



DETROIT
PUBLIC
SCHOOLS

Detroit, Michigan

SINGLE AUDIT ACT COMPLIANCE

For the Year Ended June 30, 2011



**DETROIT PUBLIC SCHOOLS
SINGLE AUDIT**

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For the Year Ended June 30, 2011

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

November 11, 2011

To the Emergency 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, 2011, and have issued our report thereon dated November 11, 2011. 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 Expenditures of Federal Awards
For the Year Ended June 30, 2011

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, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Agriculture:								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast Program:								
Project number 101970	10.553	\$ 11,597,318	\$ 10,202,607	\$ 2,110,864	\$ -	\$ 3,505,575	\$ 1,394,711	\$ -
Project number 111970	10.553	8,746,926	-	-	-	8,034,781	8,746,926	712,145
Total National School Breakfast Program				<u>2,110,864</u>	<u>-</u>	<u>11,540,356</u>	<u>10,141,637</u>	<u>712,145</u>
National School Lunch Program:								
Noncash assistance (commodities) -								
Entitlement Commodities	10.555	2,835,921	-	-	-	2,835,921	2,835,921	-
Cash assistance:								
Project number 091950	10.555	2,362,554	2,362,006	-	-	548	548	-
Project number 101950	10.555	2,302,044	1,986,989	405,320	-	720,375	315,055	-
Project number 101960	10.555	18,617,367	16,270,243	3,339,271	-	5,686,395	2,347,124	-
Project number 101980	10.555	410,759	123,790	105,080	-	392,049	286,969	-
Project number 111950	10.555	1,596	-	-	-	1,596	1,596	-
Project number 111960	10.555	1,796,777	-	-	-	1,657,846	1,796,777	138,931
Project number 111980	10.555	14,078,287	-	-	-	12,969,205	14,078,287	1,109,082
Total National School Lunch Program				<u>3,849,671</u>	<u>-</u>	<u>24,263,935</u>	<u>21,662,277</u>	<u>1,248,013</u>
Summer School Food Program								
Project number 100900	10.559	47,608	17,884	-	-	29,724	29,724	-
Project number 101900	10.559	3,025	-	-	-	3,025	3,025	-
Total Summer School program				<u>-</u>	<u>-</u>	<u>32,749</u>	<u>32,749</u>	<u>-</u>
Total Child Nutrition Cluster				<u>5,960,535</u>	<u>-</u>	<u>35,837,040</u>	<u>31,836,663</u>	<u>1,960,158</u>
Child Care Food Program:								
Project number 101920	10.558	1,036,461	1,036,461	399,732	(6,002) *	393,730	-	-
Project number 102010	10.558	64,178	64,178	25,394	(591) *	24,803	-	-
Project number 111920	10.558	1,626,639	-	-	-	1,233,832	1,626,639	392,807
Project number 112010	10.558	110,826	-	-	-	85,005	110,826	25,821
Total Child Care Food Program				<u>425,126</u>	<u>(6,593)</u>	<u>1,737,370</u>	<u>1,737,465</u>	<u>418,628</u>
ARRA - Child Nutrition Equipment	10.579	67,650	57,881	(7,616)	-	-	7,616	-
Fresh Fruit and Vegetables Program								
Project number 100950	10.582	357,987	326,678	326,678	-	351,878	25,200	-
Project number 110950	10.582	451,958	-	-	-	212,199	300,281	88,082
Total Fresh Fruit and Vegetables Program				<u>326,678</u>	<u>-</u>	<u>564,077</u>	<u>325,481</u>	<u>88,082</u>
Total U.S. Department of Agriculture				<u>6,704,723</u>	<u>(6,593)</u>	<u>38,138,487</u>	<u>33,907,225</u>	<u>2,466,868</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2011

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, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Justice:								
Passed through the City of Detroit Police Department:								
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	\$ 90,000	\$ 10,000	\$ 10,000	\$ -	\$ -	\$ (4,214)	\$ 5,786
The National Science Foundation -								
Direct Program -								
Detroit Urban Systemic Initiative - Project number ESR-9908234	47.049	11,500,000	6,027,223	(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	18,594	(6,715)	-	-	-	(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 8500397	84.002	22,300	4,885	(3,532)	-	(3,532)	-	-
Project number 091130 910337	84.002	1,000,000	983,336	35,331	-	-	-	35,331
Project number 091120 950397	84.002	22,000	6,644	-	-	-	-	-
Project number 101130 101337	84.002	900,000	838,928	132,098	-	132,098	-	-
Project number 101120 105337	84.002	22,000	7,595	1,419	-	7,526	-	(6,107)
Project number 111130 111337	84.002	157,468	-	-	-	22,533	157,468	134,935
Total Adult Basic Education				140,705	-	134,014	157,468	164,159
Total passed through the Michigan Department of Labor and Economic Growth				140,705	-	134,014	157,468	164,159
Title I, Part A Cluster								
Title I, Part A:								
Project number 101530 0910	84.010	205,101,231	120,218,435	45,736,003	-	77,264,095	31,523,405	(4,687)
Project number 101550 0910	84.010	1,285,000	29,949	29,949	-	476,192	306,944	(139,299)
Project number 111530 1011	84.010	167,934,250	-	-	-	116,303,522	167,934,250	51,630,728
Project number 111550 1011	84.010	1,750,000	-	-	-	31,736	95,489	63,753
Total Title I, Part A				45,765,952	-	194,075,545	199,860,088	51,550,495
ARRA - Title I, Part A								
Project number 101535 0910	84.389	149,429,745	53,015,419	19,206,639	-	34,540,376	12,674,123	(2,659,614)
Project number 101555 0910	84.389	6,272,735	-	-	-	-	559,079	559,079
Project number 111535 1011	84.389	84,330,722	-	-	-	42,394,038	79,889,467	37,495,429
Total ARRA - Title I, Part A				19,206,639	-	76,934,414	93,122,669	35,394,894

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2011

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, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education:								
Title I, Part A Cluster (Continued)								
ARRA - Title I, Part D	84.389	\$ 416,587	\$ 20,748	\$ 10,804	\$ -	\$ 56,106	\$ 160,491	\$ 115,189
Total Title I, Part A Cluster				<u>64,983,395</u>	<u>-</u>	<u>271,066,065</u>	<u>293,143,248</u>	<u>87,060,578</u>
Migrant Education:								
Project number 081890 0708	84.011	298,133	252,506	(2,188)	-	(2,188)	-	-
Project number 101890 0910	84.011	207,284	67,102	12,049	(606) *	11,528	85	-
Project number 101830 2010 (Summer)	84.011	40,286	11,705	11,705	(129) *	12,201	625	-
Project number 111890 1011	84.011	205,936	-	-	-	15,260	80,128	64,868
Project number 111830 2011 (Summer)	84.011	34,746	-	-	-	-	34,746	34,746
Total Migrant Education				<u>21,566</u>	<u>(735)</u>	<u>36,801</u>	<u>115,584</u>	<u>99,614</u>
Title I, Part D:								
Project number 101700 0910	84.013	547,368	191,411	164,883	-	229,634	64,751	-
Project number 111700 1011	84.013	739,294	-	-	-	28,128	96,321	68,193
Total Title I Part D				<u>164,883</u>	<u>-</u>	<u>257,762</u>	<u>161,072</u>	<u>68,193</u>
Career & Technical Education (Perkins II):								
Project number 103520 101224	84.048	3,493,453	3,063,221	841,863	-	1,255,447	209,581	(204,003)
Project number 103530 101024	84.048	42,636	3,813	3,813	-	42,636	-	(38,823)
Project number 113520 111224	84.048	4,620,711	-	-	-	2,663,653	4,191,725	1,528,072
Project number 113530 111024	84.048	5,023	-	-	-	-	5,023	5,023
Total Career & Technical Education (Perkins II)				<u>845,676</u>	<u>-</u>	<u>3,961,736</u>	<u>4,406,329</u>	<u>1,290,269</u>
Drug-free Schools and Communities National Program:								
Project number 042600/OCS03A	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>
Safe and Drug-free Schools and Communities:								
Project number 102860 0910	84.186	3,035,836	1,652,678	147,869	-	462,112	314,243	-
Project number 112860 1011	84.186	1,071,915	-	-	-	167,701	405,260	237,559
Total Safe and Drug-free Schools and Communities				<u>147,869</u>	<u>-</u>	<u>629,813</u>	<u>719,503</u>	<u>237,559</u>
Homeless Children and Youths:								
Project number 102320 0910	84.196	164,212	98,098	(594)	-	29,248	24,292	(5,550)
Project number 112320 1011	84.196	110,701	-	-	-	18,357	64,934	46,577
Total Homeless Children and Youths				<u>(594)</u>	<u>-</u>	<u>47,605</u>	<u>89,226</u>	<u>41,027</u>
Smaller Learning Community Phase 2	84.215	2,500,000	1,888,837	(198,337)	-	-	-	(198,337)

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2011

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U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
Vocational Education - Tech Prep - Project number 083540 8014-24	84.243	\$ 159,871	\$ 42,552	\$ (271)	\$ -	\$ (271)	\$ -	\$ -
21st Century Community Learning Center:								
Project number 082110 21st03063	84.287	850,000	634,958	(1,890)	-	(1,890)	-	-
Project number 102110 D07027	84.287	750,000	719,184	115,004	-	145,482	30,478	-
Project number 102110 F09017	84.287	750,000	631,850	90,264	-	208,414	118,150	-
Project number 102110 F09020	84.287	750,000	617,789	103,305	-	235,516	132,211	-
Project number 102110 F09022	84.287	750,000	600,136	138,969	-	288,833	149,864	-
Project number 102110 D07035	84.287	750,000	575,236	63,731	-	238,495	174,764	-
Project number 112110 D07027	84.287	750,000	-	-	-	531,213	625,834	94,621
Project number 112110 F09017	84.287	750,000	-	-	-	421,371	512,313	90,942
Project number 112110 F09020	84.287	750,000	-	-	-	447,800	550,794	102,994
Project number 112110 F09022	84.287	750,000	-	-	-	490,850	584,168	93,318
Project number 112110 D07035	84.287	750,000	-	-	-	314,880	436,177	121,297
Total 21st Century Community Learning Center				<u>509,383</u>	<u>-</u>	<u>3,320,964</u>	<u>3,314,753</u>	<u>503,172</u>
Title V, Part A - Project number 080250 0708	84.298	756,980	510,423	(177,616)	-	(177,616)	-	-
Title II, Part D Cluster:								
Title II, Part D - Technology Literacy Challenge:								
Project number 084290 0708	84.318	1,911,160	959,812	(58,393)	-	(58,393)	-	-
Project number 094290 0809	84.318	2,306,896	1,649,817	(3,500)	-	-	-	-
Project number 104290 0910	84.318	634,229	36,888	36,888	-	513,629	476,741	-
Total Technology Literacy Challenge				<u>(25,005)</u>	<u>-</u>	<u>451,736</u>	<u>476,741</u>	<u>-</u>
ARRA - Title II, Part D - Technology Literacy Challenge -								
Project number 104295 0910	84.386	4,086,981	570,894	570,894	-	1,118,170	547,276	-
Project number 114295 1011	84.386	2,968,810	-	-	-	134,147	501,792	367,645
Total ARRA - Technology Literacy Challenge				<u>570,894</u>	<u>-</u>	<u>1,252,317</u>	<u>1,049,068</u>	<u>367,645</u>
Total Title II, Part D Cluster				<u>545,889</u>	<u>-</u>	<u>1,704,053</u>	<u>1,525,809</u>	<u>367,645</u>
Comprehensive School Reform Demonstration -								
Project number 061870 0607	84.332	632,150	551,510	(6,235)	-	-	-	(6,235)
Title III Limited English:								
Project number 090580 0809	84.365	1,945,829	619,167	91	(91) *	-	-	-
Project number 100570 0910	84.365	288,787	70,001	70,001	-	80,753	10,752	-
Project number 100580 0910	84.365	1,950,665	444,541	444,541	-	965,422	520,881	-
Project number 110570 1011	84.365	169,872	-	-	3,000 *	29,220	82,930	56,710
Project number 110580 1011	84.365	2,082,448	-	-	-	295,106	928,730	633,624
Total Title III Limited English				<u>514,633</u>	<u>2,909</u>	<u>1,370,501</u>	<u>1,543,293</u>	<u>690,334</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2011

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, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Concluded):								
Title II, Part A Teacher Training/ Principal Training:								
Project number 060520 0506	84.367	\$ 543,612	\$ 524,932	\$ (18,680)	\$ 2,000 *	\$ -	\$ -	\$ (16,680)
Project number 080520 0708	84.367	17,137,934	8,823,560	(15,886)	7,778 *	(8,108)	-	-
Project number 100520 0910	84.367	33,663,836	5,060,955	3,476,726	46,980 *	19,580,579	16,056,873	-
Project number 110520 1011	84.367	32,562,758	-	-	-	15,951,580	25,825,443	9,873,863
Total Title II, Part A Teacher Training				<u>3,442,160</u>	<u>56,758</u>	<u>35,524,051</u>	<u>41,882,316</u>	<u>9,857,183</u>
ARRA - Homeless Children and Youths:								
Project number 102325 0910	84.387	177,848	71,079	<u>71,079</u>	<u>-</u>	<u>89,031</u>	<u>17,936</u>	<u>(16)</u>
ARRA - School Improvement Grant - Project number 101765 1011								
	84.388	6,693,695	-	<u>-</u>	<u>-</u>	<u>1,036,985</u>	<u>1,864,552</u>	<u>827,567</u>
ARRA - State Fiscal Stabilization Fund - Education State Grants:								
Project number 102525 0910	84.394	26,777,590	26,294,895	(116,777)	-	365,918	482,695	-
Project number 112525 1011	84.394	9,857,594	-	<u>-</u>	<u>-</u>	<u>9,854,407</u>	<u>9,857,594</u>	<u>3,187</u>
Total State Fiscal Stabilization Fund - Education State Grants				<u>(116,777)</u>	<u>-</u>	<u>10,220,325</u>	<u>10,340,289</u>	<u>3,187</u>
Education Jobs Fund - Project number 112545 1011								
	84.410	16,749,504	-	<u>-</u>	<u>-</u>	<u>16,749,504</u>	<u>16,749,504</u>	<u>-</u>
Total passed through the Michigan Department of Education				<u>5,769,214</u>	<u>58,932</u>	<u>74,827,350</u>	<u>82,890,657</u>	<u>13,891,453</u>
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	22,635,001	(9,562)	9,562 **	-	-	-
Education of the Handicapped 04/05	84.027	24,546,835	24,253,976	(292,859)	292,859 **	-	-	-
Education of the Handicapped 08/09	84.027	21,004,224	20,998,228	(5,996)	5,996 **	-	-	-
Education of the Handicapped 09/10	84.027	20,973,368	18,263,910	2,922,161	-	4,733,524	2,693,712	882,349
Education of the Handicapped 10/11	84.027	19,422,701	-	-	(1,269,837) **	8,555,572	10,759,707	934,298
Center Expansion 04/05	84.027	3,935,295	3,484,646	(450,649)	450,649 **	-	-	-
Center Expansion 09/10	84.027	2,904,785	2,748,739	390,647	-	546,693	155,329	(717)
Center Expansion 10/11	84.027	4,152,209	-	-	-	1,744,334	4,152,209	2,407,875
Assistive Technology Training and Information Center Grant - 04/05	84.027	499,906	487,375	(12,531)	12,531 **	-	-	-
Assistive Technology Training and Information Center Grant - 05/06	84.027	500,000	383,577	(116,423)	116,423 **	-	-	-
Assistive Technology Training and Information Center Grant - 08/09	84.027	525,000	510,954	(14,046)	14,046 **	-	-	-
Assistive Technology Training and Information Center Grant - 09/10	84.027	525,000	405,503	166,445	-	285,942	117,881	(1,616)
Assistive Technology Training and Information Center Grant - 10/11	84.027	525,000	-	-	-	94,626	464,352	369,726
Barsamian Assessment Center - Capacity Building Center - 04/05	84.027	424,680	351,690	(72,551)	72,551 **	-	-	-
Barsamian Assessment Center - Capacity Building Center - 05/06	84.027	375,475	217,885	(157,590)	157,590 **	-	-	-
Total Individuals with Disabilities Education Act				<u>2,347,046</u>	<u>(137,630)</u>	<u>15,960,691</u>	<u>18,343,190</u>	<u>4,591,915</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2011

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U.S. Department of Education (Concluded):								
Passed through Wayne County Regional Educational Service Agency (Concluded):								
Special Education Cluster (Concluded):								
Preschool Incentive:								
Preschool Incentive - 04/05	84.173	\$ 874,904	\$ 700,153	\$ (137,630)	\$ 137,630 **	\$ -	\$ -	\$ -
Preschool Incentive - 08/09	84.173	583,947	568,668	-	-	-	15,279	15,279
Preschool Incentive - 09/10	84.173	540,384	443,979	59,365	-	59,365	28,656	28,656
Preschool Incentive - 10/11	84.173	560,895	-	-	-	158,562	263,766	105,204
Total Preschool Incentive				<u>(78,265)</u>	<u>137,630</u>	<u>217,927</u>	<u>307,701</u>	<u>149,139</u>
ARRA - Individuals with Disabilities Education Act:								
Education of the Handicapped 09/10	84.391	21,931,866	7,804,581	1,796,304	-	6,253,868	12,807,821	8,350,257
Center Expansion 09/10	84.391	3,412,148	1,391,687	296,481	-	921,048	1,566,841	942,274
Assistive Technology Training and Information Center Grant - 09/10	84.391	350,000	-	-	-	-	266,276	266,276
Total ARRA - Individuals with Disabilities Education Act				<u>2,092,785</u>	<u>-</u>	<u>7,174,916</u>	<u>14,640,938</u>	<u>9,558,807</u>
ARRA - Preschool Incentive - Preschool Incentive - 09/10	84.392	764,678	141,287	5,477	-	64,168	535,947	477,256
Total Special Education Cluster				<u>4,367,043</u>	<u>-</u>	<u>23,417,702</u>	<u>33,827,776</u>	<u>14,777,117</u>
Early on Grant:								
Early on Introverted with Sensing, Feeling, and Perceiving	84.181	11,000	5,500	5,500	(500) *	11,000	-	(6,000)
ARRA - Early on Introverted with Sensing, Feeling, and Perceiving	84.393	32,434	32,445	32,445	(11) *	32,434	-	-
Total Early on Grant				<u>37,945</u>	<u>(511)</u>	<u>43,434</u>	<u>-</u>	<u>(6,000)</u>
Total passed through Wayne County Regional Educational Service Agency				<u>4,404,988</u>	<u>(511)</u>	<u>23,461,136</u>	<u>33,827,776</u>	<u>14,771,117</u>
Total U.S. Department of Education				<u>75,242,838</u>	<u>58,932</u>	<u>369,389,025</u>	<u>409,858,658</u>	<u>115,771,403</u>
U.S. Department of Health and Human Services:								
Passed through the Michigan Department of Education:								
Temporary Assistance for Needy Families:								
Project number 112130 SE11017	93.558	96,481	-	-	-	-	5,470	5,470
Project number 112130 SE11019	93.558	35,203	-	-	-	-	86	86
Project number 112130 SE11020	93.558	106,261	-	-	-	-	939	939
Total Temporary Assistance for Needy Families				<u>-</u>	<u>-</u>	<u>-</u>	<u>6,495</u>	<u>6,495</u>
Total passed through the Michigan Department of Education				<u>-</u>	<u>-</u>	<u>-</u>	<u>6,495</u>	<u>6,495</u>
Passed through the City of Detroit Neighborhood Services Department:								
Head Start Cluster:								
Head Start 09/10	93.600	4,919,977	4,099,745	929,386	-	1,719,913	790,527	-
Head Start 10/11	93.600	5,007,125	-	-	-	2,901,896	3,701,157	799,261
Total Head Start				<u>929,386</u>	<u>-</u>	<u>4,621,809</u>	<u>4,491,684</u>	<u>799,261</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended June 30, 2011

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, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Health and Human Services (Concluded):								
Passed through the City of Detroit Neighborhood Services Department (Concluded):								
Head Start Cluster (Concluded):								
Head Start Special Education 09/10	93.600	\$ 200,172	\$ 31,476	\$ 13,125	\$ -	\$ 27,825	\$ 14,700	\$ -
Head Start Special Education 10/11	93.600	200,172	-	-	-	-	46,550	46,550
Total Head Start Special Education				<u>13,125</u>	<u>-</u>	<u>27,825</u>	<u>61,250</u>	<u>46,550</u>
ARRA - Head Start Quality Improvement/Cost of Living Adjustment	93.708	340,546	-	-	-	87,149	222,077	134,928
Total Head Start Cluster				<u>942,511</u>	<u>-</u>	<u>4,736,783</u>	<u>4,775,011</u>	<u>980,739</u>
Total passed through the City of Detroit				<u>942,511</u>	<u>-</u>	<u>4,736,783</u>	<u>4,775,011</u>	<u>980,739</u>
Passed through the Wayne County RESA:								
Medical Assistance Program - Medicaid Outreach 08-09	93.778	328,681	-	-	-	328,681	328,681	-
HRRTEP								
HRRTEP - 09/10	93.938	225,000	-	176,027	-	-	117,735	293,762
HRRTEP - 10/11	93.938	225,000	-	-	-	-	37,268	37,268
Total HRRTEP				<u>176,027</u>	<u>-</u>	<u>-</u>	<u>155,003</u>	<u>331,030</u>
Total passed through the Wayne County RESA				<u>176,027</u>	<u>-</u>	<u>328,681</u>	<u>483,684</u>	<u>331,030</u>
Total U.S. Department of Health and Human Services				<u>942,511</u>	<u>-</u>	<u>5,065,464</u>	<u>5,103,692</u>	<u>980,739</u>
Total Federal Awards				<u>\$ 83,088,732</u>	<u>\$ 51,828</u>	<u>\$ 412,636,410</u>	<u>\$ 449,026,859</u>	<u>\$ 119,531,009</u>

* Amount represents adjustments to prior year expenditures

** Amount represents transfers of expenses between grants

See accompanying notes to the SEFA

DETROIT PUBLIC SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Detroit Public Schools (the "District") under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

The District's reporting entity is defined in Note I to the District's financial statements.

2. Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note I to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Noncash Assistance

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

4. Grant Section Auditor's Report

Management has utilized the Grant Auditor Report (Cash Management System) in preparing the Schedule.

5. Reconciliation of Federal Revenue with Expenditures for Federal Award Programs

Federal revenue presented in the comprehensive annual financial report of \$460,768,789 includes federal subsidy payments of \$11,741,930, which are not subject to the Single Audit Act and therefore have been excluded from the Schedule. The remaining federal revenue of \$449,026,859 agrees to total federal expenditures on the Schedule.

* * * * *

**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 11, 2011

To the Emergency 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, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2011. 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 2011-FS-01, -03, -04, -05, and -06 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-FS-02, -07 and -08 to be significant deficiencies.

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 2011-FS-03 and -04.

We noted certain matters that we reported to management of the District in a separate letter dated November 11, 2011.

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 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 that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
 PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
 ACCORDANCE WITH OMB CIRCULAR A-133**

November 11, 2011

To the Emergency 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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	2011-SA-14, -17
Title I, Part A Cluster	84.010 & 84.389	2011-SA-03, -14
Special Education Cluster	84.027; 84.173, 84.391; & 84.392	2011-SA-03, -14
Career & Technical Education	84.048	2011-SA-03, -14, -16
Title II, Part A	84.367	2011-SA-03, -14, -16
Head Start Cluster	93.600; 93.708	2011-SA-03, -04, -08
State Fiscal Stabilization Fund	84.394	2011-SA-05

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 2011-SA-01, -02, -06, -07, -10, -11, -12, -13, -15, -18, and-19.

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 2011-SA-03, -04, -05, -08, -14, -16, and -17 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 2011-SA-01, -02, -09, -11, -12, -15, -18, and -19 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 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.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

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>Qualified</u>
Education Jobs Fund	CFDA# 84.410	<u>Unqualified</u>
Head Start Cluster	CFDA# 93.600; 93.708	<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, 2011

SECTION II – Financial Statement Findings

2011-FS-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:	The District erroneously removed from the capital asset listing the new Cass Tech High School. In addition, depreciation expense for assets acquired and disposed of during the year was originally incorrectly calculated. The District also misclassified impairment expense as a loss on disposal of assets.
Cause:	Internal control procedures related to evaluating and recording capital assets activity are not properly designed to ensure that all capital assets are properly capitalized and evaluated for impairment or disposal. In addition, internal control procedures are not properly designed to ensure that depreciation expense is properly calculated by the AssetWorks system.
Effect:	Capital asset balances were initially understated by \$109.3 million for the erroneous removal of Cass Tech High School. Depreciation for 425 new and disposed assets was initially miscalculated (exact effect is indeterminable). Impairment expense of \$4.5 million was initially misclassified as loss on disposal. These adjustments 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.
View of Responsible Official:	<p>In order to ensure that the capital assets are properly capitalized and evaluated for impairment or disposal, both the facilities department and the finance department must adhere to the policies and procedures that are in place. Any changes should be provided as the information is updated to have the most current information for recording purposes.</p> <p>The fixed asset company needs to be re-evaluated to ensure that all the assets are properly recorded for additions, deletions, impairments, and depreciation. If records are not properly maintained within the asset system, the District needs to make the necessary changes.</p> <p>Based on the mistakes made, staff requires proper training in every aspect of fixed assets to ensure that all policies and procedures are followed to properly record the District's fixed assets.</p>

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Continued)

2011-FS-02

Audit Adjustments – Compensated Absences (Repeat)

Finding type:	Significant deficiency in internal control over financial reporting
Criteria:	The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.
Condition:	Reconciliations for compensated absences had 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, 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 compensated absences account 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 significant to the District's financial statements. The compensated absences were initially overstated by \$2,845,781. The audit adjustment proposed as a result of the audit process 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 accruals to ensure that they are complete and accurate.
View of Responsible Official:	The District will institute new policies and procedures to ensure that the balances and calculations are accurate for compensated absences. The policy will also include evaluation methods, calculation and a review process.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Continued)

2011-FS-03	Noncompliance – 1994 Bonds Procurement Documentation (Repeat) Noncompliance – 2009 & 2010 Bonds Procurement Documentation
Finding type:	Material noncompliance; Material weakness in internal control over financial reporting
Criteria:	<p>1994 Bonds 2009, & 2010 Bonds</p> <p>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.</p>
Condition:	<p>1994 Bonds - During our test work over bonds and the related bidding process, the District was unable to provide the competitive bidding documentation for one contract that had a total value of approximately \$1,000,000.</p> <p>2009 & 2010 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:</p> <ul style="list-style-type: none">• For one of twenty-five contracts, we were not provided evidence of newspaper advertising. This contract had a total value of approximately \$1,400,000.• For three of twenty-five contracts, we were not provided evidence of competitive bidding. Disbursements totaling \$18,700,000 related to these contracts were expended during the year.• For seven of twenty-five contracts, we were not provided documented evidence of vendor comparison for non-construction projects. Disbursements totaling approximately \$1,600,000 related to these contracts were expended during the year.• For two of twenty-five contracts, we were not provided contracts for the projects. Disbursements totaling approximately \$1,000,000 related to these contracts were expended during the year.• For four of twenty-five contracts, we were not provided purchase orders with proper approval. Disbursements totaling approximately \$700,000 related to these contracts were expended during the year.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

Cause:	<p>1994 Bonds - The District was not able to provide the complete contract and bid files timely.</p> <p>2009 and 2010 Bonds - The District was not able to provide the complete contract and bid files timely.</p>
Effect:	<p>1994 Bonds - Compliance with the requirements of the Revised School Code has not been adequately documented.</p> <p>2009 & 2010 Bonds - Compliance with the requirements of the Revised School Code has not been adequately documented.</p>
Recommendation:	<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> <p>2009 & 2010 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>Procurement policies and procedures will be updated to include a checklist for each file to ensure that verification of vendors has been completed. In addition, a new DPS Strategic Sourcing process will be implemented that ensures that all requisitions that exceed the threshold of \$15,000 will demonstrate competitiveness; will be reviewed by a Sourcing Council and will be properly executed with appropriate signature per the delegation of authority.</p>

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Continued)

2011-FS-04

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:	Expenditures exceeded appropriations by material amounts as disclosed in the notes to the financial statements. In addition, the District made payments to vendors that were in excess of the approved contracts and purchase orders.
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 inappropriately allows actual expenditures to exceed budgeted expenditures at the account level. The District's procurement policies require bidding for all contracts over a defined threshold. The District entered into contracts during the year that had not been bid. Also, the District's accounting system does not properly track contracts and purchase orders to ensure that purchase orders are not issued for amounts in excess of the total approved contract. Finally, the District's current procedures include a process of paying vouchers without attaching them to a purchase order, which circumvents the controls put in place to ensure all payments are for amounts previously approved.
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. In addition, we recommend that the District modify its policies and procedures to ensure that all payments are linked to a valid purchase order and when applicable to the signed contract.
View of Responsible Official:	The District has implemented tools to better oversee the budget development and management process; however, the District will modify its policies and procedures to ensure that budget amendments are included in the accounting system and that changes are made to the expenditures after the budget adjustments have been authorized.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Continued)

2011-FS-05	Audit Adjustments – Bonds and Notes Payable and Related Accounts (Repeat)
Finding type:	Material weakness in internal control 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:	Bond issuance costs were initially misclassified as bond discounts, which net against the liability balance, rather than as assets. In addition, 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, accrued interest payable related to short-term notes was initially overstated by \$12,155,000. In the government-wide financial statements, bonds payable were initially understated by approximately \$1,483,000 and other assets were initially understated by the same amount. In addition, interest payable on long-term bonds payable was understated by approximately \$929,000. 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:	Staff will be properly trained in the recording of bonds, notes payable, and the related accounts to ensure that transactions related to the issuance and payment of bonds and notes payable are recorded appropriately.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Continued)

2011-FS-06	Material Audit Adjustments - Property Taxes (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:	When originally received, calculations made to estimate property tax revenue and related receivables and payables 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.
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.
Effect:	Property tax revenue was initially overstated by \$16.4 million, \$13.5 million, and \$1.7 million in the general fund, the bond redemption fund, and the judgment levy fund, respectively, based on the revised estimates. 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.
View of Responsible Official:	The District is working very diligently with the City and the State in providing reports to properly record the District's revenues, receivables, and liabilities as related to property taxes. The District will press upon all parties the necessity of periodic meetings to resolve and issues to ensure that amounts reported to the State and amounts collected and remitted to the District are consistent.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Continued)

2011-FS-07 **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 timely for all schools as of June 30, 2011; however, at some schools, 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 General fund.

Cause: Internal control policies and procedures in place at certain individual schools were not properly designed or were not consistently implemented to ensure supporting documentation was consistently maintained for receipts and disbursements, and that receipts were deposited in a timely manner.

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 General 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 timely 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 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 District will have documents reviewed after the monthly reconciliations to ensure that receipts and disbursements are recorded timely and accurately. The policy, procedures, and processes will be changed to include proper accounting for activities supporting the District's programs. Cash management has provided training and will continue to train and modify processes as required.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION II – Financial Statement Findings (Concluded)

2011-FS-08

Audit Adjustments – Interest Receivable

Finding type:	Significant deficiency in internal control over financial reporting
Criteria:	The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.
Condition:	Interest receivable related to investment income earned from investment accounts was not properly calculated or recorded. This led to a significant variance between the amounts initially reported in the trial balance and the amounts supported by the corrected calculation. Accordingly, an 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 interest receivable 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 significant to the District's financial statements. The interest receivable was initially understated by \$972,072. The adjustment proposed as a result of the audit process 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 the year end interest receivable to ensure it is complete and accurate.
View of Responsible Official:	The District agrees with the finding. All interest receivable will be properly recorded and management will conduct an evaluation of all accounts to ensure proper recording and that the accounts are accurate and complete.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

SECTION III – Findings and Questioned Costs Related to Federal Awards

2011-SA-01

Activities Allowed – Production Records

Finding type:	Noncompliance; Significant deficiency in internal controls over compliance
Federal agency/ Federal program(s):	U.S. Department of Agriculture – Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559)
Pass-through/ Project Number	Passed through the Michigan Department of Education (MDE) Projects: 101970, 111970, 091950, 101950, 101960, 101980, 11950, 11960, 11980, 100900, 101900
Questioned costs:	Not readily determinable inasmuch as this grant is reimbursed based on the number of meals served.
Criteria:	The Michigan Department of Education Audit Manual requires production records to be kept on a daily basis and that all columns must be completed. Lunches are required to include milk, meat/meat alternative, 2 servings of fruits and vegetables and 1 serving of bread/grain. Breakfast must include milk, juice/fruit/vegetable, and 2 servings of grain/bread/meat/meat alternative.
Condition:	The District prepared production records that did not include all required breakfast components and others that were not prepared completely/accurately.
Cause:	This appears to be the result of the staff at the schools not being aware of or fully understanding the requirements for completing the production records.
Effect:	Of the 60 production records selected for testing, 4 (6.7%) were incomplete or were completed inaccurately.
Recommendation:	We recommend that the District implement policies and procedures adequate to ensure proper production record completion.
View of Responsible Official:	All staff responsible for completing on site production records have received appropriate training and were tested for skill acquisition as related to completing production records. Area managers assigned to each school are required to audit one production record each week to test for accuracy of completion by the responsible person at each school. The Director of Operations will direct this process.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-02 Allowable Costs/Cost Principles – Timesheet/Payroll Documentation (Repeat)

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

Federal agency/
Federal program(s): U.S. Department of Education –
Title I, Part A Cluster (CFDA# 84.010 & 84.389)
Title II, Part A (CFDA# 84.367)
U.S. Department of Health and Human Services –
Head Start Cluster (CFDA# 93.600 & 93.708)

Pass-through/
Project Number

- Title I, Part A Cluster – Passed through MDE
Projects: 101530, 101550, 111530, 111550, 101535, 101555, & 111535
- Title II, Part A – Passed through MDE
Projects: 100520 & 110520
- Head Start Cluster – Passed through the City of Detroit
Head Start (all grant years), Head Start Special Education (all grant years), &
Head Start Quality Improvement & Cost of Living Adjustment programs.

Questioned costs:

- Title I, Part A Cluster – \$16,290
- Title II, Part A – \$2,539
- Head Start Cluster – \$305

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: The District had multiple payroll transactions charged to federal programs that were not adequately documented.

Cause: Management has not implemented adequate internal controls to ensure that all payroll charges for hourly employees are supported by documentation allowed under OMB Circular A-87.

Effect:

- Title I, Part A Cluster – A semiannual certification in accordance with OMB Circular A-87 was provided but indicated the wrong grant program in 1 instance out of 14 transactions tested.
- Title II, Part A – A semiannual certification in accordance with OMB Circular A-87 was not prepared in 1 instance out of 38 transactions tested.
- Head Start (CFDA# 93.600) – The timesheet tested did not agree to the number of hours paid to the employee in 1 instance out of 46 transactions tested and a semiannual certification in accordance with OMB Circular A-87 was not signed in 1 instance out of 46 transactions tested.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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 will modify its procedures to be sure that staff is trained on existing procedure within the payroll department and that expenditures are properly approved and documented prior to being recorded on the general ledger.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-03 Allowable Costs/Cost Principles; Severance and Unused Leave Pay

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

Federal agency/
Federal program(s): U.S. Department of Education –
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)
U.S. Department of Health and Human Services –
Head Start Cluster (CFDA# 93.600 & 93.708)

Pass-through/
Project Number

- Title I, Part A Cluster – Passed through MDE
Projects: 101530, 101550, 111530, 111550, 101535, 101555, & 111535
- Special Education Cluster – Passed through Wayne RESA
Projects: Education of the Handicapped (all grant years and ARRA grant),
Center Expansion (all grant years and ARRA grant), Assistive Technology
Training and Information Center (all grant years and ARRA grant),
Preschool Incentive (all grant years and ARRA grant)
- Career & Technical Education – Passed through MDE
Projects: 103520, 103530, 113520, & 113530
- Title II, Part A – Passed through MDE
Projects: 100520 & 110520
- Head Start Cluster – Passed through the City of Detroit
Head Start (all grant years), Head Start Special Education (all grant years), &
Head Start Quality Improvement & Cost of Living Adjustment programs.

Questioned costs:

- Title I, Part A Cluster – \$1,054,632
- Special Education Cluster – \$348,322
- Career & Technical Education – \$24,471
- Title II, Part A – \$198,045
- Head Start Cluster – \$65,377

Criteria: Per OMB Circular A-87, severance pay and payments for unused absence time are required to be allocated as a general administrative expense to all activities of the governmental unit.

Condition: The District charged severance pay and payments for unused absence time as direct costs to federal programs rather than as indirect costs.

Cause: Management has not implemented adequate internal controls to ensure that severance leave payments and payments for unused leave are not charged as direct costs to grants.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

Effect:	<ul style="list-style-type: none">➤ Title I, Part A Cluster had at least \$20,245 of severance, \$191,675 of Termination Incentive Plan (TIP) payments, and \$838,682 of unused leave pay charged directly to the program.➤ Special Education Cluster had at least \$50,664 of severance, \$100,750 of TIP payments, and \$196,908 of unused leave pay charged directly to the program.➤ Career & Technical Education had at least \$4,580 of severance, \$8,500 of TIP payments, and \$11,391 of unused leave pay charged directly to the program.➤ Title II, Part A had at least \$8,957 of severance, \$54,000 of TIP payments, and \$135,088 of unused leave pay charged directly to the program.➤ Head Start Cluster had at least \$62,054 of severance and \$3,324 of TIP charged directly to the program.
Recommendation:	We recommend the District modify its procedures to ensure that severance leave payments and payments for unused leave are not charged as direct costs to grants.
View of Responsible Official:	The District will immediately modify its procedures so that a separate account is established to which severance and pay for unused absence time can be charged. This account will be established by the Budget and Accounting Department.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-04 Allowable Costs/Cost Principles; Matching – In-kind Contributions used for Match (Repeat)

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

Federal agency/
Federal program(s): U.S. Department of Health and Human Services –
Head Start Cluster (CFDA# 93.600 & 93.708)

Pass-through/
Project Number: Passed through the City of Detroit
Head Start (all grant years), Head Start Special Education (all grant years), & Head Start Quality Improvement & Cost of Living Adjustment programs.

Questioned costs: \$641,440 (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 adherence to federal cost principles. The City of Detroit (the District's pass-through grantor) and the Federal government require a 30% and 20% match, respectively.

Condition: The District charged space costs to the Regular Head Start program utilizing a per square foot rate that was not supported by a valid cost study. The District did not report any match costs for the Disabilities Head Start program.

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

Effect: \$641,440 of in-kind contributions used as matching funds lacked proper documentation and support. Based on the reported costs, including the improperly supported space costs, the District did not meet the City of Detroit's matching requirement. Without the space costs, the District did not meet the Federal 20% match requirement.

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 will reevaluate how it determines its in-kind contribution.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-05

Cash Management – Improper Reimbursement Request

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

Federal agency/
Federal program(s): U.S. Department of Education –
State Fiscal Stabilization Fund (CFDA# 84.394)

Pass-through/
Project Number: Passed through MDE
Projects: 102525 & 112525

Questioned costs: The interest earned on funds received in advance which may be due back to the pass-through agency is not readily determinable.

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

Condition: The request for reimbursement for the State Fiscal Stabilization Funds was made before the related costs were incurred and paid.

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

Effect: The District requested \$4,966,872 of State Fiscal Stabilization Funds in advance of the costs being incurred or paid (the funds were requested on January 10, 2011, and received on January 11, 2011, while the related costs were incurred during pay periods ending January 14, 2011 through August 26, 2011, and not paid until the week after each pay period).

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

View of
Responsible
Official: The District concurs with this finding and has implemented new procedures to ensure that all reimbursement requests are made to ensure no advance payments occur.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-07

Eligibility – Verified Students

Finding type: Noncompliance

Federal agency/
Federal program(s): U.S. Department of Agriculture –
Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559)

Pass-through/
Project Number: Passed through MDE
Projects: 101970, 111970, 091950, 101950, 101960, 101980, 11950, 11960, 11980,
100900, 101900

Questioned costs: None as the District improperly withheld benefits from entitled students.

Criteria: The Michigan Department of Education Audit Manual requires that changes in eligibility be reflected within 3 days or 10 days for increases and decreases in benefit eligibility, respectively.

Condition: The District did not make changes to eligibility status for all students.

Cause: This appears to be caused by the verification procedures.

Effect: Three students who had their benefits removed due to the verification process subsequently provided the required documentation or were subsequently certified as eligible by the State of Michigan. This information was never processed in the Point of Sale (POS) system at the District and these students did not receive this benefit during the year.

Recommendation: We recommend that the District review the verification process to ensure that subsequent receipt of the required information is processed in the POS system.

View of
Responsible
Official: The District will review employee training and procedures for data entry into the point of sale (POS) system. Correct procedures will be documented and affected employees will be trained to ensure that they fully understand the procedures so that the verification process is not compromised.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-08

Eligibility – Proper Documentation of Income Verification (Repeat)

Finding type:	Material noncompliance; Material weakness in internal controls over compliance
Federal agency/ Federal program(s):	U.S. Department of Health and Human Services – Head Start Cluster (CFDA# 93.600 & 93.708)
Pass-through/ Project Number	Passed through the City of Detroit Head Start (all grant years), Head Start Special Education (all grant years), & Head Start Quality Improvement & Cost of Living Adjustment programs.
Questioned costs:	Not readily determinable.
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. A certain number of students who are not income eligible may be enrolled in the program but must be reported to the pass-through grantor.
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. After the issues were brought to the District's attention, the required documentation was added to the application. It is impossible to determine if this documentation is valid as the documents examined were not retained by the District and almost an entire year had elapsed since the verification document was observed until the documentation was added to the application.
Cause:	Procedures in place were not effective to ensure compliance with this requirement.
Effect:	Of the 60 child records selected, 13 (22%) 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. In addition, one application could not be located and another application indicated that the family income was over the allowable limit but the student was not reported to the pass-through grantor as over-income.
Recommendation:	We recommend the District implement a review process to ensure that the child records include the required statement, that the income verification document examined is one of those listed as allowable in the OMB Circular A-133 Compliance Supplement, that all applications are properly retained, and that all over-income students are properly reported to the pass-through grantor.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

View of
Responsible
Official:

A checklist procedure which includes the teacher, associate teacher, the family services worker, the interdisciplinary team, and the enrollment team will be implemented. Additionally, an eligibility verification will be conducted that includes checking for income (e.g. poverty guidelines, over-income status, type of income, homelessness, foster care, etc. and detailed information indicating what documentation was used to determine the income). These procedures will be verified by staff.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-09

Level of Effort – Maintenance of Effort

Finding type: Significant deficiency in internal controls over compliance

Federal agency/
Federal program(s): U.S. Department of Education –
Special Education Cluster (CFDA# 84.027, 84.173, 84.391, & 84.392)

Pass-through/
Project Number: Special Education Cluster – Passed through Wayne RESA
Projects: Education of the Handicapped (all grant years and ARRA grant), Center Expansion (all grant years and ARRA grant), Assistive Technology Training and Information Center (all grant years and ARRA grant), Preschool Incentive (all grant years and ARRA grant)

Questioned costs: None

Criteria: Per the OMB Circular A-133 Compliance Supplement, for any fiscal year for which the federal allocation received by a LEA exceeds the amount received for the previous fiscal year, the LEA may reduce the level of local or State and local expenditures by not more than 50 percent of the excess (the “50% Rule”). If an LEA exercises this option, it must use an amount of local funds equal to the reduction in expenditures to carry out activities authorized under the Elementary and Secondary Education Act (ESEA) of 1965.

Condition: The District signed an assurance statement that it spent local funds of \$6,332,413 (the amount by which the District reduced local or State expenditures for special education costs) to carry out ESEA activities. The District did not have support for these costs at the time it signed the statement. These costs were identified only after the detail for these costs was requested by the auditors.

Cause: Procedures to identify the costs necessary to comply with this requirement were not in place at the time the assurance statement was signed.

Effect: The District did not have supporting documentation at the time the assurance statement was signed.

Recommendation: We recommend the District implement new procedures to ensure the maintenance of effort requirement is met and that any allowable alternatives (such as the 50% rule) are adequately supported and documented.

View of
Responsible
Official: The District will review its procedures related to assurance statements and determine how this problem occurred. The responsible employee will be counseled and new procedures developed and implemented to avoid this issue in the future.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-10

Level of Effort – Supplement vs. Supplant

Finding type:

Noncompliance

Federal agency/
Federal program(s):

U.S. Department of Education –
Title II, Part A (CFDA# 84.367)

Pass-through/
Project Number

Title II, Part A – Passed through MDE
Projects: 100520 & 110520

Questioned costs:

Local funding supplanted by federal funds amounted to \$234,359

Criteria:

Per the OMB Circular A-133 Compliance Supplement, an SEA and LEA may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

Condition:

The costs identified in the general ledger as locally funded professional development decreased substantially during the year while the Title II, Part A funds (which are specifically used for professional development) increased substantially.

Cause:

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

Effect:

The District decreased the amount of professional development funded locally by \$234,359.

Recommendation:

We recommend the District implement new procedures to ensure that the local funding of professional development is not supplanted by federal funding.

View of
Responsible
Official:

The District will develop new procedures to properly document all local funding for professional development to ensure there is no supplanting.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-11

Earmarking – Enrollment of Children with Disabilities (Repeat)

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

Federal agency/
Federal program(s): U.S. Department of Health and Human Services –
Head Start Cluster (CFDA# 93.600 & 93.708)

Pass-through/
Project Number: Passed through the City of Detroit
Head Start (all grant years), Head Start Special Education (all grant years), & Head Start Quality Improvement & Cost of Living Adjustment programs.

Questioned costs: Not readily determinable.

Criteria: The 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.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

View of
Responsible
Official:

The District is required to follow the Detroit Public Schools Response to Intervention (RTI) and Resource Coordinating Team (RCT) Standards, Practices, and Procedures.

The District must continue to follow these District-wide procedures to identify children with "Suspected Disabilities." This is a national initiative to provide interventions and supports, addressing student's areas of weakness, prior to special education consideration.

The District has experienced repeated and continued difficulty in retrieving data from Head Start centers, retrieving Special Education reports from other service providers, receiving supporting documents from Head Start teachers, receiving supporting documents from parents, prior to, during, and following enrollment. To remedy these delays, combined strategies will include continuing training of Head Start teachers, parents, and support staff to locate and collect the required documentation and continued self-audit of cases of "Children with Disabilities" to determine and request required documents for Head Start Central Office Files.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-12 Procurement – Open Competition (Repeat)

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

Federal agency/
Federal program(s): U.S. Department of Agriculture –
Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559)
U.S. Department of Education –
Special Education Cluster (CFDA# 84.027, 84.173, 84.391, & 84.392)
Title II, Part A (CFDA# 84.367)

Pass-through/
Project Number

- Child Nutrition Cluster – Passed through MDE
Projects: 101970, 111970, 091950, 101950, 101960, 101980, 11950, 11960, 11980, 100900, 101900
- Special Education Cluster – Passed through Wayne RESA
Projects: Education of the Handicapped (all grant years and ARRA grant), Center Expansion (all grant years and ARRA grant), Assistive Technology Training and Information Center (all grant years and ARRA grant), Preschool Incentive (all grant years and ARRA grant)
- Title II, Part A – Passed through MDE
Projects: 100520 & 110520

Questioned costs:

- Child Nutrition Cluster – \$176,060
- Spec Education Cluster – \$25,035
- Title II, Part A – \$27,614

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 \$21,380. 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 Cluster – 4 of the 26 items selected for procurement testing did not have the required documentation for open competition.
- Special Education Cluster – 1 of the 17 items selected for procurement testing did not have the required documentation for open competition.
- Title II, Part A – 1 of the 24 items selected for procurement testing did not have the required documentation for open competition.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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:	Procurement policies and procedures will be updated to include a new DPS Strategic Sourcing process that ensures that all requisitions that exceed the threshold of \$15,000 will demonstrate competitiveness; will be reviewed by a Sourcing Council and properly executed with appropriate signature per the delegation of authority.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-13

Procurement – Properly Executed Contracts

Finding type: Noncompliance

Federal agency/
Federal program(s): U.S. Department of Education –
Title I, Part A Cluster (CFDA# 84.010 & 84.389)

Pass-through/
Project Number: Passed through MDE
Projects: 101530, 101550, 111530, 111550, 101535, 101555, & 111535

Questioned costs: \$25,719

Criteria: Per the OMB Circular A-133 Compliance Supplement, the District is required to maintain adequate internal controls over Federal, State and contractual requirements for grant funds. OMB Circular A-133 states that federally required clauses must be included in contracts. In order for these required clauses to be enforceable the contract must be fully executed.

Condition: The District authorized purchase orders and paid invoices against contracts that were not signed.

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

Effect: 1 of the 52 items selected for procurement testing was not properly executed.

Recommendation: We recommend that the District implement appropriate procedures to ensure that all contracts are fully executed before purchase orders are authorized and invoices paid under the contract.

View of
Responsible
Official: Procurement policies and procedures will be updated to include a new DPS Strategic Sourcing process that ensures that all requisitions that exceed the threshold of \$15,000 will demonstrate competitiveness; will be reviewed by a Sourcing Council and properly executed with appropriate signature per the delegation of authority.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-14 Suspension and Debarment – Verification of Vendors (Repeat)

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

Federal agency/
Federal program(s): U.S. Department of Agriculture –
 Child Nutrition Cluster (CFDA# 10.553, 10.555 & 10.559)
 U.S. Department of Education –
 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)

Pass-through/
Project Number ➤ Child Nutrition Cluster – Passed through MDE
 Projects: 101970, 111970, 091950, 101950, 101960, 101980, 11950, 11960,
 11980, 100900, 101900
 ➤ Title I, Part A Cluster – Passed through MDE
 Projects: 101530, 101550, 111530, 111550, 101535, 101555, & 111535
 ➤ Special Education Cluster – Passed through Wayne RESA
 Projects: Education of the Handicapped (all grant years and ARRA grant),
 Center Expansion (all grant years and ARRA grant), Assistive Technology
 Training and Information Center (all grant years and ARRA grant),
 Preschool Incentive (all grant years and ARRA grant)
 ➤ Career & Technical Education – Passed through MDE
 Projects: 103520, 103530, 113520, & 113530
 ➤ Title II, Part A – Passed through MDE
 Projects: 100520 & 110520

Questioned costs: None inasmuch as an independent search of the Excluded Parties List System did
 not show any selected vendors as suspended or debarred.

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 nor debarred.

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

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

Effect:	<ul style="list-style-type: none">➤ Child Nutrition Cluster – 7 of 26 items selected for testing did not have documented verification.➤ Title I, Part A Cluster – 11 of 52 items selected for testing did not have documented verification.➤ Special Education Cluster – 7 of 17 items selected for testing did not have documented verification.➤ Career & Technical Education – 3 of 6 items selected for testing did not have documented verification.➤ Title II, Part A – 6 of 24 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:	Procurement policies and procedures will be updated to include a checklist for each file to ensure that verification of vendors has been completed. In addition, a new DPS Strategic Sourcing process will be implemented that ensures that all requisitions that exceed the threshold of \$15,000 will demonstrate competitiveness; will be reviewed by a Sourcing Council and will be properly executed with appropriate signature per the delegation of authority.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-15 Reporting – 1512 Reports (Repeat)

Finding type:	Noncompliance; Significant deficiency in internal controls over compliance
Federal agency/ Federal program(s):	U.S. Department of Education – Title I, Part A Cluster (CFDA# 84.389) Special Education Cluster (CFDA# 84.391 & 84.392)
Pass-through/ Project Number	<ul style="list-style-type: none">➤ Title I, Part A Cluster – Passed through MDE Projects: 101535, 101555, & 111535➤ Special Education Cluster – Passed through Wayne RESA Projects: Education of the Handicapped (ARRA grant), Center Expansion (ARRA grant), Assistive Technology Training and Information Center (ARRA grant), Preschool Incentive (ARRA grant)
Questioned costs:	None
Criteria:	Section 1512 of the American Recovery and Reinvestment Act (“Recovery Act”) requires reporting on the use of Recovery Act funding by recipients. Among other things, the recipients’ reports are required to disclose the cumulative amount paid to vendors receiving a single payment of \$25,000 or more of Recovery Act funds.
Condition:	The District did not report the required information on certain quarterly reports filed during the year.
Cause:	The District’s procedures related to these requirements were not sufficient to prevent noncompliance with section 1512 of the Recovery Act.
Effect:	<ul style="list-style-type: none">➤ Title I, Part A Cluster – The District misreported the amounts paid to two vendors on the October 2010 report (under-reported one by \$34,676,091 and the other \$682,706) and under-reported the amount paid to one of these same vendors by \$4,101,421 on the April 2011 report.➤ Special Education Cluster – The District did not report any vendor data on any of the quarterly reports. Based on testing, it appears that the District should have reported information for two vendors in the April 2011 report and reported information for these two vendors and a third in the July 2011 report. Amounts that should have been reported for these vendors were \$449,284, \$55,221, and \$25,199.
Recommendation:	We recommend that the District implement procedures adequate to ensure that all vendor data submitted in the 1512 reports is accurate.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

View of
Responsible
Official:

- Title I, Part A Cluster – The District acknowledges that these vendors were misreported in the October and April reports. Corrective action was developed and implemented to eliminate inaccurate reporting of cumulative vendor payment information. Enhanced procedures require that the Title I Director and State and Federal Programs Executive Director review and approve hard-copy documentation before final data is submitted to the Michigan Department of Education. Further, electronically-submitted documentation will be maintained locally.

- Special Education Cluster – To ensure that all reports issued regarding use of Federal funds are complete and accurate, Staff will utilize the following steps: Compliance Administrators will be required to supply all account numbers to be included in the query before the query is run to compute jobs created and retained and vendor jobs; whereby ensuring that the data is accurate and complete before reporting the information in the 1512 Report. A Non-Salary Expenditure Details report which shows checks paid for a specified period of time will be run for each quarter for each ARRA grant to verify vendor payments over \$25,000 per occurrence. This information will be compared to what is being reported in the 1512 Report.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-16

Reporting; Cash Management – Final DS-4044 Reports

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

Federal agency/
Federal program(s): U.S. Department of Education –
Career & Technical Education (CFDA# 84.048)
Title II, Part A (CFDA# 84.367)

Pass-through/
Project Number:

- Career & Technical Education – Passed through MDE
Projects: 103520, 103530, 113520, & 113530
- Title II, Part A – Passed through MDE
Projects: 100520 & 110520

Questioned costs: None

Criteria: The District is required to report final expenditure amounts for grants administered through MEGs (Michigan Electronic Grant system). The State of Michigan reimburses the District for the reported expenditures. The Michigan School Auditing Manual requires that payment is made before reimbursement.

Condition: The District reported material “adjustments” on the final report that were not supported by the general ledger at the time of reporting. Based on testing of the subsequent activity it became apparent that the District was reimbursed based on the final report for costs that were not paid for until well after the payment was received.

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

Effect:

- Career & Technical Education – The District reported approximately \$545,000 of adjustments which include approximately \$50,000 of vouchers not paid until December 2010 or later. In addition, journal entries necessary to support the remainder of the adjustments were never posted. This resulted in \$242,826 of deferred revenue as reported on the Schedule of Expenditures of Federal Awards.
- Title II, Part A – The District reported approximately \$7.5 million of adjustments in December 2010, which were not paid until January through September 2011.

Recommendation: We recommend that the District implement procedures to ensure that all reported expenditures are supported by the general ledger, that required journal entries are posted on a timely basis, and that the District pay for costs before they are reported.

View of
Responsible
Official: District finance staff responsible for reporting final expenditure amounts for grants administered through MEGs will be trained and directed to post expenditures to MEGs only from the general ledger.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-17 **Special Tests and Provisions – Verification Timeliness and Benefit Status (Repeat)**

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

Federal agency/
Federal program(s): U.S. Department of Agriculture –
 Child Nutrition Cluster (CFDA# 10.553, 10.555, & 10.559)

Pass-through/
Project Number Passed through MDE
 Projects: 101970, 111970, 091950, 101950, 101960, 101980, 11950, 11960, 11980,
 100900, 101900

Questioned costs: None inasmuch as the costs and meals reimbursed for these specific students could
 not be determined.

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. One
 student's verification information was unavailable for testing.

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. The cause of the missing verification documents is indeterminable.

Effect: It was noted that 2 of the 45 students selected for testing (4.4%) had their free or
 reduced statuses removed for not responding but were reinstated after new
 applications were filed. One student of the 45 selected (2.2%) was unable to be
 tested.

Recommendation: We recommend that the District evaluate its verification procedures to ensure that
 new applications are not used to circumvent the verification process, and that all
 verification documentation is retained.

View of
Responsible
Official: The District will review and revise its procedures as necessary to ensure that
 students selected for the verification process will not obtain a free or reduced status
 until the family income is verified. The supervisor of accountability will be
 responsible for this verification and employees will be trained.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2011

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

2011-SA-18

Special Tests and Provisions – Comparability Report

Finding type:	Noncompliance; Significant deficiency in internal controls over compliance
Federal agency/ Federal program(s):	U.S. Department of Education – Title I, Part A Cluster (CFDA# 84.010 & 84.389)
Pass-through/ Project Number	Passed through MDE Projects: 101530, 101550, 111530, 111550, 101535, 101555, & 111535
Questioned costs:	Not readily determinable
Criteria:	OMB Circular A-87 states that an LEA may receive funding under Title I, Part A only if funds will be used to provide services that are comparable to the other schools in the District, including others also receiving Title I, Part A funding. The Michigan Department of Education requires teacher and student count information to be reported through MEGs so that comparability can be determined.
Condition:	The student count information reported in MEGs did not match the student count support provided by the District.
Cause:	The District's procedures related to this requirement were not sufficient to prevent improper reporting of student count data in MEGs.
Effect:	Of the 146 schools reported, student count information for 14 schools was inaccurately reported in MEGs.
Recommendation:	We recommend that the District implement policies and procedures sufficient to ensure accurate reporting of student count data.
View of Responsible Official:	The District will follow the auditor's recommendations to implement policies and procedures to ensure accurate reporting of student data. These policies and procedures will include the following: <ol style="list-style-type: none">1. A reconciliation process that balances the total FTE from the source document to the total FTE entered into the report.2. Additionally, the District will explore having student count information electronically input into the Report. <p>The District will coordinate with the Department of Human Resources and attempt to increase the input-window and the number of days that the report is available for data entry within the Department of State and Federal Programs.</p>

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2011

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

2011-SA-19

Special Tests and Provisions – Average Class Size

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

Federal agency/
Federal program(s): U.S Department of Health and Human Services –
Head Start Cluster (CFDA# 93.600 & 93.708)

Pass-through/
Project Number: Passed through the City of Detroit
Head Start (all grant years), Head Start Special Education (all grant years), & Head Start Quality Improvement & Cost of Living Adjustment programs.

Questioned costs: Not readily determinable

Criteria: The U.S. Department of Health and Human Services performance standards section 1306.32 requires that average class sizes must be between 17 and 20 students, with no one class having enrollment above 20 students.

Condition: The District's average class size for the Head Start program did not meet the minimum average class size of 17.

Cause: The District's procedures target 17 as the maximum class size and budgeted an average class size below 17.

Effect: The average class size of the Head Start program was 16.84 students per class.

Recommendation: We recommend that the District implement policies and procedures sufficient to ensure average class size for the Head Start program meets the minimum average class size of 17 students.

View of
Responsible
Official: DPS Head Start vacancies will be monitored weekly by Subpart C supervisor and social service coordinators. Social Service Coordinators will contact school teachers with vacancies by phone or visit to discuss teacher's plans to become fully enrolled. Teachers have 30 days to fill vacancies. Social Service Coordinators will document contact on social service support records and follow up with teachers until full enrollment is met. The Subpart C supervisor will send an email alert mandating full enrollment to teachers and copy school principals until the enrollment reaches 17-20 students per class with no class ever exceeding 20 students.



DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings

For the Year Ended June 30, 2011

2010-01 Audit Adjustments – Capital Assets

This finding was not adequately resolved. See finding 2011-FS-01 in the current year Schedule of Findings and Questioned Costs.

2010-02 Audit Adjustments – Payroll Liabilities

This finding was partially resolved. See finding 2011-FS-02 in the current year Schedule of Findings and Questioned Costs.

2010-03 Audit Adjustments – Prepaid Expenditures

This finding was adequately resolved

**2010-04 Audit Adjustments – 2009 Bonds Accounts Payable
Noncompliance – 1994 Bonds Procurement Documentation**

This finding was partially resolved. See finding 2011-FS-03 in the current year Schedule of Findings and Questioned Costs.

2010-05 Budget

This finding was partially resolved. See finding 2011-FS-04 in the current year Schedule of Findings and Questioned Costs.

2010-06 Audit Adjustments – Other Liabilities

This finding was adequately resolved.

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

This finding was not adequately resolved. See finding 2011-FS-05 in the current year Schedule of Findings and Questioned Costs.

2010-08 Accounting for Loss Contingencies – Legal Reserves

This finding was adequately resolved.

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

This finding was not adequately resolved. See finding 2011-FS-06 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, 2011

- 2010-10 Individual Schools – Cash Policies and Procedures**
This finding was not adequately resolved. See finding 2011-FS-07 in the current year Schedule of Findings and Questioned Costs.
- 2010-11 Allowable Costs/Cost Principles – Disbursement Documentation**
Title I, Part A Cluster (CFDA# 84.010 & 84.389); 21st Century (CFDA# 84.287)
This finding was adequately resolved.
- 2010-12 Allowable Costs/Cost Principles – 26 Pay Accrual**
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)
This finding was adequately resolved.
- 2010-13 Allowable Costs/Cost Principles – Payroll Documentation**
Career & Technical Education (CFDA# 84.048); Title II, Part A (CFDA# 84.367)
This finding was not adequately resolved. See finding 2011-SA-02 in the current year Schedule of Findings and Questioned Costs.
- 2010-14 Allowable Costs/Cost Principles; Matching – In-kind Contributions used for Match Head Start (CFDA# 93.600)**
This finding was not adequately resolved. See finding 2011-SA-04 in the current year Schedule of Findings and Questioned Costs.
- 2010-15 Eligibility – Proper Documentation of Income Verification**
Head Start (CFDA# 93.600)
This finding was not adequately resolved. See finding 2011-SA-08 in the current year Schedule of Findings and Questioned Costs.
- 2010-16 Earmarking – Proportionality**
Special Education Cluster (CFDA# 84.027, 84.173, 84.391, & 84.392)
This finding was adequately resolved.
- 2010-17 Earmarking – Enrollment of Children with Disabilities**
Head Start (CFDA# 93.600)
This finding was not adequately resolved. See finding 2011-SA-11 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Concluded)

For the Year Ended June 30, 2011

2010-18 Period of Availability – Voucher Transactions

Title II, Part A (CFDA# 84.367)

This finding was adequately resolved.

2010-19 Procurement – Open Competition

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)

This finding was not adequately resolved. See finding 2011-SA-12 in the current year Schedule of Findings and Questioned Costs.

2010-20 Suspension and Debarment – Verification of Vendors

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)

This finding was not adequately resolved. See finding 2011-SA-14 in the current year Schedule of Findings and Questioned Costs.

2010-21 Reporting – 1512 Reports

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

This finding was not adequately resolved. See finding 2011-SA-15 in the current year Schedule of Findings and Questioned Costs.

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

Child Nutrition Cluster (CFDA# 10.553, 10.555 & 10.559)

This finding was not adequately resolved. See finding 2011-SA-17 in the current year Schedule of Findings and Questioned Costs.

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