553	-
Project number 092930 0809	84.357	5,130,521	4,095,129	663,222	-	1,219,399	556,177	-
Total Reading First State Grants				<u>661,669</u>	<u>-</u>	<u>1,219,399</u>	<u>557,730</u>	<u>-</u>
Title III Limited English:								
Project number 090570 0809	84.365	207,395	46,274	32,804	-	74,360	41,556	-
Project number 090580 0809	84.365	1,945,829	564,844	564,844	-	619,076	54,323	91
Project number 100570 0910	84.365	288,787	-	-	-	-	70,001	70,001
Project number 100580 0910	84.365	1,950,665	-	-	-	-	444,541	444,541
Total Title III Limited English				<u>597,648</u>	<u>-</u>	<u>693,436</u>	<u>610,421</u>	<u>514,633</u>
Title II, Part A Teacher Training/ Principal Training:								
Project number 070520 0607	84.367	543,612	22,577	(18,680)	-	-	-	(18,680)
Project number 080520 0708	84.367	17,137,934	8,823,560	(15,886)	-	-	-	(15,886)
Project number 090520 0809	84.367	28,133,480	6,469,127	2,218,437	117,452 **	3,585,117	1,249,228	-
Project number 100520 0910	84.367	28,923,213	-	-	-	1,584,229	5,060,955	3,476,726
Total Title II, Part A Teacher Training				<u>2,183,871</u>	<u>117,452</u>	<u>5,169,346</u>	<u>6,310,183</u>	<u>3,442,160</u>
ARRA – State Fiscal Stabilization Fund - Education State Grants:								
Project number 092525 0809	84.394	35,509,923	35,509,923	35,509,923	-	35,509,923	-	-
Project number 102525 0910	84.394	26,777,590	-	-	-	26,411,672	26,294,895	(116,777)
Total State Fiscal Stabilization Fund - Education State Grants				<u>35,509,923</u>	<u>-</u>	<u>61,921,595</u>	<u>26,294,895</u>	<u>(116,777)</u>
Total passed through the Michigan Department of Education				<u>87,331,560</u>	<u>(81,005)</u>	<u>264,062,205</u>	<u>247,553,455</u>	<u>70,741,805</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

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U.S. Department of Education (Continued):								
Passed through Wayne County Regional Educational Service Agency:								
Special Education Cluster:								
Individuals with Disabilities Education Act:								
Education of the Handicapped 03/04	84.027	\$ 22,644,563	\$ -	\$ (9,562)	\$ -	\$ -	\$ -	\$ (9,562)
Education of the Handicapped 04/05	84.027	24,546,835	-	(292,859)	-	-	-	(292,859)
Education of the Handicapped 07/08	84.027	22,846,811	22,052,482	(695,777)	-	-	695,777	-
Education of the Handicapped 08/09	84.027	21,004,224	20,966,533	7,394,678	-	7,432,369	31,695	(5,996)
Education of the Handicapped 09/10	84.027	20,973,368	-	-	-	15,341,749	18,263,910	2,922,161
Center Expansion 04/05	84.027	3,935,295	-	(450,649)	-	-	-	(450,649)
Center Expansion 08/09	84.027	3,061,320	3,061,320	442,813	-	442,813	-	-
Center Expansion 09/10	84.027	2,904,785	-	-	-	2,358,092	2,748,739	390,647
Assistive Technology Training and Information Center Grant - 04/05	84.027	499,906	-	(12,531)	-	-	-	(12,531)
Assistive Technology Training and Information Center Grant - 05/06	84.027	500,000	-	(116,423)	-	-	-	(116,423)
Assistive Technology Training and Information Center Grant - 08/09	84.027	525,000	463,820	229,002	-	290,182	47,134	(14,046)
Assistive Technology Training and Information Center Grant - 09/10	84.027	525,000	-	-	-	239,058	405,503	166,445
Barsamian Assessment Center - Capacity Building Center - Project	84.027	375,475	-	(157,590)	-	-	-	(157,590)
Barsamian Assessment Center - Capacity Building Center - Project	84.027	424,680	-	(72,551)	-	-	-	(72,551)
Total Individuals with Disabilities Education Act				<u>6,258,551</u>	<u>-</u>	<u>26,104,263</u>	<u>22,192,758</u>	<u>2,347,046</u>
Preschool Incentive:								
Preschool Incentive - 04/05	84.173	874,904	-	(137,630)	-	-	-	(137,630)
Preschool Incentive - 06/07	84.173	874,904	35,643	(4,457)	-	-	4,457	-
Preschool Incentive - 07/08	84.173	654,201	635,065	(19,136)	-	-	19,136	-
Preschool Incentive - 08/09	84.173	583,947	575,269	134,553	(6,601) *	127,952	-	-
Preschool Incentive - 09/10	84.173	540,384	-	-	-	384,614	443,979	59,365
Total Preschool Incentive				<u>(26,670)</u>	<u>(6,601)</u>	<u>512,566</u>	<u>467,572</u>	<u>(78,265)</u>
ARRA - Individuals with Disabilities Education Act:								
Education of the Handicapped 09/10	84.391	21,931,866	-	-	-	6,008,277	7,804,581	1,796,304
Center Expansion 09/10	84.391	3,412,148	-	-	-	1,095,206	1,391,687	296,481
Total ARRA - Individuals with Disabilities Education Act				<u>-</u>	<u>-</u>	<u>7,103,483</u>	<u>9,196,268</u>	<u>2,092,785</u>
ARRA - Preschool Incentive - Preschool Incentive - 09/10	84.392	540,384	-	-	-	135,810	141,287	5,477
Total Special Education Cluster				<u>6,231,881</u>	<u>(6,601)</u>	<u>33,856,122</u>	<u>31,997,885</u>	<u>4,367,043</u>

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U.S. Department of Education (Concluded):								
Passed through Wayne County Regional Educational Service Agency (Concluded):								
Early on Grant:								
Early on Introverted with Sensing, Feeling, and Perceiving	84.181	\$ 11,000	\$ -	\$ -	\$ -	\$ -	\$ 5,500	\$ 5,500
ARRA - Early on Introverted with Sensing, Feeling, and Perceiving	84.393	32,445	-	-	-	-	32,445	32,445
Total Early on Grant				<u>-</u>	<u>-</u>	<u>-</u>	<u>37,945</u>	<u>37,945</u>
Total passed through Wayne County Regional Educational Service Agency				<u>6,231,881</u>	<u>(6,601)</u>	<u>33,856,122</u>	<u>32,035,830</u>	<u>4,404,988</u>
Total U.S. Department of Education				<u>94,234,191</u>	<u>(118,830)</u>	<u>299,270,386</u>	<u>280,397,863</u>	<u>75,242,838</u>
U.S. Department of Health and Human Services:								
Passed through the City of Detroit Neighborhood Services Department:								
Head Start 08/09	93.600	4,760,867	4,114,546	4,114,546	-	4,757,680	643,134	-
Head Start 09/10	93.600	4,919,977	-	-	-	3,170,359	4,099,745	929,386
Head Start Special Education 08/09	93.600	200,172	151,534	79,802	-	86,047	6,245	-
Head Start Special Education 09/10	93.600	200,172	-	-	-	18,351	31,476	13,125
Total passed through the City of Detroit				<u>4,194,348</u>	<u>-</u>	<u>8,032,437</u>	<u>4,780,600</u>	<u>942,511</u>
Passed through Wayne County Regional Educational Service Agency:								
Medical Assistance Program - Medicaid Outreach 08-09	93.778	945,558	-	-	-	382,187	382,187	-
HRRTEP	93.938	225,000	-	-	-	-	176,027	176,027
Total passed through Wayne County Regional Educational Service Agency				<u>-</u>	<u>-</u>	<u>382,187</u>	<u>558,214</u>	<u>176,027</u>
Total U.S. Department of Health and Human Services				<u>4,194,348</u>	<u>-</u>	<u>8,414,624</u>	<u>5,162,787</u>	<u>942,511</u>
Total Federal Awards				<u>\$ 100,463,247</u>	<u>\$ (118,830)</u>	<u>\$ 339,629,177</u>	<u>\$ 322,373,492</u>	<u>\$ 83,088,732</u>

* Amount represents adjustments to prior year expenditures

** Amount represents a transfer of Title II, Part A funds to Title V

See accompanying notes to the Schedule of Expenditures of Federal Awards

DETROIT PUBLIC SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards programs of Detroit Public Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Detroit Public Schools reporting entity is defined in Note I of the District's financial statements. Expenditures are in agreement with amounts reported in the basic financial statements.

2. Noncash Assistance

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

3. Grant Section Auditor's Report

Management has utilized the Grant Auditor Report (Cash Management System) in preparing the Schedule of Expenditures of Federal Awards.

* * * * *

**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 10, 2010

To the Emergency Financial Manager of
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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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 other deficiencies that we consider to be significant deficiencies.

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 items 2010-01, 2010-02, 2010-03, 2010-04, 2010-05, 2010-06, 2010-07, 2010-08, and 2010-09 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 2010-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-04 and 2010-05.

We noted certain matters that we reported to management of the District in a separate letter dated November 10, 2010.

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

This report is intended solely for the information and use of management, the Emergency Financial Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large initial 'L'.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
 APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
 COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 10, 2010

To the Emergency Financial Manager of
 Detroit Public Schools
 Detroit, Michigan

Compliance

We have audited the compliance of **Detroit Public Schools** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Federal Program	CFDA Number	Finding Numbers
Child Nutrition Cluster	10.553; 10.555; & 10.559	2010-19; 2010-20; 2010-22
Title I, Part A Cluster	84.010 & 84.389	2010-19; 2010-20
Special Education Cluster	84.027; 84.173, 84.391; & 84.392	2010-20
Career & Technical Education	84.048	2010-13; 2010-20
Title II, Part A	84.367	2010-13; 2010-18; 2009-19; 2010-20
Head Start	93.600	2010-14; 2010-15; 2010-20

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal

programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 2010-11, 2010-12, 2010-16, 2010-17, and 2010-21.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

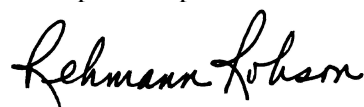
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, 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 2010-12, 2010-13, 2010-14, 2010-15, 2010-18, 2010-19, 2010-20, and 2010-22 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 2010-16, 2010-17, and 2010-21 to be significant deficiencies.

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

This report is intended solely for the information and use of management, the Emergency Financial Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





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

November 10, 2010

To the Emergency Financial Manager of
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, 2010, and have issued our report thereon dated November 10, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

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

Type of auditors' report issued on compliance for major programs:

Child Nutrition Cluster	CFDA# 10.553, 10.555, & 10.559	<u>Qualified</u>
Title I, Part A Cluster	CFDA# 84.010 & 84.389	<u>Qualified</u>
Special Education Cluster	CFDA# 84.027, 84.173, 84.391, & 84.392	<u>Qualified</u>
Career & Technical Education	CFDA# 84.048	<u>Qualified</u>
21 st Century Community Learning	CFDA# 84.287	<u>Unqualified</u>
Title II, Part A	CFDA# 84.367	<u>Qualified</u>
ARRA – State Fiscal Stabilization Funds	CFDA# 84.394	<u>Unqualified</u>
Head Start	CFDA# 93.600	<u>Qualified</u>

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

X yes no

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, 2010

SECTION II – Financial Statement Findings

2010-01

Audit Adjustments – Capital Assets (Repeat)

Finding type:	Material weakness in internal controls over financial reporting
Criteria:	Capital assets should be evaluated for events that could impact their carrying value. In addition, adequate controls should be in place to ensure that capital asset carrying values are properly recorded in the general ledger and reported in the financial statements.
Condition:	Of the twenty-six schools identified for potential impairment, six were not evaluated to determine if an actual impairment existed. In addition, the schedule for construction in progress was incomplete and omitted certain necessary expenditures, which led to significant variances between the amounts initially reported in the trial balance and the amounts supported by the construction in progress schedule. Accordingly, significant audit adjustments were necessary to properly state the District's financial statements.
Cause:	Internal control procedures related to evaluating and recording capital assets activity are not properly designed to ensure that all capital assets are properly evaluated for impairment or disposal. In addition, internal control procedures are not properly designed to ensure that all construction in progress is recorded properly on supporting schedules and reconciled to the trial balance.
Effect:	Capital asset balances related to impaired assets were initially overstated by \$2.4 million. In addition, capital asset construction in progress was initially understated by \$23 million. All of the adjustments proposed as a result of the audit process were reviewed, approved, and posted by management.
Recommendation:	Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of all events which may affect the carrying value of any capital asset. We also recommend that management ensure that all expenditures that should be added to construction in progress are properly captured and reviewed to ensure proper capital asset balances.
View of Responsible Official:	In fiscal 2010, the District made tremendous progress in establishing comprehensive capital assets policies, procedures and practices. A Capital Asset Manager was hired and has completely documented detailed capital assets policies and procedures. Essential departments including Finance, Facilities, Information Technology, Public Safety and Risk Management are working very closely to integrate rigorous capital assets practices throughout the organization. Management is disappointed that the auditors did not acknowledge the significant progress made in its findings. To address the finding, the Finance Division will consolidate its bond accounting staff person and its fixed assets function to streamline capital assets reporting and control.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-02

Audit Adjustments – Payroll Liabilities (Repeat)

Finding type:	Material weakness in internal controls 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:	Reconciliations for accrued stipends and bonus pay, compensated absences, accrued payroll, and reserves for workers' compensation and general insurance had either unresolved reconciling items or calculation errors that led to significant variances between the amounts initially reported in the trial balance and the amounts supported by the corrected reconciliations. Accordingly, significant audit adjustments were necessary to properly state the District's financial statements.
Cause:	Internal control policies and procedures for evaluating, calculating, and reviewing the account reconciliations for the payroll related accrual accounts were not properly designed to ensure that the balances and underlying calculations were accurate.
Effect:	As a result of this condition, the District's internal accounting records were initially misstated by amounts that were material to the District's financial statements. Accrued stipend and bonus pay were initially overstated by \$597,990, compensated absences were initially understated by \$940,353, accrued payroll was initially overstated by \$6,532,098, and reserves for workers' compensation and general insurance were overstated by \$782,680. All of the adjustments proposed as a result of the audit process were reviewed, approved, and posted by management.
Recommendation:	Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of year end accruals to ensure that they are complete and accurate.
View of Responsible Official:	While the District's PeopleSoft Payroll System provides some automated features, the complexity of the payroll accounting requires regular adjustments to post personnel costs to the appropriate funds and accounts. The District will expand its payroll accounting unit to (1) ensure that a more consistent and thorough evaluation of payroll is conducted on a regular basis, and (2) year end accruals are complete and accurate.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-03

Audit Adjustments – Prepaid Expenditures

Finding type:	Material weakness in internal controls 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 reconciliation for prepaid expenditures had errors that led to significant variances between the amounts initially reported in the trial balance and the amounts supported by the corrected reconciliations. Accordingly, a significant audit adjustment was necessary to properly state the District's financial statements.
Cause:	Internal control policies and procedures for evaluating, calculating, and reviewing the account reconciliations for the prepaid expense accounts were not properly designed to ensure that the underlying balances and calculations were accurate.
Effect:	As a result of this condition, the District's internal accounting records were initially misstated by amounts that were material to the District's financial statements. The prepaid expenses balance was initially overstated by \$1,469,980. The adjustment proposed as a result of the audit inquiries was reviewed, approved, and posted by management.
Recommendation:	Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of year end prepaid expenditure accounts to ensure that the balances are complete and accurate.
View of Responsible Official:	The Finance Division has recently completed a reorganization. Staff is now in place to review year end pre-paid expenditure accounts to ensure that the balances are complete and accurate. The Accounting Department is putting in place a master calendar of when all appropriate entries are to be posted. Accordingly, this finding is resolved by establishing a "date certain" for the reversal of all year end entries.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-04

Audit Adjustments - 2009 Bonds Accounts Payable Noncompliance - 1994 Bonds Procurement Documentation

Finding type: Noncompliance; material weakness in internal control over financial reporting

Criteria: **2009 Bonds** - 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.

1994 Bonds - Per the Revised School Code MCL.380.1267, competitive bids are required prior to the commencement of construction of a new building, or the addition to or renovation of an existing school building funded through qualified bond proceeds. Further, the Code requires: bids must be advertised in a newspaper of general circulation; each bidder is required to file security conditioned to secure the District from loss or damage by reason of bid withdrawal and failure of bidder to enter a contract for performance; and that all bids are opened and read aloud at or before the time of submission due date.

Condition: **2009 Bonds** - The reconciliation for accounts payable had calculation and cutoff related errors that led to significant variances between the amounts initially reported in the trial balance and the amounts supported by the corrected reconciliations. Accordingly, significant audit adjustments were necessary to properly state the District's financial statements.

1994 Bonds - During our test work over bonds and the related bidding process, the District was unable to provide the bidding documentation for certain contracts that are tied to the purchase orders from our selection as follows:

- For five of twenty-five contracts, we were not provided evidence of bond coverage. These contracts had a total value of approximately \$1,100,000.
- For three of twenty-five contracts, we were not provided evidence of newspaper advertising. These contracts had a total value of approximately \$200,000.
- For two of twenty-five contracts, we were not provided evidence of competitive bidding. These contracts had a total value of approximately \$2,400,000.
- For eighteen of twenty-five contracts, we were not provided documented evidence of the bid opening and reading. These contracts had a total value of approximately \$9,800,000.

Cause: **2009 Bonds** - Internal control policies and procedures for evaluating, calculating, and reviewing the account reconciliation for accounts payable were not properly designed to ensure that the underlying balances were accurate and proper cutoff was ensured.

1994 Bonds - The District was not able to provide the complete contract and bid files timely.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

Effect:	<p>2009 Bonds - As a result of this condition, the District's internal accounting records were initially misstated by amounts that were material to the District's financial statements. The accounts payable balance was initially understated by \$858,965. The adjustment proposed as a result of the audit inquiries, was reviewed, approved, and posted by management.</p> <p>1994 Bonds - Compliance with the requirements of the Revised School Code has not been adequately documented.</p>
Recommendation:	<p>2009 Bonds - Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of year end accounts payables accounts to ensure that they are complete and accurate.</p> <p>1994 Bonds - We recommend that management implement policies and procedures to ensure that all contract files are complete and contain the necessary documentation as required by the Revised School Code.</p>
View of Responsible Official:	<p>2009 Bonds - As part of its reorganization of the capital assets function, the Finance Division will consolidate its bond accounting and capital assets units for better coordination of financial reporting and control.</p> <p>1994 Bonds - The District retrieved the bidding documentation. However, the District was not able to provide the documentation to the auditors while the audit was still underway. The Finance Division will continue to strengthen its procurement policies, procedures, and practices.</p>

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-05

Budget (Repeat)

Finding type:	Material noncompliance; Material weakness in internal controls over financial reporting
Criteria:	The Uniform Budgeting and Accounting Act prohibits districts from expending funds that are not authorized in the approved budget or from budgeting a deficit.
Condition:	The District budgeted expenditures in excess of revenue without having fund balance available. In addition, expenditures exceeded appropriations by material amounts as disclosed in the notes to the financial statements.
Cause:	Approved budget amendments are not uploaded into the District's accounting software. In addition, the District's current procedure includes a process of budget overrides that circumvents the controls put in place at the account level.
Effect:	The ability of those charged with governance to effectively monitor the expenditures of the District is limited or eliminated.
Recommendation:	We recommend that the District modify its policies and procedures to ensure that all budget amendments are included in the accounting system and that those expenditures are not made prior to authorization in the budgetary process.
View of Responsible Official:	The District has implemented tools to better oversee the budget development and management processes. Additionally, management will provide budget versus actual revenue and expenditure projections which more accurately reflect the financial position of the District and ensure that budgetary data is input into the PeopleSoft HCM and Finance system.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-06

Audit Adjustments – Other Liabilities

Finding type:	Material weakness in internal controls 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 reconciliation for other liabilities had cutoff related errors that led to significant variances between the amounts initially reported in the trial balance and the amounts supported by the corrected reconciliations. Accordingly, significant audit adjustments were necessary to properly state the District's financial statements.
Cause:	Internal control policies and procedures for evaluating, calculating, and reviewing the account reconciliation for other liabilities were not properly designed to ensure that the underlying balances were accurate and proper cutoff was ensured.
Effect:	As a result of this condition, the District's internal accounting records were initially misstated by amounts that were material to the District's financial statements. The other liabilities balance was initially understated by \$8,769,178. The adjustment proposed as a result of the audit inquiries was reviewed, approved, and posted by management.
Recommendation:	Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of year end other liabilities accounts to ensure that the balances are complete and accurate.
View of Responsible Official:	As part of its reorganization that was completed in fiscal 2011, the Finance Division will provide additional staff training to ensure that a thorough evaluation of year end other liabilities accounts is conducted and that the balances are complete and accurate.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-07 Audit Adjustments – Bonds and Notes Payable and Related Accounts

Finding type:	Material weakness in internal controls over financial reporting
Criteria:	Bonds and notes payable balances should be recorded at par value net of applicable discounts and premiums in accordance with generally accepted accounting principles. In addition, interest expense should be accrued for amounts incurred but not paid at year end.
Condition:	Short-term notes payable were initially recorded based on the par value of the Michigan Municipal Bond Authority rather than at the amount of the notes issued to the District. In addition, bond issuance costs were initially misclassified as bond discounts, which net against the liability balance, rather than as assets. Finally, the accrued interest payable was recorded based on incorrect terms.
Cause:	The internal control procedures are not properly designed to ensure that transactions related to the issuance and payment of bonds and notes payables are recorded appropriately.
Effect:	As a result of this condition, the District's internal accounting records were misstated by amounts that were material to the District's financial statements. In the General Fund, short-term notes payable were initially overstated by \$235,000 and related accrued interest payable was initially understated by approximately \$617,000. In the government-wide financial statements, bonds payable were initially understated by approximately \$2.3 million and other assets were initially understated by the same amount. In addition, interest payable was understated by approximately \$22.5 million. All of the adjustments proposed as a result of the audit process were reviewed, approved, and posted by management.
Recommendation:	Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more thorough consistent and thorough evaluation of all transactions which may affect bonds and notes payable and related accounts.
View of Responsible Official:	The Finance Division will ensure that staff receives appropriate training and documentation to record bonds and notes payable and related accounts throughout the fiscal year and at year-end.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-08 Accounting for Loss Contingencies – Legal Reserves (Repeat)

Finding type: Material weakness in internal controls over financial reporting

Criteria: All information that becomes available prior to the issuance of the financial statements should be used in evaluating conditions on which estimates are based.

Condition: For several cases included in the analysis of outstanding litigation, significant events occurred subsequent to the initial calculation of the estimated liability recorded on the trial balance that provided evidence that affected the District's determination of probability; certain cases were originally included in the litigation analysis, but not included in the trial balance; and certain other cases were not included in the analysis but needed to be evaluated for probability.

Cause: The internal control procedures related to evaluating and recording outstanding litigation are not properly designed to ensure that all subsequent events are analyzed and accounted for in accordance with accounting standards. The policies and procedures for evaluating, calculating, and reviewing the account reconciliations for the legal related reserve accounts were not properly designed to ensure that the balances were accurate.

Effect: As a result of this condition the District's internal accounting records were initially misstated by amounts that were material to the District's financial statements. Legal reserves were understated by \$2,185,001. All of the adjustments proposed as a result of the audit process were reviewed, approved, and posted by management.

Recommendation: We recommend that policies and procedures be developed to ensure the litigation analysis and related financial statement reserves and disclosures are updated based on the review of subsequent changes to the status of cases and that management conduct a more consistent and thorough evaluation of year end reserves to ensure that they are complete and accurate.

View of Responsible Official: The Office of General Counsel will continue to perform the monthly litigation analysis and provide the quarterly analysis to the Finance Division. The Office of General Counsel will also coordinate with the Finance Division and the Office of Labor Relations at year end and subsequently up to the Comprehensive Annual Financial Report issuance date to analyze all litigation to ensure that applicable accruals and disclosures are consistently updated. Additionally, the Finance Division will provide the Office of General Counsel with current balances within the legal reserve and the necessary supporting documentation. The District has determined that all allowable cases will be placed on the judgment levy.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Continued)

2010-09 Material Audit Adjustments - Property Taxes and Deferred Revenue

Finding type: Material weakness in internal controls 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: When originally received, calculations made to estimate property tax revenue and related receivables, payables, and deferred revenue were based on inappropriate assumptions and information. Also, the levy amount used in the calculation was not reconciled to taxable values reported to the State of Michigan by Wayne County through Form DS-4410B. In addition, deferred revenue related to State grant funding did not reconcile to the revenues and expenditures recorded on the general ledger for those grants.

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, there were significant adjustments to State grant expenditures subsequent to the deferral that were not considered and reconciled in the ending balance.

Effect: Property tax revenue was initially overstated by \$1.2 million in the general fund and understated by \$1.2 million in the bond redemption fund. Amounts payable to the City of Detroit for overpayment of taxes were initially understated by \$8.7 million in the General Fund and \$10.3 million in the bond redemption fund. Receivables related to prior year taxes were initially overstated by \$1.0 million in the general fund and by \$2.6 million in the bond redemption fund. Deferred revenue related to property taxes was initially overstated by \$1.2 million in the general fund and by \$3.2 million in the bond redemption fund. Unearned grant revenue was initially understated by \$4.4 million in the general fund. All of the adjustments proposed and discovered as a result of the audit process were reviewed, approved, and posted by management.

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. In addition, we recommend that all calculations for unearned revenue be updated for all changes in grant related expenditures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

View of
Responsible
Official:

Throughout the fiscal year and at year end, Finance Division staff will continue to coordinate with the State of Michigan, Wayne County, the City of Detroit and all applicable local increment financing authorities to ensure that amounts reported to the State and amounts collected and remitted to the District are consistent. Additionally, calculations for unearned revenue will be updated at year-end for grant related expenditures. Management personnel will routinely review these analyses for accuracy and consistency throughout the fiscal year.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION II – Financial Statement Findings (Concluded)

2010-10 Individual Schools – Cash Policies and Procedures (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Policies and procedures should be properly designed to ensure accurate and timely recording of revenues and expenditures and to ensure that the assets of the District are adequately protected and reported. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

Condition: Each school maintains separate bank accounts to account for the activity of various student organizations. During our testing, we noted bank reconciliations were performed for all schools as of June 30, 2010; however, at some schools, timely reconciliations were not performed throughout the year, supporting documentation was not consistently maintained for receipts and disbursements, and receipts were not consistently deposited in a timely manner. In addition, we noted that receipts and disbursements for athletic activities, which represent governmental activity of the District, were commonly being accounted for in these accounts rather than in the Athletics Special Revenue fund, as required.

Cause: Internal control policies and procedures in place at certain individual schools were not properly designed or were not consistently implemented to ensure timely reconciliation of bank accounts.

Effect: Due to the deficiencies noted above, there is an increased risk of misappropriation of assets and errors and deficiencies in financial reporting. In addition, an indeterminable amount of revenue and expense that should have been recorded in the District's Athletics Special Revenue fund has been inappropriately recorded in the District's Student Activities fund.

Recommendation: We recognize that the District has made significant improvements to its processes by performing bank reconciliations on all individual school cash accounts at year end. We recommend that the District further review and modify its policies and procedures and provide adequate training to assigned staff to ensure that bank reconciliations are consistently performed throughout the year in a timely manner and to ensure that receipts and disbursements are recorded timely and accurately (including the proper accounting for activities supporting the government's own programs).

View of Responsible Official: The Finance Division continues to make progress in this area. Effective at the beginning of the 2010-11 fiscal year, the District contracted with an outside certified public accounting firm to promptly prepare all school bank reconciliations, and identify and report unusual transactions. The Finance Division staff reviews the outside accounting firm's reports on a regular basis to address any outstanding school accounting issues. In addition, the District's accounting for the athletic fund will be revised. A new procedure will be implemented in which the athletic fund will be managed centrally in the Finance Division rather than at the local schools.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards

2010-11 Allowable Costs/Cost Principles – Disbursement Documentation

Finding type: Noncompliance

Federal program(s): Title I, Part A Cluster (CFDA# 84.010 & 84.389)
21st Century (CFDA# 84.287)

Questioned costs:

- Title I, Part A Cluster – \$1,070
- 21st Century – \$338

Criteria: Per OMB Circular A-133 Compliance Supplement, expenditures should be for actual costs that are adequately documented.

Condition: The District had multiple disbursement transactions charged to federal programs that were not adequately documented. All of these transactions related to disbursements made with restricted checks at individual schools.

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

Effect:

- Title I, Part A Cluster – Documentation for 2 out of 24 items was not available
- 21st Century – Documentation for 1 out of 27 items was not available.

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

View of Responsible Official: Effective March 1, 2010, this finding has been resolved. On that date, the District ended the restricted check process as an internal control designed to ensure that all expenses are adequately documented and to ensure that federal funds are accurately charged for allowable costs. Individual schools may no longer use the restricted process to obligate funds on behalf of the District.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-12 Allowable Costs/Cost Principles – 26 Pay Accrual (Repeat)

Finding type: Noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A Cluster (CFDA# 84.010 & 84.389)
Special Education Cluster (CFDA# 84.027, 84.173, 84.391, & 84.392)
Title II, Part A (CFDA# 84.367)

Questioned costs:

- Title I, Part A Cluster – \$74,387
- Special Education Cluster – \$18,166
- Title II, Part A – \$17,229

Criteria: OMB Circular A-133 requires charges to federal programs to be for actual services performed for the Federal cost objective. In addition, OMB Circular A-87 requires the District to support payroll charges to federal cost objectives with adequate documentation including payroll certifications.

Condition: During the 26 pay accrual for the year ending June 30, 2010, the District did not perform an evaluation for employees that changed funding sources during the year until identified as an issue by the audit. In addition, after the evaluation was performed by the District it was noted that the certifications indicated that certain employees worked 100% on a federal program for the semester when the employee actually only worked on the federal program for part of the semester.

Cause: The District experienced significant turnover during the year which required certain responsibilities to be redistributed resulting in the evaluation process not being performed until identified as in issue by the audit.

Effect:

- Title I, Part A Cluster – The evaluation failed to identify 5 of the 37 items tested that should have been split funded. In addition, 7 of the 37 certifications tested incorrectly stated that the employee worked 100% on a federal program when the employee did not.
- Special Education Cluster – The evaluation failed to identify 1 of the 16 items tested that should have been split funded. In addition, 1 of the 16 certifications tested incorrectly stated that the employee worked 100% on a federal program when the employee did not.
- Title II, Part A – The evaluation failed to identify 2 of the 3 items tested that should have been split funded.

Recommendation: We recommend the District modify its 26 payroll accrual procedures to ensure employees added to a funding source midyear are taken into consideration when calculating the 26 pay accrual.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

View of
Responsible
Official:

The District disagrees with this finding. The District also disagrees that we must treat employees who move from one position to another during a six-month period as if they are split funded employees. The District currently produces individual semi-annual certifications for each position that an employee holds if that employee is employed in more than one position in which he or she devotes 100% of his or her time on a single cost objective during a single semi-annual certification period. The District has provided documentation to support this approach. In addition, the District is in the process of hiring staff accountants to ensure that the District properly administers the 26 pay accrual process.

Auditors' Response:

Based on our understanding of the requirements of OMB A-87, the documentation provided by the District did not comply.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-13	Allowable Costs/Cost Principles – Payroll Documentation (Repeat)
Finding type:	Material noncompliance; Material weakness in internal controls over compliance
Federal program(s):	Career & Technical Education (CFDA# 84.048) Title II, Part A (CFDA# 84.367)
Questioned costs:	➤ Career & Technical Education – \$3,046 ➤ Title II, Part A – \$4,746
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:	Payroll costs charged to the Career & Technical Education and Title II major programs were not adequately supported as required by OMB Circular A-87.
Cause:	The District’s internal controls are not designed to ensure that adequate payroll documentation is prepared and retained.
Effect:	➤ Career & Technical Education – Payroll documentation in accordance with OMB Circular A-87 was not created until after being requested for 1 of the 47 transactions selected for testing. ➤ Title II, Part A –Payroll documentation in accordance with OMB Circular A-87 was not provided for 2 of the 48 transactions selected for testing.
Recommendation:	We recommend the District modify its procedures to ensure that expenditures charged to federal programs are properly approved and documented before being expended.
View of Responsible Official:	The District has implemented policies and procedures to produce compliant and contemporaneous time and effort records. In the first instance identified in this finding, there was an error in which a principal crossed off an employee from the semi-annual certification form and subsequently produced an affidavit indicating that the employee’s time and effort during the specified period benefited the federal cost objective. In addition, the District put in place a new process to ensure that time and effort records are properly documented when the District makes adjusting journal entries that impact personnel expenses. In the second, instance, there was an error in the implementation of this new process that impacted the two transactions selected for testing.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-14 **Allowable Costs/Cost Principles; Matching – In-kind Contributions used for Match (Repeat)**

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Questioned costs: \$705,584 (total amount claimed as space cost without appropriate supporting documentation)

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 OMB Circular A-87 Cost Principles.

Condition: The District charged space costs to the Head Start program utilizing a per square foot rate that was not supported by a valid cost study.

Cause: The District did not have adequate documentation for space cost charges to the program.

Effect: \$705,584 of in-kind contributions used as matching funds lacked proper documentation and support. The District would not have met its match requirement if these questioned costs were not included.

Recommendation: The District should implement procedures to ensure that space cost rates used to calculate in-kind costs are supported by a valid cost study.

View of Responsible Official: The District agrees with this finding. The District will complete a valid cost study in order to justify its per square foot rate for space costs.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-15

Eligibility – Proper Documentation of Income Verification (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Criteria: Per the OMB Circular A-133 Compliance Supplement, a family's income must be verified by a Head Start grantee before determining that a child is income eligible. Copies of income verification documents need not be retained; however, a statement signed by an employee of the grantee indicating which income verification document was examined must be included in the child or family record. In addition to this requirement, the State and the District's procedures require that a child must be 4 years old before December 1st of the current school year to be eligible to enroll.

Condition: For certain records, documentation maintained by the District did not indicate which income verification document was examined or the document examined was not listed as acceptable in the OMB Circular A-133 Compliance Supplement.

Cause: Management procedures in place were not effective to ensure compliance with this requirement.

Effect: Of the 60 child records selected for testing, 6 (10%) either did not indicate what verification document was examined or the verification document indicated was not one of those listed as acceptable in the OMB Circular A-133 Compliance Supplement, 1 (2%) had family income above the Federal Poverty Guidelines, and 1 (2%) was not at least 4 years old on December 1, 2009.

Recommendation: We recommend the District implement a review process to ensure that the child records include the required statement and that the income verification document examined is one of those listed as allowable in the OMB Circular A-133 Compliance Supplement.

View of Responsible Official: The Head Start teachers were retrained at fall orientation on September 1, 2010 (re: enrollment requirements, income documentation, and verification of birth). DPS Head Start now utilizes the Head Start Eligibility Verification forms which will be included in all students' records to document income eligibility. DPS Head Start has also created an application cover sheet for classroom staff to sign that assures that all children's applications are complete with the required income verification documentation.

The 3-year old who was enrolled on December 1, 2009 was able to have certain special needs addressed early and needed the special education related services that the School District did provide.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-16 Earmarking – Proportionality

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Special Education Cluster (CFDA# 84.027, 84.173, 84.391, & 84.392)

Criteria: The State of Michigan requires LEAs to compute their proportionate share of expenditures that should be used for students placed in non-public schools charged to the IDEA section 611 and/or section 619 funds. The LEA should also ensure that the actual expenditures equal or exceed the computed amount.

Condition: Examination of the District’s internally maintained documentation of its private school calculation indicates that the District did not comply with this state requirement.

Cause: The District’s procedures related to these requirements were not sufficient to prevent noncompliance with the state requirement.

Effect: The District did not set aside the minimum amount of IDEA funds that were required to be set aside based on the private school proportionate share calculation.

Recommendation: The District should implement changes to existing control procedures to ensure that IDEA funds are set aside for private school children equal to at least the minimum amount required based on the proportionate share calculation.

View of Responsible Official: According to the U.S. Department of Education’s Regulations, EDGAR § 76.709, the District may obligate the remainder of these funds during the carryover period of one fiscal year. The remainder of the funds will be obligated during the grant period.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-17

Earmarking – Enrollment of Children with Disabilities (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Criteria: OMB Circular A-133 Compliance Supplement requires that not less than 10 percent of the total number of children actually enrolled by each Head Start Agency and each delegate agency must be children with disabilities determined to be eligible for special education and related services. The contract with the City of Detroit requires that this percentage be met within 90 days of the beginning of classes.

Condition: The District did not attain 10% enrollment of children with disabilities within 90 days of the beginning of classes.

Cause: The District's procedures related to this requirement were not sufficient to prevent noncompliance with the OMB Circular and contract provisions.

Effect: The District was not in compliance with this contract provision.

Recommendation: The District should implement changes to existing procedures to ensure that 10% enrollment of children with disabilities is attained within 90 days of the beginning of classes.

View of Responsible Official: The District initiated a corrective action plan in the prior fiscal year. The District has ensured that staff is currently in place to ensure that the plan will be implemented during the current fiscal year.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-18

Period of Availability – Voucher Transactions (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title II, Part A (CFDA# 84.367)

Questioned costs: \$393,584

Criteria: Per the OMB Circular A-133 Compliance Supplement, expenditures should be charged to the period in which they are obligated. Obligations must be liquidated within 90 days of the end of the period.

Condition: One invoice was obligated during the 2009 grant but had yet to be liquidated more than one year after the end of the period. In addition, 21 reimbursements were made to teachers for college tuition dating back as far as 2007, well before the period of availability began.

Cause: An adequate review process was not in place to ensure that all voucher and payroll transactions were charged to the period in which they were obligated.

Effect: 22 voucher items tested were charged to the wrong period.

Recommendation: We recommend the District modify its procedures to ensure that expenditures are charged to the period in which the expenditures are obligated.

View of Responsible Official: The District entered into a settlement with the affected teachers in order to pay outstanding claims that pre-dated the current fiscal year. These obligations became effective when the services were rendered to the teachers. The District liquidated these obligations without going back to the state to get additional approvals for these payments.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-19

Procurement – Open Competition (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559)
Title I, Part A Cluster (CFDA# 84.010 & 84.389)
Title II, Part A (CFDA# 84.367)

Questioned costs: ➤ Child Nutrition – \$201,200 ➤ Title II, Part A – \$29,734
 ➤ Title I, Part A – \$475,102

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 \$20,959. On November 24, 2008, due to the high risk status of the District, the Michigan Department of Education lowered the threshold for requiring open competition on service contracts to \$25,000.

Condition: The District was not following the requirements for open competition as they relate to procuring goods and services in excess of the thresholds set by the State of Michigan.

Cause: The District either had not prepared or did not retain adequate supporting documentation that full and open competition had been achieved.

Effect: ➤ Child Nutrition – 1 of the 20 items selected for procurement testing did not have the required documentation for open competition.
 ➤ Title I, Part A – 4 of the 72 items selected for procurement testing did not have the required documentation for open competition.
 ➤ Title II, Part A – 1 of the 7 items selected for procurement testing did not have the required documentation for open competition.

Recommendation: We recommend that the District implement appropriate procedures to ensure that all contracts meeting the State’s threshold allow for full and open competition and that supporting documentation be created and retained in the contract file.

View of Responsible Official: The District policy is to bid for services greater than \$25,000 except for rare or emergency situations utilizing general fund dollars or other non-restricted funds. In the current fiscal year, the Contracting and Procurement (C&P) Department has developed a contracting and procurement policy manual that is consistent with applicable federal and state statutes, laws, and requirements. The manual is currently being reviewed by the District’s administration. The C&P Department conducted training for its internal staff and will be developing and administering district-wide procurement policies and procedures training sessions. Additionally in the current fiscal year, the Finance Division and C&P are implementing a rigorous process to ensure that there is a transparent and open competitive procurement process as described above.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-20 Suspension and Debarment – Verification of Vendors (Repeat)

Finding type:	Material noncompliance; Material weakness in internal controls over compliance
Federal program(s):	Child Nutrition Cluster (CFDA# 10.553, 10.555 & 10.559) 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) Title II, Part A (CFDA# 84.367)
Criteria:	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.
Condition:	During the year, the District entered into covered transactions without first verifying that the vendor was neither suspended or debarred.
Cause:	The District entered into these contracts before becoming aware that suspension and debarment verification was required for contracts (including Purchase Orders) greater than \$25,000.
Effect:	<ul style="list-style-type: none">➤ Child Nutrition Cluster – 2 of 20 items selected for testing did not have documented verification.➤ Title I, Part A Cluster – 7 of 72 items selected for testing did not have documented verification.➤ Special Education Cluster – 1 of 2 items selected for testing did not have documented verification.➤ Career & Tech – 2 of 4 items selected for testing did not have documented verification.➤ Title II, Part A – 2 of 7 items selected for testing did not have documented verification.
Recommendation:	We recommend that the District implement procedures to identify covered transactions that were not previously verified and perform the verification necessary to comply with this requirement.
View of Responsible Official:	In the prior fiscal year, the District implemented procedures to ensure that contracts with all vendors doing business with the Detroit Public Schools are reviewed to ensure that neither the prospective vendor nor the principal officers of the firms have been suspended or debarred. In the current fiscal year, the District will expand its procedures to include purchase orders equal to or exceeding \$25,000.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2010-21

Reporting – 1512 Reports

Finding type:	Noncompliance; Significant deficiency in internal controls over compliance
Federal program(s):	Title I, Part A Cluster (CFDA# 84.010 & 84.389)
Criteria:	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients. Among other things, the recipients' reports are required to disclose amounts paid to vendors receiving more than \$25,000 of Recovery Act funds.
Condition:	For the quarter ending March 31, 2010, the District did not report the cumulative payments made to one vendor who received more than \$25,000. In addition, for the quarter ending June 30, 2010, the District did not report the cumulative payments made to four vendors, and underreported the cumulative payments made to one vendor who received more than \$25,000.
Cause:	The District's procedures related to these requirements were not sufficient to prevent noncompliance with section 1512 of the Recovery Act.
Effect:	The District underreported the cumulative amounts paid to these vendors by \$1,979,014.
Recommendation:	We recommend that the District implement procedures adequate to ensure that all vendor data submitted in the 1512 reports is accurate.
View of Responsible Official:	Federal guidance on how to report vendor expenditures associated with Section 1512 of the American Recovery and Reinvestment Act changed multiple times throughout the year and the district continually adjusted its processes to ensure compliance with the latest federal guidance. In addition, the district currently reports all vendor payments according to the most recent guidance reflected in this finding.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2010

SECTION III – Findings and Questioned Costs Related to Federal Awards (Concluded)

2010-22 Special Tests and Provisions – Verification Timeliness and Benefit Status (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559)

Criteria: OMB Circular A-133 requires that a verification process of free and reduced meal applications take place each year. Families that do not respond to the verification process should have their benefits removed within 10 days of the completion of the verification process.

Condition: Students who had their free or reduced status removed during the verification process were reinstated after filling out a new application rather than providing verification of income, effectively circumventing the verification process.

Cause: The District did not have a system in place to ensure that students selected for the verification process could not obtain a free or reduced status until the family income was verified.

Effect: It was noted that 10 of the 60 students selected for testing had their free or reduced statuses removed for not responding but were reinstated after new applications were filed.

Recommendation: We recommend that the District evaluate its verification procedures to ensure that new applications are not used to circumvent the verification process.

View of Responsible Official: The Office of Food Services (OFS) requested that ISD Education, the District’s software provider, develop a system of locking the benefit status of the verified student to ensure new applications are not used to circumvent the verification process and the benefit status cannot be changed without administrative approval. The District will internally work to develop an information technology plan to prevent new applications being used to circumvent the verification process or contract with a new vendor to fully implement the recommendation.



DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings

For the Year Ended June 30, 2010

2009-01 Audit Adjustments – Capital Assets

This finding was not adequately resolved. See finding 2010-01 in the current year Schedule of Findings and Questioned Costs.

2009-02 Audit Adjustments – Payroll Liabilities

This finding was not adequately resolved. See finding 2010-02 in the current year Schedule of Findings and Questioned Costs.

2009-03 Budget

This finding was not adequately resolved. See finding 2010-05 in the current year Schedule of Findings and Questioned Costs.

2009-04 Individual Schools – Cash Policies and Procedures

This finding was not adequately resolved. See finding 2010-10 in the current year Schedule of Findings and Questioned Costs.

2009-05 Lease Contract Retention

This finding was adequately resolved.

2009-06 Accounts Payable – Nonstandard Balances

This finding was adequately resolved.

2009-07 Accounting for Loss Contingencies – Legal Reserves

This finding was not adequately resolved. See finding 2010-08 in the current year Schedule of Findings and Questioned Costs.

2009-08 Allowable Costs – Production Records

Child Nutrition Cluster (CFDA#10.553 & 10.555)

This finding was adequately resolved.

2009-09 Allowable Costs/Cost Principles – 26 Pay Accrual

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2010-12 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2010

- 2009-10 Allowable Costs/Cost Principles – Payroll Documentation (Journal Entries)**
Title I, Part A (CFDA# 84.010); Special Education Cluster (CFDA# 84.173)
- This finding was not adequately resolved. See finding 2010-13 in the current year Schedule of Findings and Questioned Costs.
- 2009-11 Allowable Costs/Cost Principles – Payroll Documentation**
Title I, Part A (CFDA# 84.010); Title II, Part A (CFDA# 84.367); Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2010-13 in the current year Schedule of Findings and Questioned Costs.
- 2009-12 Allowable Costs/Cost Principles – In-kind Contributions Used for Match**
Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2010-14 in the current year Schedule of Findings and Questioned Costs.
- 2009-13 Cash Management – Three Days Cash Needs Calculation**
Title I, Part A (CFDA# 84.010); 21st Century (CFDA# 84.287); Title II, Part A (CFDA# 84.367);
- This finding was adequately resolved.
- 2009-14 Eligibility – Proper Documentation of Income Verification**
Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2010-15 in the current year Schedule of Findings and Questioned Costs.
- 2009-15 Equipment and Real Property Management – Physical Inventory**
Title I, Part A (CFDA# 84.010); Career & Technical Education (CFDA#84.048); Special Education Cluster (CFDA# 84.027 & 84.173); Title V, Part A (CFDA# 84.298); Head Start (CFDA# 93.600)
- This finding was adequately resolved.
- 2009-16 Earmarking – Enrollment of Children with Disabilities**
Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2010-17 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2010

- 2009-17 Period of Availability – Payroll and Voucher Transactions**
Title I, Part A (CFDA# 84.010); Career & Technical Education (CFDA#84.048); Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2010-18 in the current year Schedule of Findings and Questioned Costs.
- 2009-18 Procurement – Open Competition**
Title I, Part A (CFDA# 84.010)
- This finding was not adequately resolved. See finding 2010-19 in the current year Schedule of Findings and Questioned Costs.
- 2009-19 Suspension and Debarment – Verification of Vendors**
Title I, Part A (CFDA# 84.010); Special Ed Cluster (CFDA# 84.027 & 84.173)
- This finding was not adequately resolved. See finding 2010-20 in the current year Schedule of Findings and Questioned Costs.
- 2009-20 Reporting – Free and Reduced Meal Count Reporting**
Child Nutrition Cluster (CFDA# 10.553 & 10.555)
- This finding was adequately resolved.
- 2009-21 Reporting – Submission of Final Reports (DS-4044)**
Title I, Part A (CFDA# 84.010); Career & Technical Education (CFDA#84.048); 21st Century (CFDA# 84.287); Reading First (CFDA# 84.357)
- This finding was adequately resolved.
- 2009-22 Special Tests and Provisions – Verification Timeliness and Benefit Status**
Child Nutrition Cluster (CFDA# 10.553 & 10.555)
- This finding was not adequately resolved. See finding 2010-22 in the current year Schedule of Findings and Questioned Costs.
- 2009-23 Special Tests and Provisions – Schools Identified for Improvement**
Title I, Part A (CFDA# 84.010)
- This finding was adequately resolved.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Concluded)

For the Year Ended June 30, 2010

2009-24 Special Tests and Provisions – Highly Qualified Staff

Title I, Part A (CFDA# 84.010)

This finding was adequately resolved.

2009-25 Special Tests and Provisions – Individual Education Plan

Head Start (CFDA# 93.600)

This finding was adequately resolved.

2009-26 Special Tests and Provisions – Schoolwide Programs

Title I, Part A (CFDA# 84.010); 21st Century (CFDA# 84.287); Career & Technical Education (CFDA#84.048); Special Education Cluster (CFDA# 84.027 & 84.173); Title II, Part A (CFDA# 84.367); Title V, Part A (CFDA# 84.298)

This finding was adequately resolved.

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