

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

SINGLE AUDIT

JUNE 30, 2011

Baird, Cotter and Bishop, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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PELLSTON, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2011

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July 14, 2011

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
Pellston Public Schools
Pellston, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pellston Public Schools as of and for the year ended June 30, 2011, which collectively comprise Pellston Public Schools' basic financial statements and have issued our report thereon dated July 14, 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 Pellston Public Schools' 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 Pellston Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pellston Public Schools' internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Item 2011-A). 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Pellston 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported to management of Pellston Public Schools in a separate letter dated July 14, 2011.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Pellston Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the district, and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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July 14, 2011

INDEPENDENT AUDITOR'S 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
Pellston Public Schools
Pellston, Michigan

COMPLIANCE

We have audited Pellston Public School's 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 Pellston Public School's major federal programs for the year ended June 30, 2011. Pellston Public Schools' 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 Pellston Public Schools' management. Our responsibility is to express an opinion on Pellston 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. 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 Pellston 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 on Pellston Public Schools' compliance with those requirements.

In our opinion, Pellston 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 Pellston Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pellston Public Schools' internal control over compliance with 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 the District's internal control over compliance.

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 EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pellston Public Schools, as of and for the year ended June 30, 2011, and have issued our report thereon dated July 14, 2011, which contained unqualified opinions 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 the 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 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 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 the Board of Education, management and 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. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2010	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2011	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
Title I, Part A Cluster								
Title I, Part A - Improving Basic Programs								
Project No. 111530-1011	84.010	\$ 168,734	\$ 0	\$ 0	\$ 132,444	\$ 80,710	\$ 51,734	\$ 0
Project No. 101530-0910	84.010	166,247	49,746	161,500	0	49,746	0	0
Total	84.010	334,981	49,746	161,500	132,444	130,456	51,734	0
ARRA Title I, Part A - Improving Basic Programs								
Project No. 111535-1011	84.389	50,960	0	0	50,960	31,327	19,633	0
Project No. 101535-0910	84.389	75,391	6,347	24,431	0	6,347	0	0
Total	84.389	126,351	6,347	24,431	50,960	37,674	19,633	0
Total Title I, Part A Cluster		461,332	56,093	185,931	183,404	168,130	71,367	0
ARRA Title II D - Technology Literacy Challenge Grant								
Project No. 104295-0910	84.386	3,031	3,031	3,031	0	3,031	0	0
Title II A - Improving Teacher Quality								
Project No. 110520-1011	84.367	52,854	0	0	36,936	16,233	20,703	0
Project No. 100520-0910	84.367	47,425	21,320	39,956	0	21,320	0	0
Total	84.367	100,279	21,320	39,956	36,936	37,553	20,703	0
ARRA State Fiscal Stabilization Fund - Education State Grants, Recovery Act								
Project No. 112525-1011	84.394	82,418	0	0	82,418	82,418	0	0
Education Jobs Fund								
Project No. 112545-1011	84.410A	152,142	0	0	58,563	0	58,563	0
Total Passed Through M.D.E.		799,202	80,444	228,918	361,321	291,132	150,633	0
Passed Through Intermediate School District (I.S.D.)								
Carl D. Perkins - Title II								
Project No. 103520	84.048A	841	0	1,434	841	841	0	0
21st Century Community Learning Centers								
Project No. 112110-E08024	84.287C	117,040	0	0	117,040	117,040	0	0
Project No. 102110-E08024	84.287C	117,040	47,779	117,040	0	47,779	0	0
Project No. 112110-E09015	84.287C	122,490	0	0	117,040	117,040	0	0
Project No. 102110-F09015	84.287C	117,040	29,796	117,040	0	29,796	0	0
Total	84.287C	473,610	77,575	234,080	234,080	311,655	0	0

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2010	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2011	ADJUSTMENTS
Math Science Partnership Project No. MSPF2009	84.366	500	0	0	500	500	0	0
Transition Services Project No. 100490/TS	84.027A	156	0	0	156	156	0	0
Total Passed Through I.S.D.		475,107	77,575	235,514	235,577	313,152	0	0
Total U.S. Department of Education		1,274,309	158,019	464,432	596,898	604,284	150,633	0
U.S. Department of Health and Human Services								
Passed Through Intermediate School District (I.S.D.)								
Medicaid Outreach Project No. None	93.778	1,078	167	1,020	1,078	1,245	0	0
U.S Department of Agriculture								
Passed Through Michigan Department of Education								
Child Nutrition Cluster								
Non-Cash Assistance (Commodities):								
National School Lunch								
Entitlement Commodities	10.555	16,192	0	13,389	16,192	16,192	0	0
Bonus Commodities	10.555	277	0	1,438	277	277	0	0
Total Non-Cash Assistance		16,469	0	14,827	16,469	16,469	0	0
Cash Assistance:								
National School Lunch Program								
Section 4 - Total Servings - 111950 and 101950	10.555	19,376	0	18,555	19,376	19,376	0	0
Section 11 - Total Servings - 111960 and 101960	10.555	117,408	0	114,369	117,408	117,408	0	0
Snacks - Total Servings - 111980 and 101980	10.555	1,014	0	7,726	1,014	1,014	0	0
Total	10.555	137,798	0	140,650	137,798	137,798	0	0
National School Lunch Breakfast Program 111970 and 101970	10.553	60,516	0	60,109	60,516	60,516	0	0
Summer Food Service Program for Children 101900 and 100900	10.559	12,106	6,846	12,169	12,106	12,305	6,647	0
Total Cash Assistance		210,420	6,846	212,928	210,420	210,619	6,647	0
Total Child Nutrition Cluster		226,889	6,846	227,755	226,889	227,088	6,647	0
Child and Adult Care Food Program 112010 and 111920	10.558	27,259	0	0	25,546	25,546	0	0
Total U.S. Department of Agriculture		254,148	6,846	227,755	252,435	252,634	6,647	0
Total Federal Financial Assistance		\$ 1,529,535	\$ 165,032	\$ 693,207	\$ 850,411	\$ 858,163	\$ 157,280	\$ 0

(B)

(C)

(D)

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2011 basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balance	\$ <u>850,411</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u>850,411</u>

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Cash Management System (CMS)	\$ 605,493
Reconciling Items:	
Amounts not on CMS Report:	
Amounts Received Through Intermediate School District	\$ 314,397
Amounts Received by District in 2011/2012 that CMS Report Included in Current Year	
ARRA Title I, Part A - Improving Basic Programs	(19,633)
Education Jobs Fund	(58,563)
Amounts Received as Payments in Kind	
Food Distribution Program	
Entitlement Commodities	16,192
Bonus Commodities	277
	<u>252,670</u>
	<u>\$ 858,163</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Financial Statement Findings

2010-A

Significant Deficiencies:

The relatively small number of people involved in the accounting functions of the District makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a significant deficiency in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Corrective Action Plan

Inadequate segregation of duties

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent William Tebbe will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

Federal Award Findings and Questioned Costs

No prior year federal award findings and questioned costs.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL 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? Yes X No

Significant deficienc(ies) identified? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material Weakness(es) identified? Yes X No

Significant deficienc(ies) identified? Yes X None reported

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

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555, 10.553, and 10.559	Child Nutrition Cluster

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

\$300,000

Auditee qualified as low-risk auditee? X Yes No

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Section II - Financial Statement Findings

2011-A

Significant Deficiencies:

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties

Condition: The District has several accounting functions that are performed by the same individual.

Cause: This condition is primarily the result of staffing constraints typical of smaller districts.

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the District to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent William Tebbe will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

PELLSTON PUBLIC SCHOOLS
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Section III - Federal Award Findings and Questioned Costs

None.

