

Education Achievement Authority

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

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, 2016. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the Authority:

	<u>Page</u>
Results of the Audit	1-5
Summary of Unrecorded Possible Adjustments	6
Other Recommendations	7-8
Informational Items	9-12

We are grateful for the opportunity to be of service to the Education Achievement 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. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 14, 2016

Results of the Audit

November 14, 2016

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, 2016 and have issued our report thereon dated November 14, 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 September 15, 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 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.

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 November 14, 2016 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 and timing previously communicated to you in our meeting about planning matters on September 15, 2016; 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, particularly related to federal program reconciliations and adjustments. 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 I 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, 2016.

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.

The most sensitive estimates affecting the financial statements were the liability recorded for expenditures that may be disallowed and recovered based on communications from the Michigan Department of Education as well as a reserve for potential legal claims. The Authority's estimate for both of these liabilities as of June 30, 2016 is \$1,049,000. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are 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.

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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:

We believe that due to Eastern Michigan University's withdrawal from the interlocal agreement, and the communication that the Authority will cease providing educational services as of June 30, 2017, creates an emphasis of matter related to operating as a going concern. This item has been disclosed in the financial report and the opinion letter. The effect of the going concern uncertainty is reflected in the auditor's report.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the Authority. The results of that audit are provided to the board of directors 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 November 14, 2016.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 14, 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 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.

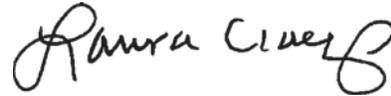
To the Board of Directors
Education Achievement Authority

November 14, 2016

This information is intended solely for the use of the board of directors and management of the 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

A handwritten signature in black ink, appearing to read "Laura Claeys". The signature is written in a cursive, flowing style.

Laura K. Claeys, CPA
Partner

Client: Education Achievement Authority
 Opinion Unit: Governmental Activities
 Y/E: 6/30/2016

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	Incorrect accrual for transportation services			\$ (59,203)				\$ (59,203)	\$ 59,203
A2	Out of town conference in July 2016, expensed in FY 2016	\$ 36,000						(36,000)	36,000
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
		-	\$ -	-	\$ -	\$ -	\$ -	\$ -	-
Total		<u>\$ 36,000</u>	<u>\$ -</u>	<u>\$ (59,203)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (95,203)</u>	<u>\$ 95,203</u>
PASSED DISCLOSURES:									
D1	None								

Opinion Unit: General Fund
 Y/E: 6/30/2016

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	Incorrect accrual for transportation services			\$ (59,203)				\$ (59,203)	\$ 59,203
A2	Out of town conference in July 2016, expensed in FY 2016	\$ 36,000						(36,000)	36,000
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
		-	\$ -	-	\$ -	\$ -	\$ -	\$ -	-
Total		<u>\$ 36,000</u>	<u>\$ -</u>	<u>\$ (59,203)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (95,203)</u>	<u>\$ 95,203</u>
PASSED DISCLOSURES:									
D1	None								

Other Recommendations

Education Achievement Authority

Other Recommendations

Bank Reconciliations - Preparation and review of bank reconciliations in a timely manner is a vital control to verify amounts are appropriately stated. During the audit, we noted certain bank reconciliations that were prepared several months after the statement date as it relates to agency funds. We recommend the Authority implement a process that will ensure bank reconciliations are prepared and reviewed timely so that accounting records can be adjusted as necessary.

Transitional Items - As the Authority moves toward concluding the operations at June 30, 2017, we recommend that detailed discussions be held with the State regarding how certain items will be handled, such as any remaining cash on hand, clean up of outstanding obligations, and any grant carryover items. We know the Authority has begun discussion on many of these topics and we would be happy to assist in any way possible with the transitional items as June 30, 2017 draws near.

Informational Items

Education Achievement Authority

Informational Items

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:

1. 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. The Authority has historically been above the new \$750,000 threshold.
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 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 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 Authority'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 Authority 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 the Authority'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.

Education Achievement Authority

Informational Items (Continued)

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 Authority 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
- 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 Authority is not required to implement these requirements until July 1, 2017. However, if the delay is elected, the Authority *must* document this in writing.

The Authority 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.

Education Achievement Authority

Informational Items (Continued)

We encourage the Authority 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 Authority's policies and procedures; however, it is important the Authority be aware of where the written documentation resides. If any items are not currently addressed, we recommend the Authority establish the required procedures and document them accordingly.