



**SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

September 30, 2009

The Michigan Early Childhood Investment Corporation

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Executive Committee of the Corporate Board
The Michigan Early Childhood Investment Corporation
Lansing, Michigan

Compliance

We have audited the compliance of The Michigan Early Childhood Investment Corporation (ECIC) with the types of compliance requirements described in the US. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2009. ECIC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of ECIC's management. Our responsibility is to express an opinion on ECIC's compliance based on our audit.

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 Nonprofit 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 ECIC'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. Our audit does not provide a legal determination of ECIC's compliance with those requirements.

In our opinion, ECIC complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ending September 30, 2009.

Internal Control Over Compliance

The management of ECIC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ECIC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of ECIC's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ECIC's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the major fund of ECIC as of and for the year ended September 30, 2009, and have issued our report thereon dated May 14, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise ECIC's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and ECIC's Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 14, 2010

The Michigan Early Childhood Investment Corporation
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended September 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Michigan Department of Human Services (DHS)			
Child Care and Development Block Grant ^(a)	93.575	N/A	\$ 14,256,500
Passed through Michigan Department of Community Health			
Maternal and Child Health Federal Consolidated Program	93.110	H25MC00252	<u>125,847</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 14,382,347</u>

^(a) Denotes program tested as "Major Program".

The Michigan Early Childhood Investment Corporation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2009

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of The Michigan Early Childhood Investment Corporation and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the September 30, 2009, basic financial statements to the expenditures of ECIC administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Federal Award Expenditures</u>
Intergovernmental	<u>\$19,786,205</u>	<u>\$(5,403,858)</u>	<u>\$14,382,347</u>

NOTE C: SUBRECIPIENTS

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, ECIC provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Child Care and Development Block Grant	93.575	\$ 8,271,691

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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

Executive Committee of the Corporate Board
The Michigan Early Childhood Investment Corporation
Lansing, Michigan

We have audited the financial statements of the governmental activities and the major fund of The Michigan Early Childhood Investment Corporation (ECIC) as of and for the year ended September 30, 2009, which collectively comprise ECIC's basic financial statements, and have issued our report thereon dated May 14, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ECIC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ECIC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ECIC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects ECIC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of ECIC's financial statements that is more than inconsequential will not be prevented or detected by ECIC's internal control. We consider the deficiencies described as 2008-1 and 2009-1 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.


A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by ECIC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ECIC's financial statements are free of 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 2008-3.

This report is intended solely for the information and use of ECIC's Board and management, others within the entity, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Abraham & Gaffney, P.C."

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 14, 2010

The Michigan Early Childhood Investment Corporation
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended September 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.575	Child Care and Development Block Grant (CCDF)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 431,470

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

2008-1 FRAUD RISK MANAGEMENT

Condition: During the course of our audit, it was noted that ECIC has not adopted a formal fraud risk management program.

Criteria: A fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Effect: A fraud risk management program should be part of ECIC's internal controls to allow employees avenues to communicate fraud to responsible officials of ECIC.

The Michigan Early Childhood Investment Corporation
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2009

Section II - Financial Statement Findings - Continued

2008-1 FRAUD RISK MANAGEMENT - CONTINUED

Recommendation: We recommend that ECIC adopt a fraud risk management program.

Corrective Action Response: The Michigan Early Childhood Investment Corporation (ECIC) agrees that having and maintaining a fraud risk management program is a fundamental piece to assure its employees are fully aware of management's views on fraud and how to act if one believes fraud has occurred. We will produce and maintain a definition of fraud, a statement for all employees that fraud will not be tolerated as well as instructions for reporting fraud within an acceptable chain of command. These statements and instructions will be brought to the Board at the earliest meeting.

2008-3 INVESTMENT POLICY

Condition: During the course of our audit and through discussions with administration, it was noted that ECIC has an investment policy in place but it does not address the various types of investment risk as described in GASB Statement No. 40.

Criteria: GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect ECIC's ability to provide services and meet its obligations as they become due.

Effect: The current policy does not inform users of deposit and investment risks that may affect ECIC's ability to provide services. As a result, the notes to ECIC's financial statements state that no such policy exists.

Recommendation: It is recommended that the Board amend the current investment policy to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as applicable.

Corrective action response: ECIC objects to the assertion in the findings that an investment policy does not exist. The Executive Committee of the Board approved an investment policy in 2007 and that policy was updated and reaffirmed in 2009. ECIC will adopt an updated investment policy that more clearly addresses all of the risk areas that are mentioned in GASB 40.

2009-1 DISBURSEMENT PROCEDURES

Condition: During the course of our audit, it was noted on one (1) of forty-three (43) disbursements tested that ECIC did not follow their established procedure of having two approvals before disbursing funds. In addition, it was noted that on one (1) of forty-three (43) disbursements tested that ECIC paid an incorrect amount to a vendor for services rendered.

Criteria: ECIC has established a policy requiring the Contract Administrator and Chief Administrative Officer approve all expenditures before checks are issued. Also, ECIC has established a policy that only approved and invoiced amounts be paid to vendors.

Effect: Disbursing checks without an authorized approval puts ECIC at risk for improperly disbursing funds and there is lack of compliance with preestablished internal control guidelines. ECIC is also at risk when funds are disbursed to a vendor or subrecipient without first matching the payment to supporting documentation.

Recommendation: We recommend that ECIC ensure that the procedures that have been established are properly followed for all disbursements.

Corrective Action Response: ECIC's policies and procedures are quite clear in regard to approvals required for check requests and checks. In the future, ECIC will not only continue to follow its internal control procedures but also will take extra steps to ensure that all signatories have signed and dated the requests correctly and that all checks are written for the proper amount.

The Michigan Early Childhood Investment Corporation
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
Year Ended September 30, 2009

Section III - Federal Award Findings and Questioned Costs

None noted.

The Michigan Early Childhood Investment Corporation
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2009

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements.

Finding 2008-1

Condition: During the course of our audit, it was noted that ECIC has not adopted a formal fraud risk management program.

Resolution: This finding was not resolved in the current year and was reported as Finding 2008-1.

Finding 2008-2

Condition: During the course of the audit, it was noted that ECIC did not have proper authorization for expenditures on one (1) of fifty (50) disbursements.

Resolution: A similar condition was noted during the current audit and was reported as Finding 2009-1.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

Finding 2008-3

Condition: During the course of our audit and through discussions with administration, it was noted that ECIC has an investment policy in place but it does not address the various types of investment risk as described in GASB Statement No. 40.

Resolution: This finding was not resolved in the current year and was reported as Finding 2008-3.

Finding 2008-4

Condition: During the course of the audit, it was noted that ECIC did not ensure that all contracts entered into during the audit period were through a request-for-proposal process as required by federal regulations and State laws.

Resolution: This condition was not noted during the current audit, therefore we consider it resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

Finding 2008-5

Condition: During the course of the audit, it was noted that ECIC did not have a process to obtain semi-annual payroll certifications for employees that charged 100% of their time to the CCDF cluster.

Resolution: This condition was not noted during the current audit, therefore we consider it resolved.