Education Achievement Authority

Report to the Board of Directors

Year Ended June 30, 2015

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October 30, 2015

To the Board of Directors
Education Achievement Authority

We have recently completed our audit of the basic financial statements of the Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2015. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the Authority:

We are grateful for the opportunity to be of service to the Authority. We would also like to extend our thanks to the entire central office for their assistance during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities and appreciate the time and attention provided to us. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

Results of the Audit

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To the Board of Directors
Education Achievement Authority

We have audited the financial statements of the Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2015 and have issued our report thereon dated October 30, 2015. 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 April 13, 2015, 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 Authority. 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.

We have noted the following instance of noncompliance with laws and regulations during the course of our audit. We noted the Authority may have incurred certain expenditures during the year, including amounts charged to grant programs, that may have been improper or not at fair market value due to lapses in the internal control structure surrounding procurement. These transactions relate to the period from July 1, 2014 through October 31, 2014, which is the time frame in which the Authority was revising its practices and had turned certain financial records over to authorities for investigation.

Our audit of the Authority'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 Authority, 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 30, 2015 regarding our consideration of the Authority'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 previously communicated to you in our meeting about planning matters on May 26, 2015; however, the timing of our procedures was modified. We encountered certain delays in performing and completing our audit while the Authority staff completed reconciliations and accumulated requested data. These delays caused the original timeline not to be met and certain inefficiencies to be realized. All necessary audit information was ultimately and satisfactorily provided.

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 Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015.

We noted no transactions entered into by the Authority 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.

There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

Significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates include the accrual for potential questioned costs that may be recaptured under federal grant programs. The amounts ultimately recaptured may differ materially from the amounts accrued for. These amounts accrued are the same as last year, other than an addition of approximately $25,000.

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 Authority, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Following is a summary of significant issues that were discussed or were the subject of correspondence with management prior to or during our audit:

- Audit risks resulting from procurement matters at the Authority, including understanding and testing the new processes implemented during the year

- The opportunity for the parties to the inter-local agreement creating the Authority to exit the relationship in 2015 which could create the risk that the entity could not continue as a going concern.

We have requested certain representations from management that are included in the management representation letter dated October 30, 2015.

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 Authority'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 directors and management of the Education Achievement Authority 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 Claeys

Laura K. Claeys, CPA
Partner

Other Recommendations

Private Grant Accounting - The Authority receives funding from many external agencies under a variety of grant agreements. Some of the grants have specific performance requirements while others are providing funds which can be used for operations. We recommend the Authority create and maintain a summary of all grants and their special provisions (or lack thereof) in order to properly report revenue on an annual basis. Such summaries will provide guidance for any staff trying to account for grant transactions and allow for monitoring of activity during the year.

Administration and Staffing - The A-133 single audit report for the Authority addresses several material weaknesses in internal control and other compliance matters that occurred during the year and are a continuation of items addressed in the previous year. These items are the result of the processes which were changed during the fiscal year under audit, but still existed for certain time frames. The Authority has added staff to strengthen the skills of the finance department, provide additional oversight for purchasing, and changed the way in which transactions are approved. Based on the changes made and the results of our testing after those changes were implemented, we would expect that no such findings would occur in the future.

Charter Agreement - The Authority assesses a 2.5 percent service fee to the Academy for processing charges related mainly to transportation and custodial services. There was a formal agreement in place that expired in August 2015. The fee has remained at 2.5 percent based on mutual understanding between the Authority and the Academy. It is our understanding that the agreement is currently being renegotiated. We recommend that the Authority settle this agreement as soon as possible with current dates and signatures to memorialize the understanding of the parties in order to avoid any disagreement on these charges in the future.

Informational Items

Other State Aid Act Changes Impacting 2015/2016

The Amendments to the State Aid Act made several changes impacting school districts. Several changes we identified that could impact the Authority include:

Pupil Count Weighting - Student membership blend will continue to be based on a 90/10 split. The funding is based on 90% of the October 2015 pupil count and 10% of the **preceding** February pupil count (February 2015). This is a return to the method used a few years ago for determining the pupil count. This means when the initial fiscal year budget is prepared, the Authority must estimate its foundation revenue using estimated student counts. In addition, if a student moves to another school district after the October count date, the receiving district can claim a pro-rata share of the count with the "sending" district having a like reduction. The tracking of students has become exponentially more complex and now involves reporting and coordination through the intermediate school district and the State of Michigan. As a result, the actual student count, along with the actual foundation revenue, could fluctuate until near the end of the Authority's fiscal year.

Transparency Reporting Requirements - These content posting requirements continue to expand and include, but are not limited to, deficit elimination plans, enhanced deficit elimination plans, Authority credit card information, budget information, procurement and reimbursement policies, and out-of-state travel information. Transparency reports must be updated on the Authority's website within 15 days of the change, as compared to the previous 30-day requirement.

At Risk Funding (31a) - In 2014-2015, there were several changes to the allowable uses of At Risk funds. The changes focus on third grade reading proficiency and ensuring high school students are career/college ready. For 2015-2016, the program was increased by $70 million or 23% and additional changes were made focusing on implementation of a K-3 multi-tiered support system for instruction and intervention. We encourage the Authority to review At Risk programming to ensure use of funds aligns with these changes. For the year ended June 30, 2015, the Authority received funding of $2.5 million under the At Risk program.

Online Learning - The Authority is required to offer online learning to students in grades 6-12. For 2015-2016, course offering providers were expanded to include community colleges and the maximum on-line course fee was established at 6.67% of the minimum foundation allowance (about $488).

Great Start Readiness Program - Funding for 2014-2015 increased from $65 million to $130 million to provide up to 16,000 additional half-day slots for four-year-olds. The funds are provided to the Authority through the intermediate school district. The program continues for 2015-2016 and the Authority received approximately $250,000 during the year ended June 30, 2015. We encourage continued participation in this program.

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. These changes are effective for grants received by the Authority beginning in 2015 and all school districts receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015 (fiscal year ending June 30, 2016 for Michigan schools), the threshold for obtaining a federal awards audit will increase from the current threshold of $500,000 of annual federal spending to $750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some districts. The Authority has historically been above the new $750,000 threshold.

2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles went into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs. The State of Michigan will have a significant impact on how these changes will be applied to Michigan schools, as they often have different requirements than the federal government in this area.

3. **Administrative Requirements** - Also effective for new awards or funding increases on or after December 26, 2014, non-federal entities receiving federal funding **<u>must</u>** adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Authority's procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management 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. Please note, these requirements are more stringent that those required under your federal program audit, which focuses on key controls versus the overall process.

These revisions are clearly the most significant changes to occur to federal grants management in recent history. Districts receiving federal funding will need to carefully digest these changes as the application of these changes will need to be assessed on a district-by-district basis. Plante & Moran, PLLC has provided several training sessions for 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 the Authority’s staff in understanding the changes and how they impact the Authority. We provided two webinars on the grants management changes and are planning a third for the fall of 2015. Those webinars are archived and available at no charge on our website to assist districts in increasing their understanding of the changes.