

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties

COMPLIANCE REPORT ON FEDERAL PROGRAMS  
June 30, 2011

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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

October 31, 2011

Board of Education  
Pinconning Area Schools  
Bay and Gladwin Counties  
Pinconning, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pinconning Area Schools, Pinconning, Michigan as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Pinconning Area School's basic financial statements and have issued our report thereon dated October 31, 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 Pinconning Area School'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 the Pinconning Area School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pinconning Area School'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 by the Pinconning Area School's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (2011-01 and 2011-02) to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pinconning Area School'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Pinconning Area Schools in a separate letter dated October 31, 2011.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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.

Sincerely,



QUAST, JANKE & CO.  
Certified Public Accountants, P.C.

# Quast, Janke and Company, P.C.

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 31, 2011

Board of Education  
Pinconning Area Schools  
Bay and Gladwin Counties  
Pinconning, Michigan

### **Compliance**

We have audited the compliance of Pinconning Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2011. Pinconning Area School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws regulations, contracts and grants applicable to its major federal program is the responsibility of Pinconning Area School's management. Our responsibility is to express an opinion on Pinconning Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; 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 Non-Profit 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 Pinconning Area School's compliance with those requirements and performing other such 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 Pinconning Area School's compliance with those requirements.

In our opinion, Pinconning Area Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2011.

### **Internal Control Over Compliance**

The management of Pinconning Area 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 Pinconning Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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. Accordingly, we do not express an opinion on the expenditures of Pinconning Area Schools' internal control over compliance.

A control deficiency exists when the design of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 general purpose financial statements of Pinconning Area Schools as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Board of Trustees, management and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

QUAST, JANKE & CO.



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Certified Public Accountants, P.C

PINCONNING AREA SCHOOLS  
 Bay and Gladwin Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2011

	CFDA#	Pass Through Grantor's #	Approved Award	Inventory/ Accrued (Deferred) Revenue July 1, 2010	Prior Year Expenditure	Adjustments Prior Years	Current Year Expenditures	Current Year's Receipts/ Payments In Kind	Inventory/ Accrued (Deferred) Revenue June 30, 2011
U.S. DEPARTMENT OF EDUCATION:									
Passed Through M.D.E. -									
Title 1 Cluster -									
Title 1 Part A									
	* 84.010								
2010/2011 Regular		111530-1011	\$ 340,297	\$ 0	\$ 0	\$ 0	\$ 274,584	\$ 262,953	\$ 11,631
2009/2010 Regular		101530-0910	315,389	37,647	280,744	0	0	37,647	0
Total Title 1 Part A			655,686	37,647	280,744	0	274,584	300,600	11,631
ARRA Title 1 Part A									
	* 84.389								
		111535-1011	35,797	0	0	0	26,627	26,042	585
		101535-0910	173,849	36,300	138,061	1	0	36,301	0
Total ARRA Title 1 Part A			209,646	36,300	138,061	1	26,627	62,343	585
Total Title 1 Part A			865,332	73,947	418,805	1	301,211	362,943	12,216
ARRA Educational Stabilization									
	84.394								
		112525-1011	183,114	0	0	0	183,114	183,114	0
		102525-0910	463,316	81,498	463,316	0	0	81,498	0
Total ARRA Educational Stabilization			646,430	81,498	463,316	0	183,114	264,612	0
Education Jobs Fund									
	* 84.410A	112545-1011	348,781	0	0	0	348,781	348,781	0
ARRA Title II Part D									
	84.386A	114295-1011	6,395	0	0	0	6,395	0	6,395
Title II Part D									
	84.318								
2009/2010 Carryover		104290-0910	111	0	0	0	111	111	0
Title II Part A									
	84.367								
2010/2011 Regular		110520-1011	249,530	0	0	0	138,242	51,336	86,906
2009/2010 Regular		100520-0910	180,396	45,152	176,841	0	0	45,152	0
Total Title II Part A			429,926	45,152	176,841	0	138,242	96,488	86,906
Total Passed Through M.D.E.			2,296,975	200,597	1,058,962	1	977,854	1,072,935	105,517

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2011

	CFDA#	Pass Through Grantor's #	Approved Award	Inventory/ Accrued (Deferred) Revenue July 1, 2010	Prior Year Expenditure	Adjustments Prior Years	Current Year Expenditures	Current Year's Receipts/ Payments In Kind	Inventory/ Accrued (Deferred) Revenue June 30, 2011
U.S. DEPARTMENT OF EDUCATION:									
Passed Through Bay Arenac I. S. D.									
Handicapped Preschool and School (IDEA)	84.027	110450	\$ 70,807	\$ 70,807	\$ 70,807	\$ 70,807	\$ 70,807	\$ 70,807	\$ 0
ARRA Flowthrough (IDEA)									
2010/2011 Regular	84.391A	100455	139,943	0	0	0	139,943	98,226	41,717
2009/2010 Regular			146,760	0	146,760	0	0	146,760	0
Total ARRA Flowthrough (IDEA)			286,703	0	146,760	0	139,943	244,986	41,717
ARRA Preschool	84.392	100465	22,231	0	0	0	22,231	0	22,231
Preschool Grant	84.173	110460	25,441	0	0	0	25,441	25,441	0
Total Passed Through Bay Arenac I.S.D.			405,182	70,807	217,567	70,807	258,422	341,234	63,948
Total U.S. Department of Education			2,702,157	271,404	1,276,529	70,808	1,236,276	1,414,169	169,465

PINCONNING AREA SCHOOLS  
 Bay and Gladwin Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2011

	CFDA#	Pass Through Grantor's #	Approved Award	Inventory/ Accrued (Deferred) Revenue July 1,2010	Prior Year Expenditure	Adjustments Prior Years	Current Year Expenditures	Current Year's Receipts/ Payments In Kind	Inventory/ Accrued (Deferred) Revenue June 30,2011
U.S. DEPARTMENT OF AGRICULTURE: Passed Through M.D.E. - Child Nutrition Cluster:									
Non-Cash Assistance (Commodities):									
National School Lunch - Entitlement	* 10.555		\$ 40,603	\$ 0	\$ 0	\$ 0	\$ 33,903	\$ 33,903	\$ 0
National School Lunch - Bonus			942	0	0	0	942	942	0
Total Non-Cash Assistance			41,545	0	0	0	34,845	34,845	0
National School Lunch Program:									
Section 4 - All Lunches									
		111950	32,717	0	0	0	32,717	32,717	0
		101950	43,349	0	38,761	0	4,588	4,588	0
Total Section 4 - All Lunches			76,066	0	38,761	0	37,305	37,305	0
Section 11 - Free & Reduced									
		111960	194,334	0	0	0	194,334	194,337	0
		101960	234,792	0	208,400	0	26,392	26,392	0
Total Section 11 - Free & Reduced			429,126	0	208,400	0	220,726	220,729	0
Total Cash Assistance			505,192	0	247,161	0	258,031	258,034	0
Total National School Lunch Program			546,737	0	247,161	0	292,876	292,879	0
National School Breakfast Program:									
	* 10.553	111970	109,892	0	0	0	109,892	109,892	0
		101970	117,856	0	103,786	0	14,070	14,070	0
Total National School Breakfast Program			227,748	0	103,786	0	123,962	123,962	0
Total U.S. Department of Agriculture			774,485	0	350,947	0	416,838	416,841	0
Total Federal Assistance			\$ 3,476,642	\$ 271,404	\$ 1,627,476	\$ 70,808	\$ 1,653,114	\$ 1,831,010	\$ 169,465

\* Major Federal Program

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the 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 weaknesses identified?  yes  no

Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Noncompliance material to financial statements noted?  yes  no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?  yes  no

Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
84.010	Title I Part A
84.389	ARRA Title 1 Part A
84.4104	Educational Jobs Fund

Dollar threshold used to distinguish between type A and type B programs? \$ 300,000

10.555/10.533 Child Nutrition Cluster

Auditee qualified as low-risk auditee?  yes  no

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant deficiencies considered to be material weaknesses in internal control over financial reporting.

Finding 2011-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The School is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the School's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including footnotes.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2011

Condition: As is the case with many smaller and medium-sized entities, the School has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the School's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the School's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the School lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: We do not recommend any changes to this situation at this time but, remind the Board to understand this circumstance when performing their oversight responsibilities.

Finding 2011-2 – Lack of Segregation of Duties

Criteria: The Business Office currently has one employee receipting and posting cash, paying and posting payable and payroll along with making journal entries.

Condition: The Business Office is understaffed which leads to deficiencies in internal control.

Cause: Budgetary concerns led to retired employees not being replaced.

Effect: Lack of personnel in the Business Office means duties cannot be segregated and therefore the internal control system cannot operate efficiently.

Recommendation: That the Board consider the need to have additional personnel assigned to the Business Office. The Board will take this recommendation under consideration.

SECTION III -

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
June 30, 2011

1. The expenditures in this Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
2. The amounts reported on the Form R-7120 agree with the Schedule of Expenditures of Federal Awards for Federal programs.
3. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for USDA donated food commodities.
4. The accounting policies used in the preparation of this schedule are identical to those used in preparation of the audited financial statements as set forth in Note 1 to the audited financial statements.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2011

Finding 2010-1

Condition: As is the case with many smaller and medium-sized entities, the School has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the School's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Current Status: Repeated in current year.

Finding 2010-2

Condition: The Business Office, at the start of the fiscal year, had a full-time business manager, payroll clerk and accounts payable/employee benefits clerk. The accounts payable/employee benefits and payroll clerks have retired and the business manager has taken another job and is serving as business manager on a limited basis.

Current Status: Corrected The Business Office, at the start of the fiscal year, had a full-time business manager, payroll clerk and accounts payable/employee benefits clerk. The accounts payable/employee benefits and payroll clerks have retired and the business manager has taken another job and is serving as business manager on a limited basis.