

East Detroit Public Schools

Eastpointe, Michigan

Single Audit

June 30, 2011

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education
East Detroit Public Schools
Eastpointe, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Detroit Public Schools as of and for the year ended June 30, 2011, which collectively comprise East Detroit Public Schools' basic financial statements and have issued our report thereon dated October 4, 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 East Detroit Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Detroit Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Detroit Public Schools' 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 question costs we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and question costs to be a material weakness. (2011-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Detroit Public Schools' 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 questions costs as item 2011-1.

East Detroit Public Schools' response to the findings identified in our audit are described in the accompanying schedule of finding and question costs. We did not audit East Detroit Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the board of education, others within the District, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Flint, Michigan
October 4, 2011



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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

To the Board of Education
East Detroit Public Schools
Eastpointe, Michigan

Compliance

We have audited East Detroit Public Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of East Detroit Public Schools' major federal programs for the year ended June 30, 2011. East Detroit Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of East Detroit Public Schools' management. Our responsibility is to express an opinion on East Detroit Public Schools' 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 East Detroit Public Schools' 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 East Detroit Public Schools' compliance with those requirements.

In our opinion, East Detroit Public Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of East Detroit Public Schools 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 East Detroit Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 East Detroit Public Schools' internal control over compliance.

(continued)

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 combination of deficiencies, in internal control over compliance, such that there is a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Detroit Public Schools as of and for the year ended June 30, 2011, and have issued our report thereon dated August 31, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the board of education, others within the district, 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.

Yeo & Yeo, P.C.

Flint, Michigan
October 4, 2011

East Detroit Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

	Federal CFDA Number	Pass-Through Grantor's Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Deferred) Revenue at July 1, 2010	Prior Year Expenditures	Adjustments	Current Year Cash Payments/ In Kind Received	Current Year Expenditures	Inventory/ Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Agriculture									
Passed through Michigan									
Department of Education									
Nutrition Cluster									
Non-Cash Assistance									
	10.555		\$ 114,246	\$ -	\$ -	\$ -	\$ 114,246	114,246	\$ -
Entitlement Commodities			1,456	-	-	-	1,456	1,456	-
Bonus Commodities									
Total Non-Cash Assistance			115,702	-	-	-	115,702	115,702	-
Cash Assistance									
School Breakfast Program									
	10.553	101970	229,464	-	200,607	-	28,857	28,857	-
		111970	448,307	-	-	-	417,447	448,307	30,860
			677,771	-	200,607	-	446,304	477,164	30,860
National School Lunch Program									
Sec. 4 - Total Servings									
	10.555	101950	132,236	-	119,874	-	12,362	12,362	-
		111950	113,040	-	-	-	106,240	113,040	6,800
Sec. 11 - Free and Reduced									
		101960	920,822	-	835,576	-	85,246	85,246	-
		111960	813,918	-	-	-	764,411	813,918	49,507
			1,980,016	-	955,450	-	968,259	1,024,566	56,307
Total Cash Assistance			2,657,787	-	1,156,057	-	1,414,563	1,501,730	87,167
Total Nutrition Cluster			2,773,489	-	1,156,057	-	1,530,265	1,617,432	87,167
ARRA NSLP Equipment Grant									
	10.579	101990-00828	7,089	-	-	-	7,037	7,037	-
		101990-03272	7,089	-	-	-	7,089	7,089	-
			14,178	-	-	-	14,126	14,126	-
Total U.S. Department of Agriculture			2,787,667	-	1,156,057	-	1,544,391	1,631,558	87,167
Department of Labor									
Passed Through Intermediate									
School District									
WIA Youth Regular									
	17.259		48,378	8,834	38,464	-	8,834	-	-
			2,915	-	-	-	2,915	2,915	-
			58,976	-	-	-	43,783	52,874	9,091
			110,269	8,834	38,464	-	55,532	55,789	9,091
Total U.S. Department of Labor			110,269	8,834	38,464	-	55,532	55,789	9,091

See accompanying notes to Schedule of Expenditures of Federal Awards
(continued)

East Detroit Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

	Federal CFDA Number	Pass-Through Grantor's Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Deferred) Revenue at July 1, 2010	Prior Year Expenditures	Adjustments	Current Year Cash Payments/ In Kind Received	Current Year Expenditures	Inventory/ Accrued (Deferred) Revenue at June 30, 2011
Department of Education									
Special Education Cluster									
Passed Through Intermediate									
School District									
IDEA Flowthrough									
	84.027	100450-0910	\$ 1,135,997	\$ 368,719	\$ 1,027,495	\$ -	\$ 477,220	\$ 108,501	\$ -
		110450-1011	1,886,191	-	-	-	1,062,586	1,625,875	563,289
			<u>3,022,188</u>	<u>368,719</u>	<u>1,027,495</u>	<u>-</u>	<u>1,539,806</u>	<u>1,734,376</u>	<u>563,289</u>
IDEA Preschool Incentive									
	84.173	110460-1011	25,031	-	-	-	14,538	25,031	10,493
			<u>25,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,538</u>	<u>25,031</u>	<u>10,493</u>
ARRA IDEA - Flowthrough									
	84.391	100455-0910	1,318,835	126,535	612,272	-	512,213	706,563	320,885
			<u>1,318,835</u>	<u>126,535</u>	<u>612,272</u>	<u>-</u>	<u>512,213</u>	<u>706,563</u>	<u>320,885</u>
Total Special Education Cluster			<u>4,366,054</u>	<u>495,254</u>	<u>1,639,767</u>	<u>-</u>	<u>2,066,557</u>	<u>2,465,970</u>	<u>894,667</u>
Title I Cluster									
Passed through Michigan									
Department of Education									
Title I - Part A Grants									
	84.010	101530-0910	1,131,155	287,942	719,154		464,488	176,546	-
		111530-1011	1,366,435	-	-	-	400,737	510,596	109,859
			<u>2,497,590</u>	<u>287,942</u>	<u>719,154</u>	<u>-</u>	<u>865,225</u>	<u>687,142</u>	<u>109,859</u>
ARRA Title I-Part A									
	84.389	101535-0910	652,074	99,871	243,085	-	141,658	41,787	-
		111535-1011	367,201	-	-	-	217,564	286,157	68,593
			<u>1,019,275</u>	<u>99,871</u>	<u>243,085</u>	<u>-</u>	<u>359,222</u>	<u>327,944</u>	<u>68,593</u>
Title I Cluster			<u>3,516,865</u>	<u>387,813</u>	<u>962,239</u>	<u>-</u>	<u>1,224,447</u>	<u>1,015,086</u>	<u>178,452</u>
Passed Through Intermediate									
School District									
Safe & Drug Free									
	84.186	112860-1011	2,010	-	-	-	994	2,010	1,016
Vocational Education									
	84.048	113520-111216	44,117	-	-	-	44,117	44,117	-

See accompanying notes to Schedule of Expenditures of Federal Awards
(continued)

East Detroit Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

	Federal CFDA Number	Pass-Through Grantor's Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Deferred) Revenue at July 1, 2010	Prior Year Expenditures	Adjustments	Current Year Cash Payments/ In Kind Received	Current Year Expenditures	Inventory/ Accrued (Deferred) Revenue at June 30, 2011
Passed through Michigan Department of Education Improving Teacher Quality	84.367	100520-0910 110520-1011	\$ 528,404 651,678	\$ 92,840 -	\$ 130,875 -	\$ - -	\$ 113,454 129,979	\$ 20,614 192,883	\$ - 62,904
			<u>1,180,082</u>	<u>92,840</u>	<u>130,875</u>	<u>-</u>	<u>243,433</u>	<u>213,497</u>	<u>62,904</u>
Passed through Michigan Department of Education ARRA Stabilization Fund	84.394	112525-1011	<u>539,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>539,916</u>	<u>539,916</u>	<u>-</u>
Passed through Michigan Department of Education Education Jobs Fund	84.410A	112545-1011	<u>848,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710,897</u>	<u>848,330</u>	<u>137,433</u>
Total U.S. Department of Education			<u>10,497,374</u>	<u>975,907</u>	<u>2,732,881</u>	<u>-</u>	<u>4,830,361</u>	<u>5,128,926</u>	<u>1,274,472</u>
Total Federal Programs			<u>\$ 13,395,310</u>	<u>\$ 984,741</u>	<u>\$ 3,927,402</u>	<u>\$ -</u>	<u>\$ 6,430,284</u>	<u>\$ 6,816,273</u>	<u>\$ 1,370,730</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

East Detroit Public Schools
Schedule of Reconciliation of Revenues
with Expenditures of Federal Awards
June 30, 2011

Revenue from federal sources - per basic financial statements - all funds	\$ 6,791,375
Accounts receivable and deferred revenue not recognized in the financial statements	<u>24,898</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 6,816,273</u></u>

East Detroit Public Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section I - Summary of Auditors' Results

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted?

 X Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant Deficiency(ies) identified that are not considered to be material weakness(es)? Yes X No

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

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

 Yes X No

East Detroit Public Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.394	ARRA- State Fiscal Stabilization Fund
84.027/84.173/84.391	Special Education Cluster
84.010/84.389	Title I Cluster
84.410A	Education Jobs Fund

Dollar threshold used to distinguish
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee:

_____ Yes X No

(continued)

East Detroit Public Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II - Financial Statement Findings

Finding 2011-1 Material Weakness, Noncompliance

Criteria – Section 102 of the State Aid Act does not allow for districts receiving funds under the act to adopt or operate under a deficit budget.

Condition – The Board of Education adopted a budget that increased the deficit for the 2011 fiscal year, which is a violation of Michigan state law.

Context – The District continues to operate in a deficit position.

Cause/Effect – The district is not working toward eliminating the deficit in the general fund.

Recommendation – We recommend that budgets should be balanced before adopted.

Management's Response – Management is in agreement with this finding, and has reported the District's deficit condition to the State of Michigan and has completed its Deficit Elimination Plan with the State of Michigan. The Board of Education approved a balanced budget for the 2011-2012 fiscal year.

2011-1 Finding was a repeat finding (included in 2010 and 2009)

Section III - Federal Award Findings and Questioned Costs

No matters were noted

(continued)

East Detroit Public Schools
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

Finding 2010-1 Material Weakness, Noncompliance

Criteria – Section 102 of the State Aid Act does not allow for districts receiving funds under the act for to adopt or operate under a deficit budget.

Condition – The Board of Education adopted a budget that increased the deficit for the 2011 fiscal year, which is a violation of Michigan state law.

Context – The District continues to operate in a deficit position.

Cause/Effect – The district is not working toward eliminating the deficit in the general fund.

Recommendation – We recommend that budgets should be balanced before adopted.

Management's Response – Management is in agreement with this finding, and has reported the District's deficit condition to the State of Michigan and has completed its Deficit Elimination Plan with the State of Michigan.

See 2011-1 Finding, above is a repeat finding in the current year.