

Education Achievement Authority

**Federal Awards
Supplemental Information
June 30, 2015**

Education Achievement Authority

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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

To the Board of Directors
Education Achievement Authority

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 30, 2015 which contained unmodified opinions on the financial statements. The basic financial statements were prepared assuming that the Education Achievement Authority will continue as a going concern. As explained in Note 1 to the basic financial statements, the Authority was created through an interlocal agreement with Eastern Michigan University and Detroit Public Schools. The interlocal agreement allows for one of the parties to withdraw from the agreement as early as June 30, 2015. In the event that the party withdraws from the agreement and another entity does not take its place, the Authority would no longer have a legal basis for operating. Additionally, as described in Note 13 to the basic financial statements, the Authority incurred expenditures under grant programs that may be disallowed and recovered upon review of the granting agency, resulting in potentially material changes to federal source revenue currently recognized. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 30, 2015.

The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

October 30, 2015

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*

Independent Auditor's Report

To Management and the Board of Directors
Education Achievement Authority

We have audited, 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Education Achievement Authority as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 30, 2015. The basic financial statements were prepared assuming that the Education Achievement Authority will continue as a going concern. As explained in Note 1 to the basic financial statements, the Authority was created through an interlocal agreement with Eastern Michigan University and Detroit Public Schools. The interlocal agreement allows for one of the parties to withdraw from the agreement as early as June 30, 2015. In the event that the party withdraws from the agreement and another entity does not take its place, the Authority would no longer have a legal basis for operating. Additionally, as described in Note 13 to the basic financial statements, the Authority incurred expenditures under grant programs that may be disallowed and recovered upon review of the granting agency, resulting in potentially material changes to federal source revenue currently recognized. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Education Achievement Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To Management and the Board of Directors
Education Achievement Authority

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Education Achievement Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2015-001.

Education Achievement Authority's Response to Findings

The management of the Education Achievement Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Education Achievement Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To Management and the Board of Directors
Education Achievement Authority

Purpose of this Report

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

Plante & Moran, PLLC

October 30, 2015

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance
Independent Auditor's Report

To the Board of Directors
Education Achievement Authority

Report on Compliance for Each Major Federal Program

We have audited the Education Achievement Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2015. The Education Achievement Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Education Achievement Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the Education Achievement Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Education Achievement Authority's compliance.

To the Board of Directors
Education Achievement Authority

Basis for Qualified Opinion on School Improvement Grant Cluster

As described in the accompanying schedule of findings and questioned costs, the Education Achievement Authority did not comply with requirements regarding the School Improvement Grant Cluster, as described in Findings 2015-002 and 2015-004 for allowability of expenditures and procurement.

Compliance with such requirements is necessary, in our opinion, for the Education Achievement Authority to comply with the requirements applicable to that program.

Qualified Opinion on School Improvement Grant Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the Education Achievement Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the School Improvement Grant Cluster for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Education Achievement Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2015-004. Our opinion on each major federal program is not modified with respect to these matters, except as described in the *Basis for Qualified Opinion* paragraph above for the School Improvement Grant Cluster.

The Education Achievement Authority's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The Education Achievement Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Board of Directors
Education Achievement Authority

Report on Internal Control Over Compliance

Management of the Education Achievement Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Education Achievement Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, identified material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 a combination of deficiencies, in internal control over compliance such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2015-002 to be a material weakness.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2015-003 and 2015-004 to be significant deficiencies.

The Education Achievement Authority's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The Education Achievement Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Board of Directors
Education Achievement Authority

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

October 30, 2015

Education Achievement Authority

Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2014	Adjustments and Transfers	Federal Funds/Payments In- kind Received	June 30, 2015 Expenditures	Accrued (Deferred) Revenue as of June 30, 2015
Clusters:								
Special Education Cluster -	84.027							
U.S. Department of Education -								
Passed through Michigan Department of Education:								
IDEA EOSD 2014 - Project number 140480-EOSD		\$ 50,000	\$ 50,000	\$ 15,000	\$ -	\$ 15,000	\$ -	\$ -
IDEA EOSD 2015 - Project number 150480-EOSD		50,000	-	-	-	-	50,000	50,000
IDEA Transition Coordination - Project number 140490-TC		65,000	65,000	30,000	-	30,000	-	-
IDEA Preschool		4,765	-	-	-	-	4,765	4,765
IDEA Flowthrough - Project number 140450-1314		2,671,018	2,671,018	518,510	-	518,510	-	-
IDEA Flowthrough - Project number 150450-1415		1,857,734	-	-	-	1,513,525	1,857,734	344,209
Total Special Education Cluster		4,698,517	2,786,018	563,510	-	2,077,035	1,912,499	398,974
 School Improvement Grants Cluster -								
U.S. Department of Education -								
Passed through the Michigan Department of Education -								
ARRA - School Improvement Grants to								
Educational Agencies, Recovery Act -								
Project number 131765 - 1314	84.388	10,734,039	7,111,527	1,643,355	-	3,974,005	2,330,650	-
Total Clusters		15,432,556	9,897,545	2,206,865	-	6,051,040	4,243,149	398,974
 Other Federal Awards:								
U.S. Department of Education - Direct Program -	84.374A							
Teacher Incentive Fund:								
Project number S374A120048 - 13/14		35,491,095	1,622,456	208,416	-	596,360	387,944	-
Project number S374A120048 - 14/15		35,491,095	-	-	-	438,588	1,894,497	1,455,909
Total Teacher Incentive Fund Cluster		70,982,190	1,622,456	208,416	-	1,034,948	2,282,441	1,455,909
Passed through Michigan Department of Education:	84.010							
Title I, Part A: Improving Basic Programs:								
Project number 141530-1314		19,948,046	13,115,285	2,832,316	(133,482)	5,200,430	2,501,596	-
Project number 151530-1415		19,007,254	-	-	-	9,419,127	10,866,428	1,447,301
Total Title I, Part A		38,955,300	13,115,285	2,832,316	(133,482)	14,619,557	13,368,024	1,447,301

See Notes to Schedule of Expenditures
of Federal Awards.

Education Achievement Authority

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2015

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2014	Adjustments and Transfers	Federal Funds/Payments In-kind Received	June 30, 2015 Expenditures	Accrued (Deferred) Revenue as of June 30, 2015
Other Federal Awards (Continued):								
Passed through the Michigan Department of Education -								
Title II, Part A - Improving Teacher Quality:								
Project number 140520-1314	84.367	\$ 2,647,180	\$ 1,355,025	\$ 144,184	\$ (13,494)	\$ 181,184	\$ 50,494	\$ -
Project number 150520-1415		<u>3,479,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,279,511</u>	<u>1,499,353</u>	<u>219,842</u>
Total Title II, Part A		6,126,742	1,355,025	144,184	(13,494)	1,460,695	1,549,847	219,842
Michigan-Safe and Supportive Schools:								
Project number 132790 - SSS2013	84.184	228,491	-	-	-	4,000	4,000	-
Project number 142790 - SSS2014		172,600	123,222	27,494	-	61,279	33,785	-
Project number 142790 - SSS2014M		131,389	100,554	13,577	-	36,995	23,418	-
Project number 142790 - SSS2014P		150,500	116,306	11,181	-	30,612	19,431	-
Project number 152790 - SSS2015		140,200	-	-	-	96,168	98,586	2,418
Project number 152790 - SSS2015M		126,360	-	-	-	76,301	82,103	5,802
Project number 152790 - SSS2015P		<u>67,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,255</u>	<u>67,255</u>	<u>-</u>
Total Safe and Supportive Schools		1,016,795	340,082	52,252	-	372,610	328,578	8,220
CTE Perkins -								
Project number 143520	84.048	173,765	118,765	109,642	-	164,642	55,000	-
U.S. Department of Health and Human Services -								
Passed through the Michigan Department of Education -								
Substance Abuse and Mental Health Services Projects:								
Project number 132704-SSHS14	93.243	111,972	6,006	3,352	2,655	26,832	20,825	-
Project number 142704-SSHS2015		<u>350,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,067</u>	<u>123,797</u>	<u>17,730</u>
Total Substance Abuse and Mental Health Services Projects		462,069	6,006	3,352	2,655	132,899	144,622	17,730
Total noncluster programs passed through the Michigan Department of Education		46,734,671	14,935,163	3,141,746	(144,321)	16,750,403	15,446,071	1,693,093
U.S. Department of Education -								
Passed through Wayne County RESA:								
Title III, Part A - Language Acquisition Program 2013-14	84.365	45,217	14,343	14,343	-	40,579	26,236	-
Title III, Part A - Language Acquisition Program 2014-15	84.365	<u>15,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,319</u>	<u>15,319</u>
		60,536	14,343	14,343	-	40,579	41,555	15,319
Total federal awards		<u>\$ 133,209,953</u>	<u>\$ 26,469,507</u>	<u>\$ 5,571,370</u>	<u>\$ (144,321)</u>	<u>\$ 23,876,970</u>	<u>\$ 22,013,216</u>	<u>\$ 3,563,295</u>

See Notes to Schedule of Expenditures
of Federal Awards.

Education Achievement Authority

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Revenue from federal sources - As reported in financial statements (includes all funds)	\$ 22,987,525
Federal funds returned to Michigan Department of Education as a result of site visit - shown as adjustment on the schedule of expenditures of federal awards	146,975
Less unavailable federal revenue at June 30, 2014	(876,658)
Less local revenue reported as federal revenue	(277,265)
Plus unavailable federal revenue at June 30, 2015	<u>32,639</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 22,013,216</u>

Education Achievement Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Education Achievement Authority under programs of the federal government for the year ended June 30, 2015. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the Education Achievement Authority, it is not intended to, and does not, present the financial position, changes in net position, or cash flows, if applicable, of the Education Achievement Authority. Pass-through entity identifying numbers are presented where available.

Note 2 - Grant Auditor Report

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Detroit Public Schools (DPS) operates food service activity at all EAA buildings for the year ended June 30, 2015. The program is operated by DPS and the program grant is between DPS and the Michigan Department of Education. All food service activity is excluded from this report.

Note 3 - Adjustments and Transfers

During the year ended June 30, 2015, the Authority was notified that \$133,482 of Title I, Part A expenditures (CFDA number 84.010) and \$13,494 of Title II, Part A expenditures (CFDA number 84.367) from the prior year were disallowed. In addition, \$2,655 of prior year Substance Abuse and Mental Health Services Projects expenditures (CFDA number 84.184) from the prior year were not included on the prior year schedule of expenditures of federal awards. These amounts are reflected as adjustments and transfers in the current year.

Education Achievement Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified for all major programs except for School Improvement Grant Cluster, which was qualified

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:

CFDA Numbers	Name of Federal Program or Cluster
84.374A	Teacher Incentive Fund
84.010	Title I, Part A
84.367	Title II
84.388	School Improvement Grant Cluster

Dollar threshold used to distinguish between type A and type B programs: \$660,396

Auditee qualified as low-risk auditee? Yes No

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section II - Financial Statement Audit Findings

Reference
Number

Finding

2015-001 **Finding Type** - Material noncompliance with laws and regulations

Criteria - The Authority should have adequate controls in place to ensure that contracts and purchases are appropriate, include terms that are favorable to the Authority, and are at market value.

Condition - Prior to November 2014, the Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the Authority did not receive appropriate value.

This finding was first identified during the year ended June 30, 2014 - see Finding 2014-003.

Context - The Authority has disputes with several significant vendors for services and goods invoiced that were not authorized, and has received goods and services that were not at favorable terms to the Authority. The condition was identified by the management of the Authority during the prior year and brought to the attention of the auditors and the governing body at that time.

Cause - Prior to November 2014, the Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the Authority did not receive appropriate value. The Authority cancelled all contracts and rebid contracts during the fall of 2014. We did not note any inappropriate contracts in our testing subsequent to this rebidding process being completed.

Effect - For certain contracts entered into prior to November 2014, the contracts are potentially at rates that are not favorable or are inappropriate in regard to the mission of the Authority, causing the Authority to incur expenditures at above market rates or for services that are not appropriate.

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2015-001 (Cont.)	<p>Recommendation - The Authority should continue to ensure that all procurement transactions, including contracts, be reviewed by an appropriate individual to ensure that they are appropriate and at favorable terms before they are executed. Additional scrutiny should also be applied prior to disbursing funds under approved contracts to ensure that amounts paid are consistent with the terms of the contract. The Authority should continue to follow its revised process, which calls for the procurement manager or the Chief Financial Officer to review all contracts prior to their approval, and the CFO to review all invoices prior to their payment.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management discovered the issues referred to in the audit and brought them to the attention of the appropriate parties, including our auditors, Plante & Moran, PLLC. The Education Achievement Authority of Michigan (the "EAA") instituted a corrective action plan including canceling all of its existing contracts. The EAA has rebid all goods and services. Additionally, the EAA hired a procurement manager to oversee its contract and vendor processes and to handle all procurement centrally. The EAA has also implemented an ethics hotline/website and conflict of interest policy. The changes implemented in the fall of 2014 address these items, and although some of the transactions had occurred from July 1, 2014 through October 31, 2014. The Authority believes all items have now been corrected.</p>

Section III - Federal Program Audit Findings

Reference Number	Finding
2015-002	<p>Program Name - Title I, Part A, CFDA # 84.010 School Improvement Grant Cluster, CFDA # 84.388</p> <p>Pass-through Entity - Michigan Department of Education</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - The Authority should have adequate controls in place to ensure that contracts and purchases are appropriate, include terms that are favorable to the Authority, and are at market value.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-002 (Cont.)	<p>Condition - Prior to November 2014, the Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the Academy did not receive appropriate value. Problematic expenditures were charged to both School Improvement and Title IA grants.</p> <p>This finding was first identified during the year ended June 30, 2014 - see Finding 2014-003.</p> <p>Questioned Costs - Unknown</p> <p>Context - The Authority has disputes with several significant vendors for services and goods invoiced that were not authorized, and has received goods and services that were not at favorable terms to the Authority. The condition was identified by the management of the Authority during the prior year and brought to the attention of the auditors and the governing body at that time.</p> <p>Cause and Effect - Prior to November 2014, the Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the Authority did not receive appropriate value. For certain contracts entered into prior to November 2014, the contracts are potentially at rates that are not favorable or are inappropriate in regard to the mission of the Authority, causing the Authority to incur expenditures at above market rates or for services that are not appropriate.</p> <p>The Authority cancelled all contracts and rebid contracts during the fall of 2014. We did not note any inappropriate contracts in our testing subsequent to this rebidding processing being completed.</p> <p>Recommendation - We did not note any inappropriate contracts in our testing subsequent to the rebidding process being completed. The Authority should continue to ensure that all procurement transactions, including contracts, be reviewed by an appropriate individual to ensure that they are appropriate and at favorable terms before they are executed. Additional scrutiny should also be applied prior to disbursing funds under approved contracts to ensure that amounts paid are consistent with the terms of the contract.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

<u>Reference Number</u>	<u>Finding</u>
2015-002 (Cont.)	Views of Responsible Officials and Planned Corrective Actions - Management discovered the issues referred to in the audit and brought them to the attention of the appropriate parties, including our auditors, Plante & Moran, PLLC. The EAA instituted a corrective action plan including canceling all of its existing contracts. The EAA has rebid all goods and services. Additionally, the EAA has hired a procurement manager to oversee its contract and vendor processes and to handle all procurement centrally. The EAA has also implemented an ethics hotline/website and conflict of interest policy. The changes implemented in the fall of 2014 address these and items, although some of the transactions had occurred from July 1, 2014 through October 31, 2014, we believe all items have now been corrected.

<u>Reference Number</u>	<u>Finding</u>
2015-003	Program Name - Title I, Part A, CFDA # 84.010; Title IIA, CFDA # 84.367 and School Improvement Grant Cluster, CFDA # 84.377 & 84.388 Pass-through Entity - Michigan Department of Education Finding Type - Significant deficiency Criteria - OMB Guidance, Section 200.302(b)(5) requires consistency of expenditures with approved budgeted amounts for each federal award. Condition - Title IIA and School Improvement Grant - All of the expenditures tested appear allowable, but some were either not charged to the same function code as they were budgeted or could not be identified as a discrete line in the budget. This finding was first identified during the year ended June 30, 2013 - see Finding 2013-007. The finding was repeated for the year ended June 30, 2014 as Finding 2014-005. Questioned Costs - None

Education Achievement Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-003 (Cont.)	<p>Context - Title IIA - Of the 28 expenditures tested, two could not be identified in the budget.</p> <p>School Improvement Grant - Of the 35 transactions tested, we noted two expenditures that were charged to a different function than budgeted and one expenditure that could not be identified in the budget.</p> <p>Additionally, the Authority is required to have transactions associated with Title IA and Title IIA reviewed by a third party subsequent to their submission for reimbursement from the Michigan Department of Education. There are several months of expenditure reviews where the third party is waiting for information in order to resolve their questions related to non-payroll expenditures charged to Title IA and Title IIA. This includes approximately \$1,055,000 in expenditures either not identified in the approved budget or classified in a different function code or school budget than where it was recorded in the general ledger. This would include items that were budgeted as central administrative expenses, but then charged to individual buildings when the costs were incurred. Discussion with the oversight agency indicates these amounts would likely be approved, but have been noted for incorrect budget activity.</p> <p>Cause and Effect - The errors were the result of improper review of costs charged to grants and approved budgets to ensure that amounts charged were included in the budget. The effect is that activities that are allowable in context of the cost objectives of the grant but are not in the approved budget or are charged to a different line item in the grant. As a result, there is a possibility that otherwise allowable expenditures will be disallowed by the pass-through entity.</p> <p>Recommendation - All expenditures charged to the grant should be reviewed by an individual that has knowledge of the budget. Additionally, a budgetary comparison should be completed on a periodic basis to identify areas where the budget may be exceeded, indicating that inappropriate expenditures were charged.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Authority's CFO implemented several process improvements, including the proper accounting treatment of all items. The Authority hired one operations and compliance officer early in fiscal year 2015. The operations and compliance officers' duties are to ensure the proper use of and accounting for grants.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-004	<p>Program Name - Title I, Part A, CFDA # 84.010; Title IIA, CFDA # 84.367 and School Improvement Grant Cluster, CFDA # 84.388</p> <p>Pass-through Entity - Michigan Department of Education</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Criteria - Pursuant to 34 CFR Section 299.2 (b), the Authority is required to ensure that grant funds are used in compliance with regulatory provisions and spent only for reasonable and necessary costs of the program. The Authority is required to have supporting documentation and approval of grant expenditures to ensure they are an allowable and supported cost under the grant requirements.</p> <p>Condition - The Authority was unable to provide documentation to support the existence and allowability of certain non-payroll expenditures costs to grants.</p> <p>Questioned Costs - \$7,998</p> <p>Context - School Improvement Grant - Of the 35 transactions tested, for one non-payroll expenditure, the Authority was unable to provide evidence that the related goods were received. This expenditure, totaling \$7,998, represents an error rate of approximately 0.9 percent on a total non-payroll population of approximately \$2 million.</p> <p>Additionally, the Authority is required to have transactions associated with Title IA and Title IIA reviewed by a third party subsequent to their submission for reimbursement from the Michigan Department of Education. There are several months of expenditure reviews where the third party is waiting for information in order to resolve questions related to non-payroll expenditures charged to Title IA and Title IIA. This includes \$8,927 in expenditures without proper documentation provided to fully support the expenditure.</p> <p>Cause and Effect - Due to turnover within and reorganization of the business office and grant departments, the Authority was unable to locate documentation to support allowability and approval of grant costs.</p> <p>Recommendation - The Authority should implement procedures to ensure that adequate documentation to support all costs charged to grants is produced and retained.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-004 (Cont.)	Views of Responsible Officials and Planned Corrective Actions - The Authority believes it will be able to fully locate the supporting documentation for the expenditures in question, which would fully resolve the items.

Education Achievement Authority

Summary Schedule of Prior Audit Findings Year Ended June 30, 2015

<u>Prior year Finding Number</u>	<u>Federal Program</u>	<u>Original Finding Description</u>	<u>Status</u>	<u>Planned Corrective Action</u>
2014-001	N/A	Voluntary non-exchange transactions not recognized timely	Corrected	N/A
2014-002	N/A	Expenditures should be accrued in the period in which the government incurs the liability	Corrected	N/A
2014-003	N/A	The Authority should have adequate controls in place to ensure that contracts and purchases are appropriate, include terms that are favorable to the Authority, and are at market value.	Fully corrected	N/A
2014-004	N/A	The Authority's budget monitoring systems did not provide adequate safeguards to identify that a deficit position may occur due to the timing of revenue recognition for federal grant programs.	Corrected	N/A

Education Achievement Authority

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2015

<u>Prior year Finding Number</u>	<u>Federal Program</u>	<u>Original Finding Description</u>	<u>Status</u>	<u>Planned Corrective Action</u>
2014-005	Title IIA, CFDA # 84.367; Title Ia, CFDA # 84.010; School Improvement Grant Cluster, CFDA # 84.377 and 84.388	OMB Guidance, Section 200.302(b)(5) requires consistency of expenditures with approved budgeted amounts for each federal award.	Not Fully Corrected	See Finding 2015-004
2014-006	Title Ia, CFDA # 84.010; School Improvement Grant Cluster, CFDA # 84.377 and 84.388	The Authority should have adequate controls in place to ensure that contracts and purchases are appropriate, include terms that are favorable to the Authority, and are at market value.	Not Fully Corrected	See Finding 2015-003