

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2019



SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Supplementary Information:	
Schedule of Expenditures of Federal Awards	2
Notes to Schedule of Expenditures of Federal Awards	5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	6
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	8
Schedule of Findings and Questioned Costs	10
Summary Schedule of Prior Audit Findings	15
Corrective Action Plan (Unaudited)	17



**INDEPENDENT AUDITOR'S REPORT ON SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY THE UNIFORM GUIDANCE**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Lake Schools (the "School District"), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements. We issued our report thereon dated October 28, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stewart, Beauvais & Whipple
Certified Public Accountants

October 28, 2019

SOUTH LAKE SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Unearned) Revenue June 30, 2018	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Unearned) Revenue June 30, 2019	Expenditures Passed to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE -								
Passed through Michigan Department of Education:								
Child Nutrition Cluster -								
School Breakfast Program -								
181970	10.553	\$ 174,705	\$ 9,918	\$ 155,281	\$ 19,424	\$ 29,342	\$ -	\$ -
191970		181,985	-	-	181,985	171,262	10,723	-
		<u>356,690</u>	<u>9,918</u>	<u>155,281</u>	<u>201,409</u>	<u>200,604</u>	<u>10,723</u>	<u>-</u>
National School Lunch Program -								
181960	10.555	386,418	19,726	345,787	40,631	60,357	-	-
191960		364,266	-	-	364,266	343,808	20,458	-
USDA Commodities (Non-Cash Assistance) -								
Entitlement - School Year 2019								
		64,109	-	-	64,109	64,109	-	-
		<u>814,793</u>	<u>19,726</u>	<u>345,787</u>	<u>469,006</u>	<u>468,274</u>	<u>20,458</u>	<u>-</u>
Summer Food Service Program for Children -								
180900	10.559	10,225	-	-	10,225	10,225	-	-
181900		1,055	-	-	1,055	1,055	-	-
		<u>11,280</u>	<u>-</u>	<u>-</u>	<u>11,280</u>	<u>11,280</u>	<u>-</u>	<u>-</u>
Total Child Nutrition Cluster		<u>1,182,763</u>	<u>29,644</u>	<u>501,068</u>	<u>681,695</u>	<u>680,158</u>	<u>31,181</u>	<u>-</u>
Child and Adult Care Food Program -								
181920	10.558	8,813	85	8,017	796	796	85	-
182010		390	-	347	43	43	-	-
191920		7,694	-	-	7,694	7,694	-	-
192010		431	-	-	431	431	-	-
		<u>17,328</u>	<u>85</u>	<u>8,364</u>	<u>8,964</u>	<u>8,964</u>	<u>85</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>1,200,091</u>	<u>29,729</u>	<u>509,432</u>	<u>690,659</u>	<u>689,122</u>	<u>31,266</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Unearned) Revenue June 30, 2018	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Unearned) Revenue June 30, 2019	Expenditures Passed to Subrecipients
U.S. DEPARTMENT OF EDUCATION -								
Passed Through Michigan Department of Education:								
Title I, Grants to Local Educational Agencies -								
Title I, Part A -								
181530 1718		\$ 382,650	\$ 51,668	\$ 295,953	\$ 70,791	\$ 122,459	\$ -	\$ -
191530 1819		358,833	-	-	257,162	163,535	93,627	-
		<u>741,483</u>	<u>51,668</u>	<u>295,953</u>	<u>327,953</u>	<u>285,994</u>	<u>93,627</u>	<u>-</u>
Improving Teacher Quality, State Grants								
Title II, Part A -								
180520 1718		137,743	19,921	101,655	-	19,921	-	-
190520 1819		105,912	-	-	105,912	71,474	34,438	-
		<u>243,655</u>	<u>19,921</u>	<u>101,655</u>	<u>105,912</u>	<u>91,395</u>	<u>34,438</u>	<u>-</u>
Title IV, Student Support and Academic Enrichment								
Title IV, Part A								
190750-1819		20,302	-	-	19,638	692	18,946	-
Total Passed Through Michigan Department of Education		<u>1,005,440</u>	<u>71,589</u>	<u>397,608</u>	<u>453,503</u>	<u>378,081</u>	<u>147,011</u>	<u>-</u>
Passed Through Macomb Intermediate School District:								
Special Education Cluster (IDEA) -								
Handicapped Preschool and School Program -								
PL 94-142 Flowthrough -								
180450 1718		346,870	101,014	346,870	-	101,014	-	-
190450 1819		347,081	-	-	343,756	232,153	111,603	-
		<u>693,951</u>	<u>101,014</u>	<u>346,870</u>	<u>343,756</u>	<u>333,167</u>	<u>111,603</u>	<u>-</u>
Preschool Grants -								
PL 94-142 Preschool Incentive -								
180460 1718		11,792	4,550	-	-	4,550	-	-
190460 1819		14,122	-	-	14,122	14,122	-	-
		<u>25,914</u>	<u>4,550</u>	<u>-</u>	<u>14,122</u>	<u>18,672</u>	<u>-</u>	<u>-</u>
Total Special Education Cluster		<u>719,865</u>	<u>105,564</u>	<u>346,870</u>	<u>357,878</u>	<u>351,839</u>	<u>111,603</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Unearned) Revenue June 30, 2018	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Unearned) Revenue June 30, 2019	Expenditures Passed to Subrecipients
U.S. DEPARTMENT OF EDUCATION (Cont'd) -								
Passed Through Macomb Intermediate School District (Cont'd):								
Career and Technical Education, Basic Grants to States-	84.048							
Vocational Education -								
183520-181216 Program		\$ 17,000	\$ 17,000	\$ 17,000	\$ -	\$ 17,000	\$ -	\$ -
193520-191216 Program		18,000	-	-	18,000	16,640	1,360	-
		<u>35,000</u>	<u>17,000</u>	<u>17,000</u>	<u>18,000</u>	<u>33,640</u>	<u>1,360</u>	<u>-</u>
Total Passed Through Macomb Intermediate School District		<u>754,865</u>	<u>122,564</u>	<u>363,870</u>	<u>375,878</u>	<u>385,479</u>	<u>112,963</u>	<u>-</u>
Total U.S. Department of Education		<u>1,760,305</u>	<u>194,153</u>	<u>761,478</u>	<u>829,381</u>	<u>763,560</u>	<u>259,974</u>	<u>-</u>
TOTAL FEDERAL AWARDS		<u>\$ 2,960,396</u>	<u>\$ 223,882</u>	<u>\$ 1,270,910</u>	<u>\$ 1,520,040</u>	<u>\$ 1,452,682</u>	<u>\$ 291,240</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of South Lake Schools (the "School District") for the year ended June 30, 2019. Expenditures reported on the Schedule are reported on the same basis of accounting, the modified accrual basis, as the financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Revenue has been accrued at June 30, 2019 to match allowable expenditures incurred during the year for each program. Grant funds received in advance that are in excess of incurred costs have been reflected as unearned revenue. All year-end accruals are considered to have met the modified accrual basis revenue recognition criteria of measurability and availability. USDA commodities have been recognized as revenue when received by the School District.

For purposes of charging indirect costs to federal awards, the School District has not elected to use the 10% de minimus cost rate.

The School District administers a number of federal grants, which are paid under reimbursement arrangements in which the School District bills the Michigan Department of Education (MDE) or other pass-through grantors for allowable costs incurred. The programs identified on the Schedule are reported in the General and Special Revenue Funds of the School District.

Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School District.

NOTE 2 - NONCASH ASSISTANCE:

The value of the noncash assistance (commodities) received was determined in accordance with the provisions of the Uniform Guidance. The Recipient Entitlement Balance Report is utilized to determine the value of commodities distributed to the School District.

NOTE 3 - CASH MANAGEMENT SYSTEM AND GRANT AUDITOR REPORT UTILIZATION:

The School District utilizes the MDE Cash Management System (CMS) and Grant Auditor Report (GAR) in preparing the Schedule.

**INDEPENDENT AUDITOR'S 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
South Lake Schools
St. Clair Shores, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Lake Schools (the "School District"), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-002, 2019-003, 2019-004, and 2019-005, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2019-001.

We noted certain other matters that we reported to management of the School District in a separate letter dated October 28, 2019.

School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. South Lake Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stewart, Beauvais & Whipple
Certified Public Accountants

October 28, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

Report on Compliance for Each Major Federal Program

We have audited South Lake Schools' (the "School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2019. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School District's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the School District's 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 South Lake School'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. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain other matters that we reported to management of the School District in a separate letter dated October 28, 2019.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Stewart, Beauvais & Whipple

Certified Public Accountants

October 28, 2019

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary Of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal controls over financial reporting:

Material weakness(es) identified? _____ x _____ yes _____ no

Significant deficiency(ies) identified 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 not considered to be material weaknesses? _____ yes _____ x _____ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance? _____ yes _____ x _____ no

Identification of Major Program:

<u>CFDA Number:</u>	<u>Name of Federal Program or Cluster</u>
CFDA #10.553/555/559	Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	_____ yes _____ x _____ no

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section II - Financial Statement Findings:

2019-001: General Fund deficit. (Repeat Comment - Prior-year Finding 2018-001)

Type: Material noncompliance with laws and regulations

Criteria: Section 103 of the State of Michigan School Aid Act and the State of Michigan Uniform Budgeting and Accounting Act prohibit a school district to adopt or operate under a deficit budget and a district shall not incur an operating deficit in a fund during the school year.

Condition: The School District's original budget estimated a General Fund fund balance deficit of \$(414,732) at year-end, with the final amended budget estimating a deficit of \$(1,515,947). The actual unassigned deficit for June 30, 2019 amounted to \$(1,757,252). The School District has filed and is operating under an Enhanced Deficit Elimination Plan.

Cause: Current operating revenues and carryover fund balance are not sufficient to cover operating expenditures.

Effect: The School District is not operating in accordance with the Michigan State School Aid Act.

Questioned Costs: None

Recommendation: The Board should continue to monitor its budget very closely and adopt a balanced budget as soon as possible.

View of Responsible Official and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2019-002: Bank reconciliations should be completed timely with all reconciling items thoroughly investigated. (Repeat Comment – Prior-year Finding 2018-002)

Type: Material weakness in internal controls over financial reporting.

Criteria: A required element of internal control over cash is to require monthly bank reconciliations to be performed on all cash accounts to determine that the ending bank balance is reconciled to the General Ledger balance and all reconciling items are properly accounted for and recorded.

Condition: During the audit, it was noted that the majority of bank reconciliations were started, however, were not always completed and they included a number of unresolved reconciling items.

Context: We had noted that reconciliations of cash accounts were started on all accounts held by the School District; however, differences were not always investigated and items that should be recorded in the General Ledger were not adjusted or were adjusted at a much later date.

Cause: The School District has not implemented controls over cash in which monthly bank reconciliations are required to be completed with all reconciling items thoroughly investigated and all accounts reconciled to the General Ledger.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Effect: The failure to implement the aforementioned internal control on a monthly basis exposes the School District to risk of not identifying unrecorded or improperly recorded transactions and potential fraudulent financial reporting or misappropriation of assets.

Recommendation: We recommend that, on a monthly basis, all bank accounts be reconciled to the General Ledger with any reconciling items thoroughly investigated and supported and that, once the reconciliations are completed, they be reviewed and approved by someone other than the preparer.

View of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2019-003: Formal month-end and year-end closing procedures should be established. (Repeat comment - Prior-year Finding 2018-003)

Type: Material weakness in internal controls over financial reporting.

Criteria: An element of good internal controls is to close out each month by reconciling significant balance sheet accounts to supporting documentation and to perform a detailed review of the revenues and expenditures for anything that looks unusual. At year-end, it is imperative to not only reconcile all balance sheet accounts, but to also reconcile various revenues and expenditures accounts while also preparing schedules for the audit.

Condition: Certain accounts did not agree with supporting documentation, or supporting documentation was not available at the start of the audit fieldwork. Also, it was verbally communicated that many of these accounts were not reconciled to supporting documentation during the year.

Context: During the audit process, we proposed approximately 40 audit adjustments to correct or reclassify account balances.

Cause: The School District has not implemented formal month-end or year-end procedures.

Effect: Failure to implement the aforementioned internal control on a monthly basis exposes the School District to risk of not identifying unrecorded or improperly recorded transactions and potential fraudulent financial reporting or misappropriation of assets. This lack of procedures resulted in several funds where material entries were proposed, most notably within the General Fund which began with expenditures over revenues of \$541,565 and, after the recording of proposed journal entries, the expenditures over revenues was reduced to \$399,092. As a result, if the financial statements had been prepared based on the preliminary information provided, the financial statements would have been materially misstated.

Recommendation: The School District should establish formal month-end closing procedures to reconcile accounts and plan for year-end procedures to be performed in preparation of the audit. We recommend that, on a monthly basis, significant balance sheet accounts be reconciled to supporting documentation, with any reconciling items thoroughly investigated, supported, and adjusted if necessary. Once the reconciliations are prepared, they should then be reviewed and approved by an individual that is not responsible for the preparation.

View of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

2019-004: Segregation of duties. (Repeat Comment - Prior-year Finding 2018-004)

Type: Material weakness in internal controls over financial reporting.

Criteria: Segregation of duties is crucial to internal controls over the School District's processes to ensure a single individual does not have access to each step of a transaction cycle.

Condition: An employee has access to all aspects of the disbursement process, including the ability to write checks, keeping the sequence of checks written, completing bank reconciliations, ability to record journal entries, and maintenance of the General Ledger. This employee also has access to all aspects of the receipting process for a particular activity, while another individual has access to a different activity, including full access to software, accepting money from schools at the business office without always collecting support for the deposit, making deposits, and recording journal entries.

Context: There is a potential for misstatements, fraud, and errors due to the lack of segregation of duties within these transaction cycles.

Cause: In fiscal 2017, one of the key accounting personnel retired and was not replaced, resulting in a number of those duties being reassigned, which eliminated the segregation of certain duties that were in place in prior years.

Effect: The lack of segregation of duties exposes the School District to increased risk of misstatement, errors, fraudulent financial reporting, and misappropriation of assets.

Recommendation: We recommend evaluating the current controls over the disbursement and receipting processes in order to determine where other individuals can be inserted into the process to strengthen the controls as well as require support for all deposits be submitted to the business office.

View of Responsible Official and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2019-005: Journal entry procedures should be reviewed. (Repeat Comment - Prior-year Finding 2018-005)

Type: Material weakness in internal controls over financial reporting.

Criteria: Journal entries are an accounting method used to manually record certain activity or correct General Ledger information. Because these entries are outside the standardized processes, there is an increased opportunity of errors, misappropriations, and/or fraud; and as such, there should be an increased awareness and approval process over these transactions.

Condition: During our audit, we noted a number of journal entries did not have supporting documentation, lacked proper approval, and/or could not be located.

Context: During journal entry testing, nine (9) of twenty-five (25) did not have approval, eleven (11) of the twenty-five (25) had no supporting documentation for the entry, and five (5) of the twenty-five (25) could not be located. It was also noted that journal entries could be deleted after they had been posted to the General Ledger.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Cause: There does not appear to be a formal procedure over the generation of journal entries and what documentation is required to support the entries, or over the process to review and approve the entries.

Effect: The lack of formal procedures over journal entries exposes the School District to increased risk of misstatement, errors, fraudulent financial reporting, and misappropriation of assets.

Recommendation: We recommend evaluating the current controls over the journal entry process in order to determine where other individuals can be inserted into the process to strengthen the controls.

View of Responsible Official and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

Section III - Federal Award Findings and Questioned Costs:

There were no federal award findings or questioned costs.

Section IV - Prior-years' Findings and Questioned Costs:

See summary schedule of prior audit findings.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

Audit Finding Number: 2018-001

Initial Year Finding Occurred: 2014

Status of Finding: The School District continues to monitor budget and spending. However, the finding has been repeated in the current year as finding 2019-001.

Revision or Deviation from Previous Corrective Action Reported: None. The School District continues to work closely with MDE to make significant strides in meeting all required milestones in the elimination of the School District's deficit.

Reasons for Belief Finding No Longer Valid or Warrants Further Action: N/A

Audit Finding Number: 2018-002

Initial Year Finding Occurred: 2017

Status of Finding: The finding has not been corrected and is repeated in the current year as finding 2019-002.

Revision or Deviation from Previous Corrective Action Reported: See revised corrective action 2019-002.

Reasons for Belief Finding No Longer Valid or Warrants Further Action: N/A

Audit Finding Number: 2018-003

Initial Year Finding Occurred: 2018

Status of Finding: The finding has not been corrected and is repeated in the current year as finding 2019-003.

Revision or Deviation from Previous Corrective Action Reported: See revised corrective action 2019-003.

Reasons for Belief Finding No Longer Valid or Warrants Further Action: N/A

Audit Finding Number: 2018-004

Initial Year Finding Occurred: 2017

Status of Finding: The finding has not been corrected and is repeated in the current year as finding 2019-004.

Revision or Deviation from Previous Corrective Action Reported: See revised corrective action 2019-004.

Reasons for Belief Finding No Longer Valid or Warrants Further Action: N/A

**SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

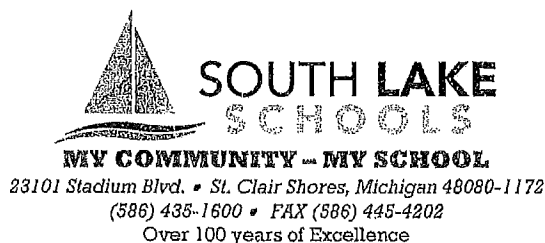
Audit Finding Number: 2018-005

Initial Year Finding Occurred: 2018

Status of Finding: The finding has not been corrected and is repeated in the current year as finding 2019-005.

Revision or Deviation from Previous Corrective Action Reported: See revised corrective action 2019-005.

Reasons for Belief Finding No Longer Valid or Warrants Further Action: N/A



October 31, 2019

District corrective action plan to the findings reported in the Schedule of Findings and Questioned Costs for the year ending June 30, 2019.

Section II – Financial Statement Findings:

2019-001: General Fund Deficit (Repeat Comment – Prior Year Finding 2018-001) Budget Noncompliance with the Michigan State School Aid Act

- As noted in the Summary Schedule of Prior Audit Findings, the District continues to monitor their budget and spending. The District was transferred from MDE to Treasury, and continues to submit the required monthly EDEP report. The District continues to work closely with the Department of Treasury to eliminate the District's deficit.

2019-002: Bank reconciliation should be completed timely with all reconciling items thoroughly investigated. (Repeat Comment – Prior-year Finding 2018-002)

- Bank accounts will be completed and reconciled on a monthly basis to the General Ledger.
- The new Business Office staff will bring reconciling items the Business Manager to investigate and then approve monthly reconciliation.
- Bank reconciliations will be part of the month-end closing procedure,
- The corrective action will take place immediately and be implemented for the 2019-2020 fiscal year.

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2019-003: Formal month-end and year-end closing procedures should be established.

- A formal month-end closing procedure will be developed with the new Business Office staff to reconcile accounts to supporting documentation.
- A formal year-end closing procedure will be developed with the new Business Office Staff that will use the cumulative month-end reconciliations to balance year-to-date, and to be used in preparation of the annual audit.
- Monthly reconciliation items will be brought by the preparer to the Business Manager to investigate, review and approve.
- The corrective action will take place immediately and be implemented for the 2019-2020 fiscal year.

2019-004: Segregation of duties (Repeat Comment with modifications – Prior-year Finding 2018-003)

- Management will evaluate current segregation of duties and determine how to best insert individual(s) to strengthen controls so one employee does not have access to all aspects of the disbursement process.
- Duties that require one person to have access to multiple steps of the transaction cycle will have approval from someone else other than the preparers.
- Management will evaluate current job duties to determine if duties can be changed or eliminated to improve internal controls.
- The corrective action will take place immediately and be implemented for the 2019-2020 fiscal year.

2019-005: Journal entry procedures should be reviewed

- Management will review the journal entry procedures and determine how to best insert new Business Office staff to strengthen controls.
- The corrective action will take place immediately and be implemented for the 2019-2020 fiscal year.

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We appreciate the support and insight of the district auditors in helping to point out and improve internal control procedures, as the district works to eliminate its deficit situation. The district has not replaced positions upon retirement/resignation, leaving remaining staff to absorb additional and sometimes unfamiliar job duties. Unfortunately, this has caused reduced internal control procedures. We believe the implementation of the aforementioned comments and suggestions, from the district auditors, and our improvements or changes in procedures will correct the findings and increase internal controls.

Sincerely,

Frank Thomas

Director of Business & H.R.

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