

# **Novi Community Schools**

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**Report to the Board of Education  
Year Ended June 30, 2016**

October 13, 2016

To the Board of Education  
Novi Community School District

We recently completed our audit of the basic financial statements of Novi Community School District (the "School District" or the "District") as of and for the year ended June 30, 2016. In addition to our audit report, we are providing the following required audit communication, information items, and other comments and recommendations which impact the District.

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We are grateful for the opportunity to be of service to Novi Community School District. We also express our appreciation to the entire business office staff for the courtesy and cooperation extended to us during the course of the engagement, especially Ms. Deanna Shoemaker. If there are any questions about your financial reports or the above comments and recommendations, we would be happy to discuss them at your convenience.

*Plante & Moran, PLLC*

## **Results of the Audit**

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October 13, 2016

To the Board of Education  
Novi Community School District

We have audited the financial statements of Novi Community School District (the "School District") as of and for the year ended June 30, 2016 and have issued our report thereon dated October 13, 2016. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 20, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 13, 2016 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 3, 2016.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note I to the financial statements. As discussed in Note I to the basic financial statements, the School District adopted Governmental Accounting Standards Board Statements No. 72 and No. 79 during 2016.

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the School District's share of the MPERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The School District's estimate as of June 30, 2016 is \$114,200,000, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected Misstatements***

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

***Significant Findings or Issues***

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

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to those charged with governance in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 13, 2016.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 13, 2016.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the Board of Education and management of Novi Community School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Laura K. Claeys, CPA  
Partner



Christopher Geck  
Manager

## **Informational Items**

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# Novi Community School District

## Informational Items

### Fund Balance Results

For the year ended June 30, 2016, the School District experienced an increase in fund balance of approximately \$2.3 million for the General Fund. As a result, at June 30, 2016, the General Fund fund balance is approximately \$9.2 million and equal to approximately 13 percent of General Fund expenditures, which is above the board goal for fund balance. As has been communicated in the past, the expenditures include the “pass-through” of State provided funds for the retirement system. If these expenditures are excluded from the computation of fund balance as a percentage of expenditures, the fund balance would represent 13.86 percent of the net expenditure amount. The increase in fund balance was anticipated and we commend the board and the administration for their careful consideration of balancing current needs with the long-term planning for the School District’s future needs. School districts throughout the state have been faced with an enormous amount of pressure. The cost to educate a child has outpaced the level of funding increases that districts are receiving each and every year - leaving districts with many tough decisions to make and opportunities to be creative in how they operate. We commend the Novi Community School District for making important and timely decisions in order to continue to provide the best possible education to its students while maintaining fiscal responsibility.

### State Aid Funding

#### State Aid and the Foundation Allowance

The fiscal year ended June 30, 2016 saw continued focus on several recurring themes in school funding by the State of Michigan: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; and additional resources dedicated to assisting with funding the districts’ retirement/postretirement healthcare obligation (MPERS). One significant change was the elimination of resources provided for best practice and student performance. While districts experienced an increase in the foundation, the increases still have not replaced the \$470 per pupil cut experienced in 2011-2012 for many districts.

2015-2016 Foundation: For the 2015-2016 fiscal year, the School District’s foundation allowance was increased to \$8,479, which represents a \$70 per pupil increase from the previous year (or less than 1 percent). The foundation includes a “roll in” of the 2014-2015 equity payment for eligible districts, which created a minimum foundation of \$7,391 per pupil. For comparison purposes, the School District’s foundation prior to the \$470 cut was \$8,799, meaning the current foundation is \$320/per pupil below the 2011 foundation allowance. If the \$320 per pupil had been restored, using current School District enrollment, this would have represented an additional \$2.1 million in resources for the School District.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increases by \$60 which the School District will receive. This increase represents an increase of 0.7 percent. Using the pupil count from the June 2016 year end, this increase equates to an additional \$390,597 in funding.

Pupil Membership Blend for 2016-2017: There was much debate on what counts should be used and how they should be weighted. Ultimately the decision was to not change the method for 2016-2017. 2016-2017 funding will be based on 90 percent of the Fall 2016 count and 10 percent of the February 2016 count. As a result, districts should be able to better estimate expected per pupil revenue during the fiscal year.



# Novi Community School District

## Informational Items (Continued)

MPSERS Cost Support: The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed from 2015-2016. The School District has no ability to influence the rate and no choice regarding its participation in the program. Recognizing the costs are increasing under the current system, the 2015-2016 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act, 147a and 147c. The School District received a total of \$554,361 of 147a and \$4,477,434 of 147c categorical aid to help offset the impact of the increase in the retirement costs. The 2016-2017 State Aid Act continues this MPSERS cost support categorical. The school district Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase school district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2015-2016, representing approximately 36 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the district is responsible for an approximate 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year school district payroll information. It should be noted the MPSERS funding under Section 147c (\$4,477,434) is included both as a revenue and an additional expenditure in the financial results reported for the year ended June 30, 2016.

This retirement funding approach will continue into 2016-2017. The net effect of all these changes for 2016-2017 is that the School District's net out-of-pocket contribution will be determined by the Office of Retirement Services to be 24.94 percent, and the total cost of the retirement system will have grown to 36.64 percent.

### Other Items for Future Consideration

#### New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. The changes created from these reforms are currently effective and all school districts receiving federal dollars will need to continue to build an understanding of the changes and continue to update internal procedures, processes, and controls as necessary to comply with the applicable requirements.

These reforms impact three key areas of federal grants management:

- I. Audit Requirements - Beginning with the fiscal year ending June 30, 2016 for Michigan schools, the threshold for a federal awards audit requirement increases from \$500,000 in annual federal spending to \$750,000. There have also been changes to the criteria for qualifying as a low-risk auditee and modifications in the methodology required to determine which programs need to be tested as major. This year's single audit has incorporated these changes, impacting programs selected for testing, audit tests, and the single audit report.

# Novi Community School District

## Informational Items (Continued)

2. Cost Principles - The grant reforms related to cost principles went into effect for new or significantly modified grant awards issued on or after December 26, 2014. Under the new guidance, there have been significant updates in the areas of allowable cost and time and effort reporting that have impacted Michigan school districts.
3. Administrative Requirements - Also effective for new awards or funding increases on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements impact the School District's procurement systems, cash management, monitoring of subrecipients, and maintenance of written policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the MDE. The MDE has issued their initial requirements and some may be more stringent than those required under federal regulation, which focuses on key controls versus the overall process. The School District must monitor MDE guidance, when issued, to ensure that district grants management is in conformance with related requirements.

These revisions are the most significant changes to occur to federal grants management in recent history. The implications of the Uniform Guidance are extensive and impact several areas of organizations receiving federal funding. The School District's business office, grants managers, and funding agencies should already be familiar with these changes as many of the requirements impacted the 2016 fiscal year. To ensure that the School District remains in compliance, we recommend the utilization of various resources to stay up-to-date with changes impacting both current and future fiscal periods.

Plante & Moran, PLLC has provided several training sessions for school districts on the new requirements and our school district grant experts have been working closely with the Michigan Department of Education regarding these changes. We are always available to assist your School District's staff in understanding the impact of these changes. To assist districts in increasing their understanding of the changes, we have provided two webinars on the grants management changes which are archived and available at no charge on our website. In addition, the Michigan Department of Education has recently issued several documents providing guidance on the current and continued implementation of the Uniform Guidance standards.

### **Written Procedures for Grants - Required for District Federal Grant Participation**

As part of your single audit annually, the auditors are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. Effective December 26, 2014, the Federal Uniform Guidance outlines new requirements. It is important for the School District to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 Payment

# Novi Community School District

## Informational Items (Continued)

- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E- Cost Principles
- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable
- Written Conflict of Interest Policy [§200.318(c)]\*: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts
- Written Procurement Procedures [§200.319(c)]\*: To ensure that all solicitations include the following requirements
  - i. Incorporate clear and accurate descriptions of technical requirements for the material product or service to be procured
  - ii. Identify all requirements which must be fulfilled
  - iii. Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition
- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)]\*: To maintain a method for evaluation proposals received

\*In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the procurement procedures noted above were formally delayed. There is a two-year grace period for the implementation of the procurement procedures in 2 CFR 200.317 through 200.326. Therefore, the School District is not required to implement these requirements until July 1, 2017. However, if the delay is elected, the School District must document this in writing.

The School District should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focus on key controls related to grants management. The Michigan Department of Education has indicated that districts that do not have the requisite written policies and procedures in place may be excluded from future participation in the grants program. In addition, absence of policies and procedures required under the Uniform Guidance could result in single audit findings.

We encourage the School District to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a fiscal monitoring. Many, if not all, of the items may already be addressed in various different forms throughout the School District's policies and procedures; however, it is important the School District be aware of where the written documentation resides. If any items are not currently addressed, we recommend the School District establish the required procedures and document them accordingly.

# Novi Community School District

## Informational Items (Continued)

### IT Security

Public schools are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that schools protect themselves from both external and internal threats whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization including schools and universities. It may be the hacks of large, multi-million dollar companies that we see exposed on the evening news, but public schools can be enticing targets with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within a school district's IT environment, continued assessment of cybersecurity issues is an essential part of the School District's overall data security assessment.

### White Collar Overtime Regulations

Under the Fair Labor Standards Act (FLSA), an employee is generally entitled to minimum wage and overtime payment unless the employee satisfies a white collar worker exemption. Salaried employees that perform certain duties, such as executive, administrative, and professional employees, are referred to as white collar employees.

The Department of Labor recently released updated white collar overtime regulations that will take effect by December 1, 2016. Under the updated regulations, a white collar employee must earn a salary of at least \$913 per week (\$47,476 per year) and satisfy the duties test in order to be exempt from the overtime pay rules. This means that any white collar employee making less than \$47,476 will generally be entitled to be paid overtime, regardless of job duties. The salary level threshold will be increased every three years to remain consistent with the 40th percentile of full-time salaried workers in the lowest-wage census region.

# Novi Community School District

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## Informational Items (Continued)

The regulations have a special exemption for those that are bona fide teachers, or who have a primary duty of teaching. Teachers (as well as practicing doctors and lawyers) are considered to be exempt professionals even though they may not meet the required salary level threshold. In addition, the regulations provide another exemption for academic administrative employees. Depending on the facts and circumstances, an academic administrative employee may include a vice principal of a school or even an academic counselor. Academic administrative employees must be paid a salary that is equal to or greater than the salary for entry-level teachers in the same educational institution in order to be considered an exempt employee. However, there are likely many employees with duties not unique to an educational setting that may now become eligible for overtime due to the salary level increase, such as managers in food service or transportation areas. We urge you to evaluate your staff compensation levels to determine which employees may now be subject to the new overtime regulations. The time to implement these rules and/or any changes in your compensation practices is quite short, so prompt review of your employee information is essential.

### **GASB Statement No. 75 - Postemployment Benefits Other Than Pensions (OPEB)**

While reporting units are still focused on the second year of GASB Statement No. 68, we still need to prepare for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be effective for the School District's June 30, 2018 financial statements. This statement addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement is expected to have a similar impact on the statement of net position as did GASB 68 when it was adopted in 2015. Just like GASB No. 68, it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the School District's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

## **Other Comments and Recommendations**

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# Novi Community School District

## Other Comments and Recommendations

We commend the business office, especially Deanna Shoemaker, for the assistance, responsiveness, and receptiveness displayed during the audit process. Her level of professionalism and that of the entire team ensured that the audit was completed in a timely fashion.

As the result of our audit procedures for the year ended June 30, 2016, we offer the following suggestions for your review and consideration:

- **Construction Transactions** - As previously discussed with the finance committee, the School District engaged another CPA firm to review the transactions associated with the Sinking Fund and the 2014 Capital Projects Fund for the year ended June 30, 2016. Their agreed-upon procedures letter indicated all transactions were in compliance with Section 1212(1) (Sinking Fund) or Section 1351(1) (2014 Capital Projects Fund) of the Revised School Code and the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.
- **Segregation of Duties** - We offer the following recommendation to the School District as it relates to areas in which segregation of duties could be strengthened, but will need to be balanced with district resources and capacity:

Certain school district employees are "super users" for the finance system. They have access to nearly all levels of the financial system, which allows them to initiate transactions, add vendors, perform certain payroll tasks, and process transactions. The School District currently runs edit reports which will identify new transactions and/or changes made to system data in order to verify these changes are supported and approved. The School District also has other detective controls in place to mitigate the lack of segregation of duties caused by having this access. Additionally, we recommend that at least annually the levels of system access for all personnel be reviewed for (1) continued need and (2) changing responsibilities.

- **ACH/Wire Transfers** - As a result of our review of the School District's policies and controls surrounding the ACH and wire transfers, we offer the following recommendation to the School District to strengthen the control environment surrounding online banking:

Certain employees have the ability to add users to the School District's bank account without the need of a second approval. This ability may undermine the segregation of duties controls that are currently in place over ACH and wire transfers. We recommend that the School District utilize the controls currently offered by their bank, which would require a dual approval for any new user additions requests submitted to the bank. The School District currently has detective controls in place that would likely identify any unauthorized activity in a timely fashion; however, enabling this suggested preventive control would further enhance the School District's internal controls.

# Novi Community School District

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## Other Comments and Recommendations (Continued)

- **Information Technology (IT) Recommendations** - As a result of our review of the School District's policies and controls surrounding the IT environment, we offer the following recommendation:
  - **User Access Lockout** - The current settings of the network allow five invalid login attempts before a user ID is set to inactive. The counter resets automatically after 10 minutes. We recommend that once the number of invalid login attempts is reached, the user ID should be set as inactive until the user who is attempting to login contacts the IT administrator to verify identity prior to having the user ID reset and set to active.