

DETROIT COMMUNITY SCHOOLS
LETTER OF COMMENTS AND RECOMMENDATIONS
JUNE 30, 2011

A Professional Corporation

November 11, 2011

To the Board of Education
Detroit Community Schools
Detroit, Michigan 48223

We have audited the financial statements of Detroit Community Schools (the Academy) for the year ended June 30, 2011, and have issued our report dated November 11, 2011. As part of our examination, we reviewed and tested the Academy's accounting procedures and system of internal controls to determine the nature, timing and extent of the auditing procedures necessary to express an opinion on the annual financial statements.

The objective of internal control is to provide reasonable assurance that 1) transactions are executed according to management's general or specific authorization, 2) assets are safeguarded against loss from unauthorized use or disposition, 3) duties are segregated between various employees to provide a reasonable check upon transactions and 4) the financial records are reliable for preparing financial statements and maintaining accountability for assets.

Our examination would not necessarily disclose all weaknesses in the system of internal control because it was based on selective tests of accounting records and data.

The following comments and recommendations are presented for your consideration:

Schedule of Expenditures of Federal Awards

The Report on Expenditures of Federal Awards enumerates several findings not repeated in this letter. Please refer to that report.

PRIOR YEAR COMMENTS

Reconcile Bank Accounts on a Timely Basis

Bank statements, in some instances, were not reconciled to the appropriate general ledger accounts on a timely basis. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to receiving the next month's bank statement.

Current year status: We noted several bank accounts that were not timely reconciled.

Require Receipt of Goods Documentation

During our review of cash disbursements we noted that receipt of goods documentation was not attached or noted on a number of invoices being paid. We recommend that the documentation of receipt of goods (i.e. signed and dated packing slips) be required and be attached to the invoices being paid.

Current year status: We noted several paid invoices without proof of receipt of goods attached.

Have Management Sign the Payroll Register

Management reviews the payroll register after every pay period. This control is crucial to the operation of an internal payroll function. To improve effectiveness of the control, we recommend that management initial and date the register before checks are disbursed.

Current year status: We did not notice any payroll registers that were not signed by management.

CURRENT YEAR COMMENTS

Implement Title I and Title II Compliance Plan

During the fiscal year the Academy's Title I and Title II programs underwent an On Site Review by the Michigan Department of Education. The Academy timely responded to the On Site Review with an elementary and high school compliance plan. We Academy should ensure the compliance plan is implemented in a timely manner.

Written Procedures for Grants

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. As described in 34 CFR Part 80, 2 CFR Part 215 and OMB Circular A-133 Compliance Supplement Part 6, academies must have written procedures for the following:

- Financial Management Systems
- Payments
- Allowable Costs
- Period of Availability
- Matching or Cost Sharing (if applicable)
- Program Income (if applicable)
- Procurement
- Equipment and Real Property (if applicable)
- Supplies
- Copyrights (if applicable)
- Subawards to Debarred and Suspended Parties
- Monitoring and Reporting Program Performance (if applicable)
- Retention and Access Requirement for Records

In addition, academies should have written procedures for:

- Cash Management
- Conflict of Interest
- Payroll
- Federal Timekeeping

We recommend that the Academy review its procedures and the documentation of such procedures to ensure that the items listed above have been addressed. If any items are not currently addressed, we recommend that the Academy evaluate putting procedures in place and document them accordingly. These written procedures should include provisions for training and consequences for compliance failures. Policies do not take the place of procedures.

*****OTHER INFORMATION*****

New Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement will be effective for the Academy's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concept Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Annual Yearly Progress

For the fiscal year ended June 30, 2011 Detroit Community High School did not make Annual Yearly Progress (AYP) as defined by the Michigan Department of Education. There are specific requirements the Academy should make themselves aware of for the fiscal year end June 30, 2012. These compliance requirements include but are not limited to Title 1 budgeting, program planning and related expenditures.

Updates to FDIC Coverage

Effective December 31, 2010, the FDIC rules governing insurance on deposits in some bank accounts at insured depository institutions have changed.

- All FDIC banks will provide 100 percent coverage on noninterest-bearing transaction accounts regardless of the total deposited.
- Nominal interest rate accounts are no longer 100 percent covered. The new regulations state that these accounts are only covered for the first \$250,000 in deposits. This includes NOW accounts and sweep accounts.
- The unlimited FDIC coverage that applied to certain governmental accounts has now expired.

We recommend that you review your deposit accounts and work with your financial institutions to determine that the deposit insurance coverage provided for your accounts meets your needs.

Summary

Academy recordkeeping procedures are fundamentally sound and reliable. The employees responsible for recordkeeping were cooperative and prompt in answering questions and providing documentation required during our audit.

We would like to thank the Board for this opportunity to again serve as your auditors. We are available throughout the year to answer questions or work on special projects at your request.

Hungerford & Co.

November 11, 2011