

**DETROIT COMMUNITY SCHOOLS**  
**LETTER OF COMMENTS AND RECOMMENDATIONS**  
**JUNE 30, 2012**

A Professional Corporation

December 2, 2012

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

We have audited the financial statements of Detroit Community Schools (the Academy) for the year ended June 30, 2012, and have issued our report dated December 2, 2012. 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 YEARS 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 the bank reconciliations were completed during the month following the statement date (with the exception of reconciliations during staff turnover).

#### **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 continued to note several paid invoices without proof of receipt of goods attached.

## CURRENT YEAR COMMENTS

### Accounting Software

The accounting department is currently using Quickbooks Software to record and report on financial transactions. While Quickbooks provides a broad range of reporting options, it is not specifically designed for school accounting use. We recommend that the Academy investigate the use of the Wayne County RESA Accounting System. While this system is more costly than Quickbooks it offers many reports and options that are centered on Michigan school accounting, budgeting and reporting needs. One area of importance would be the required use of the State school chart of accounts. That use would provide for seamless reporting for required State reports.

### Annual Yearly Progress

For the fiscal year ended June 30, 2012 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, 2013. These compliance requirements include but are not limited to Title 1 budgeting, program planning and related expenditures.

## OTHER INFORMATION

### New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions and accounting research bulletins of the AICPA Committee on Accounting Procedure. This standard is required to be adopted during the Academy's 2012-2013 fiscal year.

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.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented during the Academy's 2013-2014 fiscal year.

**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.*

December 2, 2012