
Detroit Public Schools

Report to the Board of Education

June 30, 2018

To the Board of Education
Detroit Public Schools

We have recently completed our audit of the basic financial statements of Detroit Public Schools (the "School District") as of and for the year ended June 30, 2018. In addition to our audit report, we are providing the following results of the audit and other recommendations that impact the School District:

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We are grateful for the opportunity to be of service to Detroit Public Schools. We would also like to extend our thanks to Jeremy Vidito, Arthur Jackson, and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

January 18, 2019

Results of the Audit

January 18, 2019

To the Board of Education
Detroit Public Schools

We have audited the financial statements of Detroit Public Schools (the "School District") as of and for the year ended June 30, 2018 and have issued our report thereon dated January 18, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 23, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated January 18, 2019 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters and in our letter to those charged with governance dated June 21, 2018 about our scope and timing plans. For the most part, the audit process progressed as planned, although the timing of the finalization of reporting was delayed.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 2 to the financial statements.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We are required to inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of the audit. Numerous adjustments were required to the School District's accounting records during the audit process in order to facilitate preparation and auditing of the School District's financial statements. These issues and adjustments encompassed most areas of the audit, including cash, accruals, accounts payable, employee compensation, and other items.

Conditions we encountered included improperly recorded transactions, misclassified balances, and unrecorded transactions. It is our belief that these conditions continue to arise as a result of the School District's significant reduction in employee headcount within key financial positions that occurred in previous fiscal years. This resulted in a significant amount of additional audit-related time and effort and delays being encountered in obtaining the necessary information to complete the audit. Due to the presence of these issues, along with the lack of consistent internal controls (which includes review of work) and adequate accounting procedures, we were required to deviate from our standard audit approach and planned procedures to adequately address the risks identified. The finance team was very helpful in working together to address the issues and accounting matters, and while there were numerous items that required adjustments, the overall process was improved from previous years.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

During the audit, we identified a number of misstatements in the School District's general ledger, which were present in virtually all funds and account cycles audited. As discussed briefly above and in more detail in the *Significant Findings or Issues* section below, adjustments were required to correct misstatements existing in several areas during the audit. Management calculated and provided many of the adjustments and has corrected all such misstatements identified during the audit.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Audit findings related to the School District's June 30, 2018 financial statements include the following, which are considered material weaknesses:

- Various account reconciliations were not prepared in a timely, accurate manner during the year. This resulted in management reconciling accounts and calculating and recording significant adjustments after the commencement of the audit process.
- Several material misstatements were discovered during the audit process. Adjustments to correct account balances and to account for activity related transfers between DPS and DPSCD were identified by us and adjusted by management.
- Every public school district, including public school academies and intermediate school districts, regardless of whether the school district falls under the OMB 2 CFR Part 200 requirement, must submit a financial audit, completed in accordance with *Government Auditing Standards*, to the MDE Office of Financial Management. For fiscal year 2018 audits of school districts, the audit due date is November 1, 2018. This filing deadline was missed by the School District, which is considered a noncompliance finding.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 18, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the School District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. The School District did contract with an accounting firm to prepare documents and schedules needed for the audit. In connection with fulfilling its role, we understand that the firm has performed internal consultations regarding certain accounting matters of the School District. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the Board of Education and management of Detroit Public Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Laura Claeys". The signature is written in a cursive, flowing style.

Laura K. Claeys

Other Recommendations

Other Recommendations

The following recommendation is in addition to the material weaknesses included in the schedule of findings and questioned costs:

Budgeting

We noted significant budget variances within the General Fund as a result of not budgeting for key expenditures, such as bond refundings, and payroll taxes on the 3 percent refund. Each of these transactions occurred prior to the final amended budget being adopted in June 2018 and, therefore, should have been included as part of that budget amendment. We recommend an analysis of any unusual transactions during the year to verify the activity is reflected in budgets presented for board approval.