

**Eaton Intermediate School District
Charlotte, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2011

Eaton Intermediate School District

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**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
Eaton Intermediate School District
Charlotte, Michigan

Compliance

We have audited Eaton Intermediate School District'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 its major federal programs for the year ended June 30, 2011. Eaton Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Eaton Intermediate School District's management. Our responsibility is to express an opinion on Eaton Intermediate School District's 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, *Audits of States, Local Governments, and Nonprofit Organizations*. 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 Eaton Intermediate 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. Our audit does not provide a legal determination of Eaton Intermediate School District's compliance with those requirements.

In our opinion, Eaton Intermediate School District 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2011-8.

Internal Control Over Compliance

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

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-8 to be a significant deficiency.

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 Eaton Intermediate School District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Eaton Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Eaton Intermediate School District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Eaton Intermediate School District's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of administration and the members of the Board of Education of Eaton Intermediate School District, others within the District, the pass-through entities, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2011

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND</u>			
U.S. Department of Agriculture			
Passed through Michigan Department of Human Services and Michigan Fitness Foundation			
ARRA - State Adm Matching Grant for SNAP ^(e)	10.561		
2009-10 SNAP-Ed		N/A	\$ 224,400
2010-11 SNAP-Ed		N/A	<u>229,749</u>
			454,149
U.S. Department of Education			
Direct Assistance			
Rural Education Achievement Program	84.358A		
2009-10		S358A096231	25,437
Passed through Michigan Department of Education			
Safe & Drug Free - National Programs	84.184		
2010-11		112660Bridging2011	32,000
2010-11		112790SSPB2011	63,835
2010-11		112790SS2011	<u>350,000</u>
			445,835
Safe & Drug Free - State Programs	84.186		
2010-11		1128601011,1101B	108,896
2009-10		1028600910	<u>287,368</u>
			396,264
Title II Part A	84.367		
2009-10		1005200910	664
Passed through Michigan Department of Education and Calhoun ISD			
Education Technology - State Grants	84.318		
2010-11		104235ARRA2	100,200
U.S. Department of Health and Human Services			
Direct Assistance			
Drug Free Communities Support Program	93.276	5H79SP013791-05	500,000

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2010	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2011
	Restated Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
\$ 164,844	\$ 65,901	\$ 97,243	\$ 24,846	\$ (6,496)
-	-	44,900	192,534	147,634
164,844	65,901	142,143	217,380	141,138
25,437	25,437	25,437	-	-0-
-	-	1,448	26,817	25,369
-	-	-	34,174	34,174
-	-	4,921	116,927	112,006
-0-	-0-	6,369	177,918	171,549
-	-	90,647	108,896	18,249
164,085	164,085	188,472	24,387	-0-
164,085	164,085	279,119	133,283	18,249
-	-	664	664	-0-
-	-	19,430	23,893	4,463
361,037	289,471	-	84,860	374,331

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND - CONTINUED</u>			
U.S. Department of Health and Human Services - continued			
Passed through Cristo Rey Community Center			
Drug Free Communities Support Program	93.276		
2009-10		1 H79 SP014371-01	\$ 28,000
2010-11		1 H79 SP014371-01	24,500
			<u>52,500</u>
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			1,975,049
<u>SPECIAL EDUCATION FUND</u>			
U.S. Department of Education			
Passed through Michigan Department of Education			
Special Education 94-142 ^{(c)(d)}	84.027		
Special Education Mandated Projects			
2009-10 Transition Services		100490TS	51,250
2010-11 Transition Services		110490TS	40,000
2010-11 Regular		1104501011	3,024,790
2009-11 Regular		1004500910	3,018,742
2008-10 Regular		0904500809	2,896,002
2010-11 Enhancing Opportunities EOSD		110480EOSD	50,000
			<u>9,080,784</u>
Special Education 94-142 ^{(c)(d)}	84.173		
Preschool Incentive			
2010-11 Regular		1104601011	98,714
2009-10 Regular		1004600910	98,627
			<u>197,341</u>
Early On Michigan ^(f)	84.181		
2010-11		111340190	113,549
2009-10		101340190	114,783
			<u>228,332</u>
ARRA - S. E. Grants Flowthrough ^{(c)(d)}	84.391		
2009-10		1004550910	3,150,095
ARRA - Special Education Preschool Grants ^{(c)(d)}	84.392		
2009-10		1004650910	105,618

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2010	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2011
	Restated Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
\$ 25,486	\$ 11,769	\$ 14,283	\$ 2,514	\$ -0-
-	-	12,628	24,500	11,872
25,486	11,769	26,911	27,014	11,872
740,889	556,663	500,073	665,012	721,602
51,250	22,352	22,352	-	-0-
-	-	40,000	40,000	-0-
-	-	1,260,139	3,003,926	1,743,787
1,934,397	1,027,179	1,555,432	1,084,344	556,091
2,896,002	343,576	343,576	-	-0-
-	-	50,000	50,000	-0-
4,881,649	1,393,107	3,271,499	4,178,270	2,299,878
-	-	79,417	98,714	19,297
98,627	49,313	49,313	-	-0-
98,627	49,313	128,730	98,714	19,297
-	-	-	113,549	113,549
114,783	114,783	114,783	-	-0-
114,783	114,783	114,783	113,549	113,549
1,142,841	1,122,084	2,148,118	1,569,956	543,922
1,929	1,929	66,434	68,453	3,948

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education - continued			
Passed through Michigan Department of Education - continued			
ARRA - Infant and Toddler Formula Grant ^(f)	84.393		
2009-10		101345190	\$ 112,457
Passed through Michigan Department of Education and Grand Valley State University			
Flow Through ^{(c)(d)}	84.027		
2009-10		N/A	24,200
2010-11		N/A	<u>20,000</u>
			44,200
U.S. Department of Health and Human Services			
Passed through Michigan Family Independence Agency			
Medicaid Assistance Program			
Title XIX	93.778		
Outreach			
2010-11		2981894	<u>7,820</u>
TOTAL SPECIAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			12,926,647
<u>VOCATIONAL EDUCATION FUND</u>			
U.S. Department of Agriculture			
Passed through Michigan Family Independence Agency and Capital Area Michigan Works			
ARRA - State Adm Matching Grant for SNAP ^(c)	10.561		
FY10		10132	101,028
FY11		11132	<u>127,622</u>
			228,650
U.S. Department of Labor			
Passed through Michigan Department of Career Development and Capital Area Michigan Works			
ARRA - Employment Service	17.207		
PY09 Employment Services		9135ES	60,479
PY10 Employment Services		10135ES	60,479
PY09 Re-employment Services		9135ES	160,000
PY10 Interns		10135ES	<u>9,000</u>
			289,958

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2010	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2011
	Restated Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
\$ 27,307	\$ 22,970	\$ 80,757	\$ 84,095	\$ 26,308
22,200	11,100	11,100	-	-0-
-	-	4,000	20,000	16,000
22,200	11,100	15,100	20,000	16,000
-	-	7,820	7,820	-0-
6,289,336	2,715,286	5,833,241	6,140,857	3,022,902
69,162	9,079	39,036	29,957	-0-
-	-	28,973	53,069	24,096
69,162	9,079	68,009	83,026	24,096
60,479	7,549	7,549	-	-0-
-	-	52,144	60,479	8,335
157,548	19,907	22,359	2,452	-0-
-	-	9,000	9,000	-0-
218,027	27,456	91,052	71,931	8,335

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>VOCATIONAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Labor - continued			
Passed through Michigan Department of Career Development and Capital Area Michigan Works - continued			
WIA Adult Program ^(e)	17.258		
2009-10 Ingham		0133	\$ 44,265
2010-11 Ingham		10133	76,581
2009-10 ARRA - Ingham		0133	31,325
2010-11 ARRA - Ingham		10133	9,280
2009-10 Eaton		0131	265,523
2010-11 Eaton		10131	195,998
2009-10 ARRA - Eaton		0131	<u>47,765</u>
			670,737
WIA Youth Activities ^(e)	17.259		
2010-11		10134	175,173
2009-10		9134	<u>173,112</u>
			348,285
Summer YETP ^(e)	17.259		
2010-11		N/A	20,992
ARRA - WIA Dislocated Workers ^(e)	17.260		
2009-10		9136	158,910
2009-10 ARRA		9136	136,793
2010-11 ARRA		10136	<u>52,465</u>
			348,168
WIA National Emergency Grants ^(e)	17.277		
2010-11 NEG - OJT		10136	30,062
2009-10 NEG		10136	<u>193,976</u>
			224,038
WIA Dislocated Workers ^(e)	17.278		
2010-11		10136	72,161

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2010	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2011
	Restated Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
\$ 44,265	\$ 4,082	\$ 4,082	\$ -	\$ -0-
-	-	69,059	76,581	7,522
31,325	2,609	2,609	-	-0-
-	-	8,415	9,280	865
265,523	38,940	38,940	-	-0-
-	-	169,823	195,998	26,175
47,765	3,231	3,231	-	-0-
388,878	48,862	296,159	281,859	34,562
-	-	149,845	175,173	25,328
173,112	18,608	18,608	-	-0-
173,112	18,608	168,453	175,173	25,328
-	-	20,992	20,992	-0-
145,664	1,017	1,017	-	-0-
136,793	16,860	16,860	-	-0-
-	-	52,465	52,465	-0-
282,457	17,877	70,342	52,465	-
-	-	17,530	29,286	11,756
13,246	13,246	121,425	112,501	4,322
13,246	13,246	138,955	141,787	16,078
-	-	61,697	72,161	10,464

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>VOCATIONAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education			
Passed through Michigan Department of Education and Clinton County Regional Education Service Agency			
WIA Statewide Programs ^(e)	17.258-17.260		
2009-10 Incumbent Worker		9133-9136	37,400
2010-11 WIA - SWA - JET		11137	20,897
2009-10 WIA - SWA - JET		10137	26,676
2010-11 Incumbent Worker		10133-10136	<u>6,800</u>
			91,773
Liquid Web	17.268		
2009-10		0888	176,568
Career & Technical Education - Perkins	84.048		
2009-10 Regional Allocation		23000	\$ 177,898
2010-11 Regional Allocation		23000	<u>257,932</u>
			435,830
U.S. Department of Health and Human Services			
Passed through Michigan Department of Career Development and Capital Area Michigan Works WorkFirst Program			
Temporary Assistance for Needy Families	93.558		
2010-11 - TANF		11137	267,528
2010-11 - JET - GF/GP		11137	39,785
2010-11 - DHS - TANF		10137	1,050
2009-10 - JET - GF/GP		10137	73,131
2009-10 - DHS - TANF		10137	25,000
2009-10 - TANF		10137	<u>325,863</u>
			<u>732,357</u>
TOTAL VOCATIONAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			<u>3,639,517</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 18,541,213</u></u>

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2010	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2011
	Restated Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
29,445	29,445	37,400	7,955	-0-
-	-	17,000	17,000	-0-
22,733	-	3,943	3,943	-0-
-	-	-	6,800	6,800
52,178	29,445	58,343	35,698	6,800
176,568	20,833	20,833	-	-0-
\$ 177,898	\$ 99,828	\$ 99,828	\$ -	\$ -0-
-	-	-	257,932	257,932
177,898	99,828	99,828	257,932	257,932
-	-	142,283	198,926	56,643
-	-	39,785	39,785	-0-
-	-	1,050	1,050	-0-
29,001	-	44,130	44,130	-0-
-	-	6,250	6,250	-0-
237,765	75,672	163,770	88,098	-0-
266,766	75,672	397,268	378,239	56,643
1,818,292	360,906	1,491,931	1,571,263	440,238
\$ 8,848,517	\$ 3,632,855	\$ 7,825,245	\$ 8,377,132	\$ 4,184,742
		(b)	(a)	

Eaton Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Eaton Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (f) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The amounts reported in this schedule as cash receipts are in agreement with the amounts reported as "paid during date range" in the Grant Auditor Report, as applicable.
- (c) Denotes program tested as "major program".
- (d) Denotes programs required to be clustered by the United States Department of Education.
- (e) Denotes programs required to be clustered by the United States Department of Labor.
- (f) Denotes programs required to be clustered by the United States Department of Education.

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2011

Program Title/ Subrecipient (School District)	CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures
Special Education 94-142				
Flow Through				
2010-11 Regular	84.027			
Charlotte Public Schools		1104501011	\$ 626,902	\$ -
Eaton Rapids Public Schools		1104501011	636,750	-
Potterville Public Schools		1104501011	240,328	-
Grand Ledge Public Schools		1104501011	1,210,764	-
Maple Valley Schools		1104501011	289,182	-
			<u>3,003,926</u>	<u>-0-</u>
ARRA - IDEA				
Charlotte Public Schools	84.391	1004550910	352,227	-
Eaton Rapids Public Schools		1004550910	213,763	-
Grand Ledge Public Schools		1004550910	381,318	-
Maple Valley Public Schools		1004550910	120,759	-
			<u>1,068,067</u>	<u>-0-</u>
TOTAL SPECIAL EDUCATION FUND			<u>\$ 4,071,993</u>	<u>\$ -0-</u>

<u>Balance July 1, 2010</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2011</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
\$ -	\$ 626,902	\$ 626,902	\$ -0-
-	636,750	636,750	-0-
-	240,328	240,328	-0-
-	948,123	1,210,764	262,641
-	289,182	289,182	-0-
<u>-0-</u>	<u>2,741,285</u>	<u>3,003,926</u>	<u>262,641</u>
-	352,227	352,227	-0-
-	120,239	213,763	93,524
-	370,612	381,318	10,706
-	120,759	120,759	-0-
<u>-0-</u>	<u>963,837</u>	<u>1,068,067</u>	<u>104,230</u>
<u>\$ -0-</u>	<u>\$ 3,705,122</u>	<u>\$ 4,071,993</u>	<u>\$ 366,871</u>

Principals

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**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
Eaton Intermediate School District
Charlotte, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 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 Eaton Intermediate School District's 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 Eaton Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eaton Intermediate School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings as 2011-1 and 2011-2 to be material weaknesses.

A *significant deficiency* is a deficiency or 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. We consider the deficiencies described in the accompanying schedule of findings as 2011-3, 2011-4, 2011-5, and 2011-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as 2011-7.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration and the Board of Education of Eaton Intermediate School District, others within the District, pass-through entities, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2011

Eaton Intermediate School District

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiencies identified that are not considered to be material weakness(es)? 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 deficiencies identified that are not considered to be material weakness(es)? X Yes None reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.391, 84.392 10.561	Special Education Cluster ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

2011-1 BANK RECONCILIATIONS

Condition: During our analysis of the District's pooled bank account, we noted that bank reconciliations had not been performed in a timely manner during the year. The reconciliations for this account appeared to have been completed for the entire year just prior to commencement of year end audit fieldwork.

Criteria: All bank accounts should be reconciled to the computerized general ledger on a monthly basis.

Cause: The Finance office did not devote sufficient time during the year to complete these reconciliations on a timely basis and assure that all adjustments needed to adjust the general ledger were recorded.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2011-1 BANK RECONCILIATIONS - CONTINUED

Effect: The true cash balances in the general ledger were not supported by a completed bank reconciliation throughout the year to assure cash balances were accurately reflected in the general ledger.

Recommendation: All bank reconciliations should be completed in a timely manner and any adjustments noted should be investigated, supported, and resolved within a reasonable time after each month-end to assure accuracy of the amounts in the general ledger.

Corrective Action Response: Monitoring this duty is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. During the year ended June 30, 2011 we experienced staff turnover with cash receipts and bank reconciliation staff not being immediately replaced. Furthermore, when staff members were hired, these duties were not reassigned nor were they monitored at any point during the year by the designated administrator responsible for this function. With the help of outside consultants who are considered experts in the field, we are examining our staffing needs and resources and realigning accounting duties as appropriate. Bank reconciliations are and will continue to be a top priority and we have implemented procedures to ensure timely completion, including but not limited to, assigning this task to an employee and requiring notification to the superintendent when completed.

2011-2 RECORDING OF RECEIPTS

Condition: During our analysis of the receipts process and documentation of controls over this process it was determined that the last ten (10) months worth of receipt data for the year was not entered into the general ledger in a timely manner.

Criteria: Management is responsible for the timely recording of all transactions within the general ledger to assure the ledger is up-to-date and accurate.

Cause: The Finance office did not devote sufficient time during the year to post receipts to the general ledger in a timely fashion.

Effect: Cash basis revenue information was not materially accurate throughout the fiscal year and with cash receipts not being posted the bank reconciliations could not be completed.

Recommendation: Cash receipts should be input into the computerized general ledger in a timely fashion and reconciled to deposits to allow for accurate revenues being reflected in the general ledger. This timely recording would also allow the bank reconciliations to be completed timely.

Corrective Action Response: Monitoring this duty is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. During the year ended June 30, 2011 we experienced staff turnover with cash receipts and bank reconciliation staff not being immediately replaced. Furthermore, when staff members were hired, these duties were not reassigned nor were they monitored at any point during the year by the designated administrator responsible for this function. With the help of outside consultants who are considered experts in the field, we are examining our staffing needs and resources and realigning accounting duties as appropriate. Recording cash receipts into our district finance program is and will continue to be a top priority and we have implemented procedures to ensure timely completion.

These procedures include, but are not limited to:

1. The employee who makes physical bank deposits will immediately forward to the employee assigned to process data entry into SDS.
2. The employee assigned to process data entry of receipts into SDS will complete this task within 24 hours of receiving the deposit.

Eaton Intermediate School District
SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2011-3 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Condition: The District relies, in part, on the independent auditors for assistance with the preparation of annual government-wide financial statements, related notes to the financial statements in accordance with generally accepted accounting principles (GAAP), and the schedule of expenditures of federal awards.

Criteria: Governments are required to prepare financial statements in accordance with GAAP. Responsibility for the financial statements of the District rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, the related note disclosures (i.e., external financial reporting), and the schedule of expenditures of federal awards.

Cause: At year-end, the District did not have sufficient expertise with the preparation of financial statements, the notes to the financial statements, and the schedule of expenditures of federal awards.

Effect: This experience is essential for the District's administration to be able to accept responsibility for the amounts and disclosures included in the District's financial statements, notes to the financial statements, and the schedule of expenditures of federal awards.

Recommendation: We recommend the District consider obtaining additional training for the appropriate members of the District's administration to assure that they are able to fully understand the requirements of preparing financial statements, the notes to the financial statements, and the schedule of expenditures of federal awards.

This recommendation is not intended to imply that the District's contractual arrangement with the independent auditors, which includes preparation of the financial statements, is improper or should be changed.

Corrective Action Response: Management of the District is aware of this deficiency and will continue to look for opportunities to increase our understanding of the requirements of preparing the financial statements, the notes to the financial statements, and the schedule of expenditures of federal awards. At this time, the benefit of meeting those standards does not justify the associated costs and we will continue to rely, in part, on our auditors for assistance.

2011-4 RECONCILIATION OF CERTAIN RECEIVABLES/PAYABLES

Condition: During our analysis of certain accounts within the general ledger (Due from other governmental units, Due to other governmental units, Deferred revenue) it was noted that several of these accounts throughout all the various funds of the District were not reconciled completely to detailed supporting documentation during the year.

Criteria: All material accounts within the general ledger should be reconciled to actual supporting documentation on a periodic basis and any differences should be identified and adjusted accordingly.

Cause: The Finance office did not perform these reconciliations during the year and as a result there still were unreconciled items in these accounts at year-end.

Effect: The District's general ledger is misstated at year-end. While the differences within these accounts were not material to the financial statements as a whole or in the individual funds, this is a control issue.

Recommendation: All applicable accounts within the general ledger should be analyzed and reconciled to supporting documentation on a regular basis and any necessary adjustments should be made in a timely fashion.

Eaton Intermediate School District
SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2011-4 RECONCILIATION OF CERTAIN RECEIVABLES/PAYABLES - CONTINUED

Corrective Action Response: This is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. With the help of outside consultants who are considered experts in the field, we will implement processes and procedures to ensure timely completion, reporting, and monitoring of receivables and payables.

2011-5 CAPITAL ASSETS

Condition: There was not a complete, detailed listing of capital assets that can be produced by the Finance office for the year-end balances of capital assets.

Criteria: The District should have a detailed and complete inventory listing of all capital assets over the capitalization threshold to fully support the amounts as noted in the audited financial statements.

Cause: The District has simply been utilizing an inventory listing from several years ago and tracking additions and deletions annually to support the amounts reflected in the audited financial statements but not formally updating a new listing each year.

Effect: The lack of one, dedicated, complete listing of all capital assets makes tracking and subsequently auditing capital assets very time consuming and difficult to follow.

Recommendation: We recommend the District review the current information they have accumulated since the last detailed inventory listing was prepared that reflects annual additions and deletions and take all this data and prepare a master listing of all capital assets owned by the District at year end. This would not only be useful for government-wide financial statement purposes and calculating of depreciation expense on an annual basis but this listing could be used to track all applicable capital assets for safeguarding of these assets from misuse, loss, etc.

Corrective Action Response: This is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. We agree with the audit recommendation. We will review the current information accumulated since the last detailed inventory listing was prepared that reflects annual additions and deletions and take all this data and prepare a master listing of all capital assets owned by the District at year end no later than June 30, 2012.

2011-6 TIMELINESS OF DRAWDOWN OF GRANT FUNDS

Condition: During our analysis of the requests for reimbursement the District prepared related to funds from their various funding sources, it was noted that there was a significant amount of time between the time funds were expended at the District and when funds were requested. It appeared that from one (1) of the main funding sources (MDE), funds were only requested five (5) times during the year. It was also noted that from another fund source (U.S. Department of Health and Human Services) it had been multiple years since funds had been requested for expenditures that had been appropriately incurred by the District on one particular grant.

Criteria: With reimbursement-type grants such as these it is appropriate, and good practice, to request reimbursement from the funding sources in a timely fashion to avoid prolonged usage of local dollars on appropriate grant funded expenditures.

Cause: The Finance office procedure to request funds in a timely fashion after expenditures were incurred was not followed.

Eaton Intermediate School District
SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2011-6 TIMELINESS OF DRAWDOWN OF GRANT FUNDS - CONTINUED

Effect: The District had to utilize local dollars and fund balance to cover these expenditures which caused there to be significant receivables outstanding at year-end. As a result of not requesting funds timely, it also caused the Special Education Fund cash balance to be negative at year-end, in effect requiring that fund to "borrow" from the other funds cash balances at year-end as the overall cash balance in the pooled bank account was positive.

Recommendation: We recommend that the District put in place a formal policy that requires periodic, timely requests for reimbursement of grant funds. These drawdowns of funds should continue to be well documented and reconciled when funds are received to assure what was requested was collected. This will also allow the District to maintain appropriately healthier cash balances throughout the year.

Corrective Action Response: This is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. With the help of outside consultants who are considered experts in the field, the district will implement procedures to ensure timely monitoring and drawdown of grant funds.

2011-7 BUDGETS

Condition: As noted in the required supplementary information to the financial statements, certain activities exceeded the amounts appropriated.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Cause: The District did not amend the budget when it became apparent spending was going to exceed the amounts appropriated in the over budget areas.

Effect: The District had instances of budgetary noncompliance relative to State law in the areas where the overages occurred.

Recommendation: We recommend the District continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: This is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. With the help of outside consultants who are considered experts in the field, the district will implement procedures to ensure timely monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as required by law.

Section III - Federal Award Findings and Questioned Costs

2011-8 SUBRECIPIENT MONITORING

Special Education - Flow-through Regular and Transition Services and ARRA-IDEA funds passed through Michigan Department of Education - CFDA's 84.027 and 84.391; Grant Numbers: 1104501011, 1104090TS, 1004550910.

Condition: During our review of the process related to subrecipient monitoring for the above grants it was determined that the District did not retain adequate documentation to support what procedures were performed related to subrecipient monitoring.

Eaton Intermediate School District

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2011

Section III - Federal Award Findings and Questioned Costs - Continued

2011-8 SUBRECIPIENT MONITORING - CONTINUED

Criteria: Federal regulations (34CFR74.51) require recipients that pass down subawards to ensure subrecipients have met the audit requirements to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and document such monitoring for audit purposes. Circular A-110 subpart C.51(a) states "Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award". Also, Circular A-133 section 400(d) requires a pass-through entity to ensure certain activities are completed in monitoring the compliance of a subrecipient.

Cause: The District obtained audits from all subrecipients but retained no documentation to support what actual monitoring was performed.

Effect: The District appears to not be in compliance with subrecipient monitoring requirements of OMB Circulars A-110 and A-133 and 34CFR74.51.

Recommendation: We recommend the District implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures. These written procedures should include obtaining subrecipient audit reports and review of same to determine that pass-through funds are reported properly and that there are no findings with regard to these funds. If discrepancies or findings are noted the District should follow up with their subrecipients in a timely manner.

Corrective Action Response: This is a management function that was not completed in a timely fashion by the designated administrator responsible for this function. With the help of outside consultants who are considered experts in the field, the District will implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures. These written procedures will include obtaining subrecipient audit reports and reviewing of same to determine that pass-through funds are reported properly and that there are no findings with regard to these funds. If discrepancies or findings are noted the District will follow up with their subrecipients in a timely manner to be in compliance with OMB monitoring requirements.

Eaton Intermediate School District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2010-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and Special Education Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Special Education Fund.

Resolution: There were budget overages in the current year as noted in the current findings under 2011-7. This issue is tested and reevaluated each year.

2009-2 UNCLAIMED PROPERTY

Condition: During our audit, it was noted that the District had outstanding checks listed on their bank reconciliation that were up to seven (7) years old.

Resolution: During the current year it was noted, while there still were some minor checks on the outstanding check list that were up to two (2) years old, this clean up of the outstanding list was an improvement from prior years, therefore we consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.