

Education Achievement Authority

**Federal Awards
Supplemental Information
June 30, 2014**

Education Achievement Authority

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

Independent Auditor's Report

To the Board of Directors
Education Achievement Authority

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated November 14, 2014, which contained unmodified opinions on the financial statements. The basic financial statements were prepared assuming that the Education Achievement Authority will continue as a going concern. As explained in Note 1 to the basic financial statements, the Authority was created through an interlocal agreement with Eastern Michigan University and Detroit Public Schools. The interlocal agreement allows for one of the parties to withdraw from the agreement as early as June 30, 2015. In the event that the party withdraws from the agreement and another entity does not take its place, the Authority would no longer have a legal basis for operating. Additionally, as described in Note 13 to the basic financial statements, the Authority incurred expenditures under grant programs that may be disallowed and recovered upon review of the granting agency, resulting in potentially material changes to federal source revenue currently recognized. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. As described in Note 2 to the basic financial statements, the Authority's General Fund fund balance was in a deficit position at June 30, 2014, which is a violation of Michigan law. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 14, 2014.

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

Plante & Moran, PLLC

November 14, 2014

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, the major fund, and the aggregate remaining fund information of Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2014, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 14, 2014. The basic financial statements were prepared assuming that the Education Achievement Authority will continue as a going concern. As explained in Note 1 to the basic financial statements, the Authority was created through an interlocal agreement with Eastern Michigan University and Detroit Public Schools. The interlocal agreement allows for one of the parties to withdraw from the agreement as early as June 30, 2015. In the event that the party withdraws from the agreement and another entity does not take its place, the Authority would no longer have a legal basis for operating. Additionally, as described in Note 13 to the basic financial statements, the Authority incurred expenditures under grant programs that may be disallowed and recovered upon review of the granting agency, resulting in potentially material changes to federal source revenue currently recognized. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. As described in Note 2 to the basic financial statements, the Authority's General Fund fund balance was in a deficit position at June 30, 2014, which is a violation of Michigan law.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

To Management and the Board of Directors
Education Achievement Authority

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 and 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 2014-001, 2014-002, 2014-003, and 2014-004 to be material weaknesses.

Compliance and Other Matters

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-003 and 2014-004.

Management's Response 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

November 14, 2014

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 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, 2014. 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

Basis for Qualified Opinion on Title I, A and School Improvement Grant Programs

As described in the accompanying schedule of findings and questioned costs, Education Achievement Authority did not comply with requirements regarding Title I, A and School Improvement Grant Cluster, as described in Findings 2014-005 and 2014-006 for allowability of expenditures and procurement.

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

In our opinion, except for the noncompliance described in the Basis for Qualified *Opinion on Title I, A and School Improvement Grant Programs* paragraph, 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, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Education Achievement Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

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 2014-005 and 2014-006. Our opinion on each major federal program referenced in the previous paragraph 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

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.

To the Board of Directors
Education Achievement Authority

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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 2014-005 and 2014-006 to be material weaknesses.

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/or 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

November 14, 2014

Education Achievement Authority

Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2013	Adjustments and Transfers	Federal Funds/Payments In-kind Received	June 30, 2014 Expenditures	Accrued (Deferred) Revenue as of June 30, 2014
Clusters:								
Teacher Incentive Fund Cluster -								
84.374A								
U.S. Department of Education - Direct Program:								
Project number S374A120048 - 12/13		\$ 35,491,095	\$ 194,969	\$ 73,418	\$ -	\$ 149,139	\$ 75,721	\$ -
Project number S374A120048 - 13/14		35,491,095	-	-	-	1,414,040	1,622,456	208,416
Total Teacher Incentive Fund Cluster		70,982,190	194,969	73,418	-	1,563,179	1,698,177	208,416
Special Education Cluster -								
84.027A								
U.S. Department of Education -								
Passed through Michigan Department of Education:								
IDEA EOSD 2014 - Project number 140480-EOSD		50,000	-	-	-	35,000	50,000	15,000
IDEA Transition Coordination - Project number 140490-TC		65,000	-	-	-	35,000	65,000	30,000
IDEA Flowthrough - Project number 130450-1213		2,241,150	2,241,150	1,110,238	-	1,110,238	-	-
IDEA Flowthrough - Project number 140450-1314		2,671,018	-	-	-	2,152,508	2,671,018	518,510
Total Special Education Cluster		5,027,168	2,241,150	1,110,238	-	3,332,746	2,786,018	563,510
School Improvement Grants Cluster -								
U.S. Department of Education -								
Passed through the Michigan Department of Education:								
Formula School Improvement:								
84.377A								
Project number 101760 - 1213		1,929,375	938,393	211,896	-	657,483	445,587	-
Project number 111760 - 1213		1,350,109	-	-	-	1,153,684	1,153,684	-
Project number 121760 - 1213		4,644,998	3,418,200	565,254	-	1,669,167	1,103,913	-
Total Formula School Improvement		7,924,482	4,356,593	777,150	-	3,480,334	2,703,184	-
ARRA - School Improvement Grants to Educational Agencies, Recovery Act:								
Project number 101765 - 1213	84.388A	1,971,601	968,618	144,839	-	296,302	151,463	-
Project number 131765 - 1314	84.388	10,734,039	-	-	-	5,468,172	7,111,527	1,643,355
Total School Improvement Grant Cluster		12,705,640	968,618	144,839	-	5,764,474	7,262,990	1,643,355
Total School Improvement Grant Cluster		20,630,122	5,325,211	921,989	-	9,244,808	9,966,174	1,643,355

Education Achievement Authority

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2013	Adjustments and Transfers	Federal Funds/Payments In-kind Received	June 30, 2014 Expenditures	Accrued (Deferred) Revenue as of June 30, 2014
Other Federal Awards:								
U.S. Department of Education -								
Passed through the Michigan Department of Education:								
Title I, Part A:	84.010							
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Title I, Part A: Improving Basic Programs:								
Project number 131530-1213		\$ 5,450,000	\$ 3,877,593	\$ 564,981	\$ -	\$ 1,331,434	\$ 766,453	\$ -
Project number 141530-1314		19,948,046	-	-	-	10,282,969	13,115,285	2,832,316
Total Title I, Part A		25,398,046	3,877,593	564,981	-	11,614,403	13,881,738	2,832,316
Title II, Part A - Improving Teacher Quality -								
Project number 140520-1314	84.367	2,647,180	-	-	-	1,210,841	1,355,025	144,184
Michigan-Safe and Supportive Schools:	84.184							
Project number 132790 - SSS2013		228,491	134,846	28,210	-	61,572	33,362	-
Project number 132790 - SSS2013M		167,871	93,703	11,562	-	37,524	25,962	-
Project number 132790 - SSS2013P		211,146	128,002	21,411	-	72,326	50,915	-
Project number 142790 - SSS2014		172,600	-	-	-	95,728	123,222	27,494
Project number 142790 - SSS2014M		131,389	-	-	-	86,977	100,554	13,577
Project number 142790 - SSS2014P		150,500	-	-	-	105,125	116,306	11,181
Total Safe and Supportive Schools		1,061,997	356,551	61,183	-	459,252	450,321	52,252
CTE Perkins -								
Project number 143520	84.048	173,765	-	-	-	9,123	118,765	109,642

Education Achievement Authority

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	Federal CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of June 30, 2013	Adjustments and Transfers	Federal Funds/Payments In- kind Received	June 30, 2014 Expenditures	Accrued (Deferred) Revenue as of June 30, 2014
Other Federal Awards (Continued):								
U.S. Department of Health and Human Services -								
Passed through the Michigan Department of Education -								
Substance Abuse and Mental Health Services Projects:								
	93.243							
Project number I32714-SSHS14		\$ 50,000	\$ -	\$ -	\$ -	\$ 12,821	\$ 12,821	\$ -
Project number I32704-SSHS14		111,972	-	-	-	2,654	6,006	3,352
Total Substance Abuse and Mental Health Services Projects		161,972	-	-	-	15,475	18,827	3,352
Total noncluster programs passed through the Michigan Department of Education								
		29,442,960	4,234,144	626,164	-	13,309,094	15,824,676	3,141,746
U.S. Department of Education -								
Passed through Wayne County RESA:								
Title III, Part A - Language Acquisition Program	84.365	57,741	57,741	57,741	-	57,741	-	-
Title III, Part A - Language Acquisition Program	84.365	45,217	-	-	-	-	14,343	14,343
		102,958	57,741	57,741	-	57,741	14,343	14,343
Total federal awards		\$ 126,185,398	\$ 12,053,215	\$ 2,789,550	\$ -	\$ 27,507,568	\$ 30,289,388	\$ 5,571,370

See Notes to Schedule of Expenditures
of Federal Awards.

Education Achievement Authority

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Revenue from federal sources - As reported in financial statements (includes all funds)	\$ 29,631,107
Less unavailable federal revenue at June 30, 2013	(57,741)
Less local revenue reported as federal revenue	(170,293)
Plus unavailable federal revenue at June 30, 2014	876,658
Other differences	<u>9,657</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 30,289,388</u></u>

Education Achievement Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

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, 2014. 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, 2014. 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, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unmodified for all major programs except for Title I, A and School Improvement Grant Cluster, which were qualified

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

Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.374A	Teacher Incentive Fund
84.010	Title I, A
84.367	Title II
84.377A, 84.388A, 84.388	School Improvement Grant Cluster

Dollar threshold used to distinguish between type A and type B programs: \$908,682

Auditee qualified as low-risk auditee? Yes No

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings

Reference Number	Finding
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2014-001 **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. GASB 33 also requires that revenue for exchange transactions be recorded at the time expenditures are incurred and that resources not available within 60 days be deferred as unavailable revenue in modified accrual basis funds.

Condition - The Authority was awarded a grant for \$4 million over a period of four years with certain expenditure limits allowed each year. 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 and \$1.5 million should have been recognized as a receivable and unavailable revenue at June 30, 2014.

During the year ended June 30, 2014, a new private grant was awarded that was not reflected as a receivable and revenue/unavailable revenue in the amount of \$2 million.

Additionally, the Authority deferred as unearned revenue grant proceeds totaling \$586,109 for which all eligibility requirements were met and should have been recorded as revenue.

The Authority also experienced significant delays and errors in accounting for state and federal grant programs whereby revenue, receivables, and unavailable resources were not fully or accurately analyzed on a timely basis.

This finding was first identified during the year ended June 30, 2013 - see Finding 2013-003.

Context - The Authority's accounting for private, state, and federal grants contained numerous material errors that were identified and corrected during the course of the audit.

Cause - Analysis of grant agreements for application of relevant accounting guidance and retention of complete supporting grant information was not performed. Additional review and oversight of grant accounting by staff with the appropriate skills and knowledge is necessary to timely and accurately reconcile these accounts.

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-001 (Cont'd)	<p>Effect - The Authority did not recognize \$1,586,109 in revenue, \$3,500,000 in accounts receivable, unavailable revenue of \$2,500,000, over-recorded unearned revenue of \$586,109, and separately under-recorded unearned revenue and over-recorded revenue of \$604,323 as of June 30, 2014. Numerous expenditure reclassifications were made to capture grant-related costs in the applicable general ledger accounts. Management posted the adjustments into the general ledger after entries were identified and proposed by the auditors.</p> <p>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. Additional review and oversight of grant accounting by staff with the appropriate skills and knowledge is necessary to timely and accurately reconcile these accounts.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Authority's new CFO has already begun to implement several process improvements, including the proper accounting treatment of all items, including significant grants. The Authority has also recently hired one operations and compliance officer with plans to hire a second. The operations and compliance officers' duties will be to ensure the proper use of and accounting for grants. Additionally, the Authority's controller resigned during the audit, which affected several of these issues. The Authority is in the process of hiring a replacement controller, who will have significant school finance and accounting experience.</p>

Reference Number	Finding
2014-002	<p>Finding Type - Material weakness</p> <p>Criteria - GASB Codification 1600.119 indicates that in the absence of an explicit requirement to do so, a government should accrue a governmental fund liability and expenditure in the period in which the government incurs the liability.</p> <p>GASB Codification 1500.103 requires that liabilities related to general long-term debt, including capital leases, only be recorded in the funds when it has matured and is due and payable.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-002 (Cont'd)	<p>Condition - The Authority overaccrued payroll by approximately \$1.2 million at June 30, 2014, improperly accrued a portion of the capital lease payment totaling approximately \$100,000 at June 30, 2014 that was due and payable in August 2014, and recorded a liability improperly of approximately \$26,000 in accounts payable.</p> <p>This finding was first identified during the year ended June 30, 2013 - see Finding 2013-004.</p> <p>Context - The total payroll accrual is \$1,754,615, the total capital lease payment made in August 2014 is \$228,770, and accounts payable totaled approximately \$17 million.</p> <p>Cause - The Authority has insufficient review of accruals made at period end.</p> <p>Effect - The Authority recorded an accrual and expenditure for approximately \$1,274,000 more than should have been recorded under generally accepted accounting principles. Adjusting entries were identified during the audit and the books were corrected.</p> <p>Recommendation - We recommend that the Authority prepare detailed analysis of all period-end accruals and have an independent individual with appropriate skills and knowledge review the schedules for accuracy, completeness, existence, and compliance with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Authority's new CFO has already begun to implement several process improvements, including the proper accounting for cutoff at period end. The Authority's controller resigned during the audit, which affected year-end accrual issues. The Authority is in the process of hiring a replacement controller, who will have significant school finance and accounting experience.</p>

Reference Number	Finding
2014-003	<p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - The Authority should have adequate controls in place to ensure that contracts and purchases are appropriate, include terms that are favorable to the Authority, and are at market value.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-003 (Cont'd)	<p>Condition - The Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the District did not receive appropriate value.</p> <p>Context - The Authority has disputes with several significant vendors for services and goods invoiced that were not authorized, and has received goods and services that were not at favorable terms to the Authority. The condition was identified by the management of the Authority during the year and brought to the attention of the auditors and the governing body.</p> <p>Cause - The Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the District did not receive appropriate value.</p> <p>Effect - The contracts entered are potentially at rates that are not favorable or are inappropriate in regard to the mission of the Authority, causing the Authority to incur expenditures at above market rates or for services that are not appropriate.</p> <p>Recommendation - The Authority should ensure that all procurement transactions, including contracts, be reviewed by an appropriate individual to ensure that they are appropriate and at favorable terms before they are executed. Additional scrutiny should also be applied prior to disbursing funds under approved contracts to ensure that amounts paid are consistent with the terms of the contract.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management discovered the issues referred to in the audit and brought them to the attention of the appropriate parties, including our auditors, Plante & Moran, PLLC. The Education Achievement Authority of Michigan (the "EAA") instituted a corrective action plan including canceling all of its existing contracts. The EAA has either rebid or is in the process of rebidding all goods and services. Additionally, the EAA has hired a procurement manager to oversee its contract and vendor processes and to handle all procurement centrally. The EAA has also implemented an ethics hotline/website and Conflict of Interest Policy.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-004	<p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - Under Michigan law, public school districts are required to maintain a positive General Fund balance at all times.</p> <p>Condition - At June 30, 2014, the Authority reported a deficit in its General Fund.</p> <p>Context - The Authority's budget monitoring systems did not provide adequate safeguards to identify that a deficit position may occur due to the timing of revenue recognition for federal grant programs.</p> <p>Cause - The Authority delayed their request to draw down federal grant funds pending review and receipt of full documentation to support certain expenditures. Under GASB #33, funds not available within 60 days after year end must be deferred until received for revenue recognition to occur.</p> <p>Effect - Recognized revenue fell short of what was earned and budgeted due to the requirements of modified accrual accounting. This resulted in the Authority entering into a deficit fund balance position at June 30, 2014. Had the funds been received within the availability period, the deficit would not have occurred.</p> <p>Recommendation - The Authority should anticipate the timing of grant receipts in consideration of generally accepted accounting principles when budgeting and make all adjustments necessary to ensure a deficit does not occur. The Authority should notify the Michigan Department of Education immediately of their deficit position and begin the deficit elimination plan process.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Due to the procurement controls implemented by the Authority, addressing Finding 2014-003, the Authority was unable to request certain funds under its federal grants. While the Authority paid and received reimbursement for all FY2014 invoices accompanied by appropriate documentation, a number of vendors failed to provide this information by the deadline of August 30, 2014. The Authority made the decision to not pay invoices that could not be substantiated, until all proper documentation was received. This caused the Authority to show a timing-related deficit for FY2014, as the expenditures were recorded to FY2014 and the associated revenue to FY2015. It is the Authority's position that this was the appropriate action to take.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section III - Federal Program Audit Findings

Reference

Number

Finding

2014-005 **Program Name** - Title IIA, CFDA # 84.367; Title IA, CFDA # 84.010; School Improvement Grant Cluster, CFDA # 84.377 & 84.388

Pass-through Entity - Michigan Department of Education

Finding Type - Material weakness and material noncompliance with laws and regulations

Criteria - OMB Guidance, Section 200.302(b)(5) requires consistency of expenditures with approved budgeted amounts for each federal award.

Condition - Title II - The Authority charged costs for staff attending a conference to the grant. While the conference is an allowable activity under the provisions of the grant, the approved budget only permitted three individuals to attend the conference. The cost of additional attendees, totaling \$24,400, is not eligible for reimbursement. These costs were removed from Title II expenditures, will reduce future reimbursements for Title II, and therefore are not considered questioned costs.

Title I and School Improvement Grant - all of the expenditures appear allowable, but were either not charged to the same function code as they were budgeted, were over budget, or could not be identified as a discrete line in the budget.

This finding was first identified during the year ended June 30, 2013 - see Finding 2013-003.

Questioned Costs - None

Context - Title II - Of the sample of 26 expenditures, six were related to the conference. All six were for individuals that were not budgeted in this grant.

Title IA - of the 37 transactions tested, we noted three expenditures that were charged to a different function than budgeted to and one where the expenditure exceeded the budget.

School Improvement Grant - of the 35 transactions tested, we noted eight expenditures that were charged to a different function than budgeted to and one where the expenditure exceeded the budget and two expenditures that could not be identified in the budget.

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-005 (Cont'd)	<p>Cause and Effect - The error was the result of improper review of costs charged to grants and approved budgets to ensure that amounts charged were included in the budget. The effect is that activities that are allowable in context of the cost objectives of the grant but are not in the approved budget are charged to the grant.</p> <p>Recommendation - All expenditures charged to the grant should be reviewed by an individual that has knowledge of the budget. Additionally, a budgetary comparison should be completed on a periodic basis to identify areas where the budget may be exceeded, indicating that inappropriate expenditures were charged.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Authority's new CFO has already begun to implement several process improvements, including the proper accounting treatment of all items. The Authority has also recently hired one operations and compliance officer with plans to hire a second. The operations and compliance officers' duties will be to ensure the proper use of and accounting for grants. Additionally, the Authority's Chancellor implemented a policy whereby she pre-approves all travel.</p>

Reference Number	Finding
2014-006	<p>Program Name - Title Ia, CFDA # 84.010</p> <p>School Improvement Grant Cluster, CFDA # 84.377 & 84.388</p> <p>Pass-through Entity - Michigan Department of Education</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Criteria - The Authority should have adequate controls in place to ensure that contracts and purchases are appropriate, include terms that are favorable to the Authority, and are at market value.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-006 (Cont'd)	<p>Condition - The Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the District did not receive appropriate value. The condition was identified by the management of the Authority during the year and brought to the attention of the auditors and the governing body. Problematic expenditures were charged to both School Improvement and Title IA grants.</p> <p>Questioned Costs - Unknown</p> <p>Context - The Authority has disputes with several significant vendors for services and goods invoiced that were not authorized, and has received goods and services that were not at favorable terms to the Authority or the actual receipt of goods or services is not adequately supported.</p> <p>Cause and Effect - The Authority's procurement practices provided for decentralized purchasing and contracting and there was insufficient secondary review of procurement and contracts, which created an environment whereby abuses may occur, and transactions occurred where the District did not receive appropriate value or were not consistent with the objectives of the grant. The contracts entered are potentially at rates that are not favorable, are inappropriate in regard to the mission of the Authority or the related grant, or documentation substantiating delivery of the goods or services could not be provided, causing the Authority to incur expenditures at above market rates or for services that are not appropriate or not adequately supported.</p> <p>Recommendation - The Authority should ensure that all procurement transactions, including contracts, be reviewed by an appropriate individual to ensure that they are appropriate and at favorable terms before they are executed. Additional scrutiny should also be applied prior to disbursing funds under approved contracts to ensure that amounts paid are consistent with the terms of the contract, and are for products or goods received.</p>

Education Achievement Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2014-006 (Cont'd)	Views of Responsible Officials and Planned Corrective Actions - Management discovered the issues referred to in the audit and brought them to the attention of the appropriate parties, including our auditors, Plante & Moran, PLLC. The Education Achievement Authority of Michigan (the "EAA") instituted a corrective action plan including canceling all of its existing contracts. The EAA has either rebid or is in the process of rebidding all goods and services. Additionally, the EAA has hired a procurement manager to oversee its contract and vendor processes and to handle all procurement centrally. The EAA has also implemented an ethics hotline/website and Conflict of Interest Policy.

Education Achievement Authority

Summary Schedule of Prior Audit Findings Year Ended June 30, 2014

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2013-001	N/A	Segregation of Duties	Corrected	The Authority 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.

Education Achievement Authority

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2014

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2013-002	N/A	Financial information must be complete, accurate, maintained properly, and recorded timely	Corrected	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.
2013-003	N/A	Voluntary non-exchange transactions not recognized timely	Not Corrected	See Finding 2014-001
2013-004	N/A	Expenditures should be accrued in the period in which the government incurs the liability	Not Fully Corrected	See Finding 2014-002

Education Achievement Authority

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2014

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2013-005	N/A	Compensated absences should be recorded based on the earned benefit reduced by the amounts used.	Corrected	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.
2013-006	N/A	Aggregate purchase liability should be reported as an expenditure and an Other Financing Source in the governmental fund	Corrected	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.
2013-007	Title I; Safe & Supportive Schools	Nonpayroll expenditures charged to the federal program are required to be monitored for allowability under OMG Circular A-87 CFR part 225.	Not Fully Corrected	See Finding 2014-005

Education Achievement Authority

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2014

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2013-008	Title I	Title I, Part A Sec 1120A(c) requires that a local education agency may receive funds under this part only if state and local funds will be used in schools to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part.	Corrected	The Authority implemented 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 are to ensure the proper use of and accounting for all grants.

Education Achievement Authority

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2014

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2013-009	Title I	Nonpayroll expenditures charged to the federal program are required to be monitored for the availability of funds under OMB 2 CFR 215	Corrected	The Authority implemented 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 are to ensure the proper use of and accounting for all grants.