Education Achievement Authority

Report to the Board of Directors

June 30, 2013

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November 11, 2013

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, 2013 and have issued our report thereon dated November 11, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of directors of the Education Achievement Authority.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Authority in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the Authority's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report 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.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Teresa L. Pollock, CPA
Partner

To the Board of Directors
Education Achievement Authority

November 11, 2013

Section I - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 11, 2013, 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 Education Achievement 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 11, 2013 regarding our consideration of the Education Achievement 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 letter about planning matters dated August 12, 2013.

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. Effective July 1, 2012, the Authority adopted the provisions of GASB Statement Nos. 63 and 65.

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

There are 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.

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. The following material misstatements detected as a result of audit procedures were corrected by management. Capital leases entered into during the year were recorded as operating leases in the General Fund and lease expenditures were netted with grant revenue, thereby understating expenditures. All misstatements detected as a result of audit procedures have been corrected.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 11, 2013.

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.

Other Information in Documents Containing Audited Financial Statements

As required by OMB Circular A-133, 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 OMB Circular A-133 dated November 11, 2013.

Section II - Other Recommendations and Related Information

Charter Authorization

Plante & Moran, PLLC conducted an audit of Michigan Educational Choice Center (MECC or the "Academy"), the charter school authorized by the Education Achievement Authority. That report discloses material noncompliance by the Academy with the Michigan Uniform Budget and Accounting Act as well as material internal control weaknesses and lack of evidence being maintained of board oversight of fiscal and budget matters.

Education Achievement Authority, as charter authorizer for the Academy, should implement procedures to monitor and hold accountable the MECC board and management's compliance with the Michigan Uniform Budget and Accounting Act and fiscal best practices.

Federal Grants

Federal Grants Management Update

Supplement Versus Supplant - Most federal grant agreements require that federal funds add to or "supplement" current nonfederal programs. It is important for the Authority to understand the specific rules for supplement versus supplant for each grant and be able to document how the requirement was met. One program where significant pressure on availability of general operating funds could create increased risk is Title I. Annually reviewing the spending plan for Title I and similar programs is an important element to ensure the Authority meets the related supplement requirements.

Special Education Maintenance of Effort - For fiscal year 2012-2013, the State of Michigan continues to operate the approach which analyzes maintenance of effort (MOE) on an aggregate basis by ISD. Therefore, if an ISD passes the MOE requirement, the local districts are deemed to have passed as well. If a local district passes and the ISD does not pass, the local district is considered to be in compliance unless it receives notification otherwise from the State. If a local district fails and the ISD passes, it is important to get confirmation from the ISD that the local district is not at risk. Local districts should continue to track maintenance of effort individually and coordinate a plan with the ISD to ensure sufficient effort is being maintained. Until the Authority assumes control over buildings that are outside of Wayne County, the Authority should consult with Wayne RESA regarding MOE. Once the Authority assumes control over buildings outside of Wayne County, we recommend consulting with the Michigan Department of Education as to how MOE should be evaluated.

Special Education Excess Cost Determination - "Excess costs" are those costs incurred for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per-student expenditure in a school district during the preceding school year. School districts are required to compute the minimum average amount of per-pupil expenditure separately for children with disabilities in its elementary schools and for children with disabilities in its secondary schools, and not on a combination of the enrollments in both. The Michigan Department of Education (MDE) continues to work on a tool which would assist districts in computing the minimum average amount. Once this tool is finalized, the MDE will provide additional guidance and the Authority will be required to show compliance. It is important the Authority be aware of this requirement and be prepared to demonstrate compliance for fiscal year 2013-2014.

Special Education Proportionate Share - One of the requirements of the IDEA federal grant is that the Authority expends a proportionate share of its allocation on services related to parentally placed private school children with disabilities enrolled in private elementary and secondary schools. The MDE issued guidance on the computation for determining the percentage. The Authority should be aware of this requirement and should retain documentation supporting the percentage computed as well as evidence of expenditures related to these required services.

Fiscal Monitoring - The MDE continues to focus on the grants fiscal monitoring process. This process focuses on the financial aspects of grants management with an emphasis on control procedures assessments in the key compliance areas of the grant. These actions continue as part of the increased federal emphasis for pass-through entities (the State of Michigan) to improve their monitoring efforts. To assist districts in their compliance efforts, the State has issued a self-evaluation checklist which will allow districts to identify areas which may require additional attention. In addition, the MDE has developed sample written compliance procedures for districts to consider when improving the quality of documentation maintained by the district. We highly recommend the Authority obtain the checklist and the sample procedures (located on the MDE website) and self-assess their processes and documentation against the types of items the MDE is focused upon.

Corrective Action Plans - OMB Circular A-133 requires that the Authority prepare a corrective action plan for each finding in the audit report. The elements to writing a corrective action plan are as follows:

- Reference the finding
- The planned corrective action
- The name(s) of the contact person responsible for the corrective action
- Anticipated completion date

It is important to note that the "view of the responsible officials" included with most audit findings does not meet the definition of a corrective action plan. Once the corrective plan is written, it may be incorporated into the audit finding or can be in a separate document but, in either case, it must contain the required elements.

Documenting Work Performed - A fundamental requirement for federal grants is to document the work performed to fulfill the grant requirements. The method defined in the regulations prescribes the use of a personnel activity report (PAR). Essentially, this is a more detailed time sheet. School districts retain the ability to use a "certification" in certain situations in lieu of a PAR and certifications are acceptable when allowable. If the criteria for certifications are not met, a PAR must be used.

Written Procedures for Grants

As part of your annual single audit, 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. It is important for the Authority to be aware of the comprehensive list of required written procedures required for federal grant participation. The Michigan Department of Education continues to emphasize the importance of maintaining adequate written procedures for grants, as discussed in the 2012-2013 *Accounting and Audit Alert*. The MDE has added example procedures to the Office of Audits website for reference. These requirements are described in 34 CFR Part 80, 2 CFR Part 215, and OMB Circular A-133 Compliance Supplement Part 6 and include the following:

- Financial management systems
- Payments
- Allowable costs
- Period of availability
- Matching or cost sharing (if applicable)
- Program income (if applicable)
- Procurement
- Equipment and real property (if applicable)
- Supplies
- Copyrights (if applicable)
- Subawards to debarred and suspended parties
- Monitoring and reporting program performance (if applicable)
- Financial reporting
- Retention and access requirements for records

In addition, districts should also have written procedures for:

- Cash management
- Conflict of interest
- Payroll
- Federal timekeeping

The Authority should be aware the written procedures are more extensive in nature than the written documentation required for a financial statement audit, which focuses on key controls related to grants management.

We encourage the Authority to review its procedures and the documentation of such procedures to ensure that the items listed above have been addressed. The procedure itself is not required to be specific to federal grants as long as it has applicability to the grants as well. Many, if not all, of the items may already be addressed in various different forms throughout the Authority's policies and procedures. It is important the Authority be aware of where the documentation resides to cover the items listed above. The MDE has been performing federal program fiscal monitoring and will request these procedures when on site. If any items are not currently addressed, we recommend the Authority evaluate putting procedures in place and documenting them accordingly. The MDE has placed sample policies on its website which can be used as either a guide or implemented as provided. Please note, the MDE views these as "safe harbor" and will accept its approved documents as demonstrated compliance with the rules. The documents can be located at www.michigan.gov/mde and then navigate to the Office of Audits webpage.

Federal Program Expenditure Documentation

For an employee who works solely on a single federal program, required documentation includes:

A “certification” that the employee worked solely on a particular federal program for the period covered by the certification

The certification must be prepared at least semiannually and signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.

For an employee who is partly funded by a federal program but works in a “single cost objective” (that is, they perform the same function the entire day but are not 100 percent federally funded), the certification requirements above apply.

For districts that have a “school-wide” building as defined by the Title I regulations, employees charged to federal grants within that building can use the certification requirements to support the time charged to the federal grant.

If an employee works on more than one federal award or part of their time is spent in non-federal award areas (and the services are not considered a single cost objective), required documentation includes a personnel activity report (PAR). Instructional staff may use their lesson plans as documentation to support PARs (not replace them) only if all of the following criteria are met:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity.
- The lesson plans account for the total time the employee is compensated.
- The lesson plans are prepared at least monthly and coincide with one or more pay periods.
- The completed lesson plans are signed by the employee. The Authority must retain the lesson plans as documentation supporting the PAR.

The documentation requirements can be very confusing. We recommend the Authority review their documentation procedures and compare the procedures to the State issued clarifications to ensure procedures are sufficient to comply with federal requirements. Specific attention should be paid to those employees whose roles and responsibilities may have changed from one year to the next, as the documentation required for their payroll may have changed.

Schoolwide Consolidation - The Michigan Department of Education, *Title I Schoolwide Fiscal Guidance (Section E) Program*, is gaining momentum in districts throughout the state. This program allows a Schoolwide School to treat the funds it is consolidating as a single conceptual pool of funds and to support any activity of the Schoolwide plan while funds from the contributing programs lose their identity. To consider participation in this program, a school must:

- Be a Schoolwide Title I School
- Be eligible to receive Title I, Part A fund
- Have a high-quality, approvable SIP
- Have at least 40 percent poverty (priority and focus schools qualify if the above criteria are met - Regardless of poverty rate)
- Not be in deficit
- Have resolved all previous monitoring findings
- Have a history of submitting applications and documents timely and substantially approvable
- Have written, adopted, and implemented policies and procedures

If a district meets the criteria above and would like to participate in this program, the school must demonstrate that their requirements are met by completing:

- Title I School Selection
- Consolidated application
- Six templates that must be filled out and attached to the consolidated application
- Template 5A must, by law, be a part of the school improvement plan. It must be attached to the school improvement plan (SIP) in the Assist/MDE platform.

ESEA - Education Elementary and Secondary Education Act

In July 2012, the U.S. Department of Education approved Michigan's request for flexibility in implementing certain requirements of the Elementary and Secondary Education Act (ESEA, also known as the No Child Left Behind Act). Michigan requested flexibility in 11 out of 12 ESEA provisions. For a detailed summary of the waivers, please see:

http://www.michigan.gov/documents/mde/Final_7.19.12_Waiver_Summary_and_Benefits_392864_7.pdf?20130623111051.

This flexibility approval will:

- Allow local school authorities more freedom in how they use federal dollars to improve student achievement and close achievement gaps
- Recognize schools that are meeting or exceeding achievement goals
- Ensure students have effective educators in their schools
- Create a more robust accountability scorecard that includes science, social studies, and writing, in addition to the NCLB-required content areas of math and English language arts

Two amendments to the approved ESEA flexibility request were approved in December 2012 and three additional amendments were approved in February 2013. An additional amendment was proposed and presented in June 2013. The revised amendment would exempt special education centers/center-based programs from identification on the Priority, Focus, and Reward Schools lists and from inclusion on the annual statewide top-to-bottom ranking. This amendment to the approved request for ESEA flexibility is currently outstanding and still in legislation.

These changes primarily affect the Authority's "Title" programs and potential implications of these changes should be considered when planning for the Authority's use of the impacted federal programs.

Uniform Budgeting and Accounting Act

The Michigan Department of Education (MDE) continues to monitor district compliance with the Uniform Budgeting and Accounting Act. The MDE reviews the annual audited financial statements and identifies any district or public school academy whose total expenditures exceed their budget by more than 1 percent. In addition, the same test is applied to other financing sources (uses). The MDE is also reviewing certain revenue shortfalls as being a violation. For a revenue shortfall to be a violation, it has to represent a variance greater than 1 percent of the total budgeted revenue and the district's fund balance must have been depleted beyond what had been approved by the Board of Education.

Violations result in a letter being sent to the district. If an adequate response is not received back from the district, the MDE will refer the district to the Attorney General's office for possible further action. If your district receives a violation notice from the MDE, you will have two weeks to provide the MDE with information regarding the district's procedures to detect and prevent violations of the act. The MDE will then decide, based on your response, on the appropriateness of referring the violation to the Attorney General's office for further consideration.

Obviously, as you go forward, it is strongly advised that the board and administration review the Authority's policies and procedures in this area in order to prevent violations. The key factor in all this new enforcement effort is an emphasis on the board's responsibility to approve all expenditures via the budget process and avoid any deficit fund balance.

Specialized Internal Control Review

In its simplest form, the engagement consists of roughly one day of interviewing key office personnel whose duties correspond to the areas of cash receipts, cash disbursements, and payroll. In these interviews, our approach is non-confrontational and previous districts have remarked that the process was non-invasive and caused little to no disruption. Following these sessions, we produce a report, verbally and/or in writing, detailing our findings and recommendations, as well as processes and transactions that may require further investigation. At the end of the engagement, we provide written recommendations to strengthen internal controls with the goal of reducing the district's vulnerability to embezzlement.

While we do comment on internal controls and opportunities for improvement, we do not express an opinion on the district's internal controls in accordance with standards of the American Institute of Certified Public Accountants.

Affordable Care

In 2010, the Patient Protection and Affordable Care Act (PPACA) was passed and provides for dramatic changes in the healthcare arena. Since becoming effective, many parts of the law have been enacted. More recent DOL, IRS, and/or Treasury notices have been provided specifically for the delay of the shared responsibility mandate for large employers in 2014. Employers should take care and consider an advance strategy to ensure compliance with the PPACA so that application of any penalties due to noncompliance with the play or pay/shared responsibility mandates are avoided.

The PPACA sets forth a number of requirements that large employers need to consider in order to avoid the potential application of penalties due to noncompliance. Here are a few questions your district should consider:

- Have you reviewed the staffing of your organization to determine your status as a large employer - 50 or more staff including full-time and full-time equivalents?
- Have you examined the affiliated business relationships to determine if the shared responsibility rules apply to your organization (possible with some contractual relationships)?
- Are you certain that your organization's eligibility rules meet the requirements of the PPACA (staff working 30 or more hours/week)?
- Have you evaluated the plans that are available to ensure they satisfy the minimum essential coverage requirements (are all the required coverage elements included at or above the minimum values)?
- Are your plans affordable, as defined by the law?

If assistance is needed with answering these questions, contact your plan advisor or connect with a Plante & Moran, PLLC benefits professional.