

# **Education Achievement Authority**

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**Federal Awards  
Supplemental Information  
June 30, 2013**

# 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 basic financial statements of the governmental activities and each major fund of Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated November 11, 2013, which contained unmodified opinions on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited basic financial statements subsequent to November 11, 2013.

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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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*

November 11, 2013



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 the 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 basic financial statements of the governmental activities and each major fund of Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2013 and related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered 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 basic 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2013-001 through 2013-006 to be material weaknesses.

To Management and the Board of Directors  
Education Achievement Authority

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Education Achievement Authority's basic 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Management's Responses to Findings**

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

### **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*

Auburn Hills, Michigan  
November 11, 2013

**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 Education Achievement Authority's (the "Authority") 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, 2013. 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 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 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 Education Achievement Authority's compliance.

To the Board of Directors  
Education Achievement Authority

### ***Opinion on Each Major Federal Program***

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 major federal programs for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which 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 Findings 2013-008 and 2013-009. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control Over Compliance**

The management of 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 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; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

To the Board of Directors  
Education Achievement Authority

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 Findings 2013-008 and 2013-009 to be material weaknesses.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2013-007 to be a significant deficiency.

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

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*

Auburn Hills, Michigan  
November 11, 2013

# The Education Achievement Authority

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2012	Federal Funds/Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue as of June 30, 2013
Clusters:							
Teacher Incentive Fund Cluster - U.S. Department of Education - Direct program - Project number S374A120048	84.374A	\$ 35,491,095	\$ -	\$ -	\$ 121,551	\$ 194,969	\$ 73,418
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County RESA - IDEA Flowthrough - Project number 130450-1213	84.027A	2,241,150	-	-	1,130,912	2,241,150	1,110,238
Title I, Part A Cluster - U.S. Department of Education - Passed through Michigan Department of Education - Title I, Part A: Improving Basic Programs Project number 131530-1213	84.010	5,450,200	-	-	3,312,612	3,877,593	564,981
School Improvement Grants Cluster - U.S. Department of Education - Passed through the Michigan Department of Education:	84.377A						
Formula School Improvement:							
Project number 101760 - 1213		1,929,375	-	-	726,498	938,393	211,895
Project number 111760 - 1213		1,350,109	-	-	-	-	-
Project number 121760 - 1213		4,644,998	-	-	2,852,946	3,418,200	565,254
Total Formula School Improvement		7,924,482	-	-	3,579,444	4,356,593	777,149
ARRA - School Improvement Grants to Education Agencies, Recovery Act - Project number 101765 - 1213	84.388	1,971,601	-	-	823,780	968,618	144,838
Total School Improvement Grant Cluster		9,896,083	-	-	4,403,224	5,325,211	921,987

See Notes to Schedule of Expenditures  
of Federal Awards.

# The Education Achievement Authority

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2013

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2012	Federal Funds/Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue as of June 30, 2013
Other federal awards - U.S. Department of Education - Passed through the Michigan Department of Education:							
Title II, Part A - Improving Teacher Quality -							
Project number I30520-1213	84.367	\$ 991,487	\$ -	\$ -	\$ 991,487	\$ 991,487	\$ -
Title III, Part A - Language Acquisition Program							
	84.365	57,741	-	-	-	57,741	57,741
Michigan-Safe and Supportive Schools:							
	84.184Y						
Project number I22790 - I112 / 2012p / 2012se		82,517	-	-	42,948	42,948	-
Project number I32790 - SSS2013		228,491	-	-	106,636	134,846	28,210
Project number I32790 - SSS2013M		167,871	-	-	82,141	93,703	11,562
Project number I32790 - SSS2013P		211,146	-	-	106,591	128,002	21,411
Total Safe and Supportive Schools		690,025	-	-	338,316	399,499	61,183
Total noncluster programs passed through the Michigan Department of Education		1,739,253	-	-	1,329,803	1,448,727	118,924
Total federal awards		<b>\$ 54,817,781</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,298,102</b>	<b>\$ 13,087,650</b>	<b>\$ 2,789,548</b>

See Notes to Schedule of Expenditures  
of Federal Awards.

# Education Achievement Authority

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## Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Revenue from federal sources - As reported in financial statements (includes all funds)	\$ 13,029,909
Plus Title III unavailable revenue at June 30, 2013	<u>57,741</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 13,087,650</u>

# Education Achievement Authority

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## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

### **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 Education Achievement Authority under programs of the federal government for the year ended June 30, 2013. 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 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 Education Achievement Authority. Pass-through entity identifying numbers are presented where available.

### **Note 2 - Grant Auditor Report**

Management has utilized Form R-7120 and 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, 2013. 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.

# Education Achievement Authority

## Schedule of Findings and Questioned Costs Year Ended June 30, 2013

### 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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027A	Special Education Cluster
84.010	Title I Cluster
84.367	Title II
84.377 / 84.388	School Improvement Grant Cluster
84.184	Michigan Safe and Supportive Schools

Dollar threshold used to distinguish between type A and type B programs: \$392,792

Auditee qualified as low-risk auditee?  Yes  No

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section II - Financial Statement Audit Findings

Reference Number	Finding
2013-001	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Segregation of duties is an important part of internal control that reduces the risk of fraudulent transactions or accounting errors by limiting the access that individuals have to only segments of a transaction and providing for appropriate review and approval of accounting records.</p> <p><b>Condition</b> - For a portion of the year, the staff accountant, business, finance, and operations generalist, and CFO had the ability to initiate and approve wire transfers directly with the bank without approval of another individual prior to the bank releasing the funds. Additionally, these individuals had full administrative access to the finance system including the ability to post journal entries, write grants, post cash receipts, add vendors, enter invoices, and enter cash disbursements. It was noted that the Authority began correcting the condition late in the fiscal year by adding appropriate segregation of duties. As of the report date, the entity has taken significant steps to improve the controls over the noted processes.</p> <p><b>Context</b> - The lack of segregation of duties could affect all transactions recorded in the finance system during the period of deficiency.</p> <p><b>Cause</b> - The lack of segregation of duties was the result of process design.</p> <p><b>Effect</b> - The lack of segregation of duties could limit the Authority's ability to reliably prevent or detect erroneous or inappropriate activity, including misappropriation of cash, in a timely manner.</p> <p><b>Recommendation</b> - We recommended that policies and procedures be implemented to increase the segregation of duties in the finance function and noted correction of these conditions as of the report date.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority has recently hired both a CFO, who is a CPA, and a controller, who has 19+ years of school finance and accounting experience. These two individuals have already begun to implement several process improvements, including that proper internal controls and segregation of duties are being observed. Specifically regarding the conditions identified in this finding, all items have been corrected prior to the start of the audit.</p>

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-002	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Financial information should be complete, accurate, maintained properly, and recorded timely.</p> <p><b>Condition</b> - During the year, the Authority did not record transactions as they occurred and did not complete bank reconciliations monthly. The accounting was not completed timely or accurately. It was noted that the Authority began correcting the condition late in the fiscal year by hiring individuals with experience in Michigan public school finance and implementing processes and procedures to ensure accounting data is entered accurately and timely and bank reconciliations are prepared and reviewed monthly. As of the report date, the Authority has taken significant steps to improve the controls over the noted processes.</p> <p><b>Context</b> - The lack of timely or accurate accounting affected all transactions recorded in the finance system. Additionally, lack of timely bank reconciliations creates a greater risk that Authority resources could be missappropriated and remain undetected.</p> <p><b>Cause</b> - The lack of accurate and timely accounting and reporting is the result of process design and knowledge of individuals in the finance office during the year. Bank account reconciliations could not be prepared due to the lack of recording transactions.</p> <p><b>Effect</b> - Information recorded and reported during the year ended June 30, 2013 was not accurate or complete on a timely basis.</p> <p><b>Recommendation</b> - We recommended that the Authority develop a system to accurately track and record financial information timely and have noted correction of this finding as of the report date.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority's new CFO and controller have begun to implement several process improvements, including the utilization of a system to accurately track and record financial information in a timely manner. Specifically regarding the conditions identified in this finding, all items have been corrected prior to the start of the audit.</p>

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
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2013-003 **Finding Type** - Material weakness

**Criteria** - GASB Statement No. 33 prescribes that voluntary non-exchange transactions are to be recognized based on the timing and provisions of enabling legislation.

**Condition** - The Authority was awarded a grant for \$4 million over a period of four years with certain expenditure limits allowed each year. The grant did not specify any purpose restrictions. Based on the provisions of the grant and the timing of cash receipts received for the first year of spending, \$1 million should have been recognized as revenue at June 30, 2013.

Additionally, the Authority received \$300,000 of grant funds, but was unable to locate the grant agreement.

**Context** - The total funds awarded for the grant amounted to \$4 million over a period of four years and the unsupported grant was for \$300,000.

**Cause** - Analysis of grant agreements for application of relevant accounting guidance and retention of complete supporting grant information was not performed.

**Effect** - The Authority did not recognize \$230,000 in revenue as of June 30, 2013. The Authority only recorded revenue for funds expended through June 30, 2013. Management posted the revenue and receivable into the General Fund after it was identified and proposed by the auditors.

**Recommendation** - We recommend that all significant grants and revenue sources be analyzed for proper accounting treating in accordance with GASB Statement No. 33 and appropriate support be maintained to verify that the Authority has complied with all grant stipulations.

**Views of Responsible Officials and Planned Corrective Actions** - The Authority's new CFO and controller have already begun to implement several process improvements, including the proper accounting treatment of all items, including significant grants. Additionally, the Authority recently hired a grants compliance and accounting officer, whose primary duties will be to ensure the proper use of and accounting for all grants.

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
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2013-004 **Finding Type** - Material weakness

**Criteria** - Governmental Accounting Standards Board Interpretation 6 requires that expenditures be accrued in the period in which the government incurs the liability.

**Condition** - The Authority netted a grant passed from another public school in the amount of \$1,486,300 with the lease payment expense due to another public school, and recorded duplicate grant revenue and receivable for the transaction.

**Context** - The total grant received was \$1,486,300.

**Cause** - Full review of lease payment calculations and grant revenue did not identify the duplicate recording.

**Effect** - The Authority did not recognize \$1,486,300 in expenses and liabilities as of June 30, 2013. Management posted the transaction after it was identified and proposed by the auditors.

**Recommendation** - We recommend that all significant transactions be analyzed for proper accounting treatment in accordance with the GASB.

**Views of Responsible Officials and Planned Corrective Actions** - The Authority's new CFO and controller have already begun to implement several process improvements, including the review of all lease activity to ensure proper accounting treatment. Additionally, the Authority recently hired a grants compliance and accounting officer, whose primary duties will be to ensure the proper use of and accounting for all grants.

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-005	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Compensated absence liabilities recorded in the government-wide statements as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 should be recorded based on the earned benefit reduced by amounts used.</p> <p><b>Condition</b> - The Authority calculated an accrual for compensated absences based on inaccurate information and, for one individual, by not applying contractual provisions.</p> <p><b>Context</b> - All employees of the Authority are eligible to accrue compensated absences. The total recorded obligation in the government-wide financial statements is approximately \$833,000.</p> <p><b>Cause</b> - The payroll software only allows viewing access of PTO balances in real time. The Authority based the accrual on balances that existed after year end versus the balance at June 30, 2013.</p> <p><b>Effect</b> - The compensated absences liability was understated by approximately \$251,000.</p> <p><b>Recommendation</b> - We recommend the Authority implement a process to track earned and used compensated absences and verify inputs and limits are based on contractual provisions.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - As of October 31, 2013, the Authority began using a new payroll service supplied by Wayne RESA and designed specifically for school districts. With this change, the issue has been corrected.</p>

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-006	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - National Council on Governmental Accounting (NCGA) Statement No. 5 states the aggregate purchase liability should be reported as an expenditure and an other financing source in the governmental fund that acquired the asset through a capital lease.</p> <p><b>Condition</b> - The Authority entered into two capital leases during the year with a net present value of the lease payments totaling \$3,530,650. The Authority did not account for these activities as capital leases, but rather as operating leases.</p> <p><b>Context</b> - The total principal payments under the leases equals \$3,530,650.</p> <p><b>Cause</b> - Analysis of lease agreements for application of relevant accounting guidance and lease classification was not performed.</p> <p><b>Effect</b> - Capital lease activity was not properly recorded in the modified accrual (General Fund) statements in accordance with NCGA Statement No. 5. An adjustment was posted during the audit to correct these transactions.</p> <p><b>Recommendation</b> - We recommend that all significant leases be analyzed for proper accounting treating in accordance with NCGA Statement No. 5.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority's internal finance department engaged outside help near the end of the fiscal year to assist with analyzing and summarizing accounting transactions to update the accounting records for the year. Due to the timing of when the new CFO and controller were hired relative to the corrective actions needed, this entry was not validated by the Authority's internal finance department. Additionally, the Authority's new CFO and controller have already begun to implement several process improvements, including the review of all lease activity to ensure proper accounting treatment.</p>

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section III - Federal Program Audit Findings

Reference Number	Finding
2013-007	<p><b>Program Name</b> - CFDA 84.010 Title I, Part A: Improving Basic Programs, U.S. Department of Education and CFDA 84.184Y Michigan Safe and Supportive Schools</p> <p><b>Pass-through Entity</b> - Michigan Department of Education</p> <p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Nonpayroll expenditures charged to the federal program are required to be monitored for allowability under OMB circular A-87 2 CFR part 225.</p> <p><b>Condition</b> - The Authority erroneously charged expenditures to the grants that were not properly budgeted for.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - Errors were identified in the test of nonpayroll transactions.</p> <p>Title I, Part A - Of the 33 nonpayroll expenditures selected for testing, one expenditure for \$5,425.00 was excluded from the approved budget and therefore improperly charged to the grant.</p> <p>Michigan Safe and Supportive Schools - Of the 38 nonpayroll expenditures selected for testing, one expenditure for \$340.00 was excluded from the approved budget and therefore improperly charged to the grant.</p> <p><b>Cause and Effect</b> - Due to a weakness in the review procedures over the allocation of nonpayroll costs charged to the grant, expenditures were not properly budgeted for. These questioned costs have been removed from the grant cost report at year end.</p> <p><b>Recommendation</b> - The Authority should implement a more stringent review process over budgeting and nonpayroll costs to ensure all expenditures are properly approved before charging to the grant.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority concurs with the above recommendation and will implement a more stringent review process to ensure that nonpayroll expenditures are properly budgeted and recorded. Additionally, the Authority recently hired a grants compliance and accounting officer, whose primary duties will be to ensure the proper use of and accounting for all grants.</p>

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2013-008	<p><b>Program Name</b> - CFDA 84.010 - Title I, Part A Cluster</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Criteria</b> - Title I, Part A Sec 1120A(c) requires that a local educational agency may receive funds under this part only if state and local funds will be used in schools served under this Title I, Part A to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part.</p> <p><b>Condition</b> - The Authority did not complete required documentation demonstrating comparability of services.</p> <p><b>Questioned Costs</b> - N/A</p> <p><b>Context</b> - Title I, Part A expenditures totaled \$3,883,016.</p> <p><b>Cause and Effect</b> - The Authority did not complete required documentation demonstrating comparability of services.</p> <p><b>Recommendation</b> - We recommend the Authority establish a process to ensure comparability is calculated and reported.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority concurs with the above recommendation and will implement a process to ensure comparability is calculated and reported in accordance with grant requirements. Additionally, the Authority recently hired a grants compliance and accounting officer, whose primary duties will be to ensure the proper use of and accounting for all grants.</p>

# Education Achievement Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2013-009	<p><b>Program Name</b> - CFDA 84.010 - Title I, Part A Cluster</p> <p><b>Pass-through Entity</b> - Michigan Department of Education</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Criteria</b> - Nonpayroll expenditures charged to the federal program are required to be monitored for the availability of funds under OMB 2 CFR 215.</p> <p><b>Condition</b> - The Authority incurred expenditures prior to the period of availability as defined in the grant agreement.</p> <p><b>Questioned Costs</b> - Unknown</p> <p><b>Context</b> - Title I, Part A expenditures outside of the period of availability approximated \$126,000 of approximately \$3,883,000 in total Title I, Part A expenditures.</p> <p><b>Cause and Effect</b> - Due to a weakness in the review procedures over the allocation of nonpayroll costs charged to the grant, the federal program expenditures were not properly reviewed for the determination of grant period availability.</p> <p><b>Recommendation</b> - The Authority should implement a more stringent review process over nonpayroll costs to ensure all expenditures occur within the grant period of availability.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Authority concurs with the above recommendation and will implement a more stringent review process to ensure that nonpayroll expenditures charged to the grant occur within the period of availability. Additionally, the Authority recently hired a grants compliance and accounting officer, whose primary duties will be to ensure the proper use of and accounting for all grants.</p>