



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

**September 30, 2010**

The Michigan Early Childhood Investment Corporation

TABLE OF CONTENTS

September 30, 2010

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	5-6
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	8

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

**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, 2010, which collectively comprise ECIC's basic financial statements, and have issued our report thereon dated February 28, 2011. 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.

*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 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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*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 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.

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 deficiencies, 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, 2010, and have issued our report thereon dated February 28, 2011. Our audit was performed for the purpose of forming 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 ECIC's board and management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 28, 2011

The Michigan Early Childhood Investment Corporation  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended September 30, 2010

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal 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 <sup>(a)</sup>	93.575	N/A	\$ 14,605,610
Passed through Michigan Department of Community Health			
Maternal and Child Health Federal Consolidated Program	93.110	H25MC00252	<u>146,107</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 14,751,717</u></u>

<sup>(a)</sup> Denotes program tested as "Major Program".

The Michigan Early Childhood Investment Corporation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2010

**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, 2010, 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>Adjustments</u>	<u>Federal Award Expenditures</u>
Intergovernmental	<u>\$20,310,573</u>	<u>\$( 5,558,856 )</u>	<u>\$ -</u>	<u>\$14,751,717</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited The Michigan Early Childhood Investment Corporation's (ECIC) 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 major federal program for the year ended September 30, 2010. 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 each of its major federal programs are 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 major federal programs 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 on ECIC's compliance with those requirements.

In our opinion, ECIC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

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 requirements that could have a direct and material effect on the major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 ECIC's internal control over compliance.

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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 28, 2011



The Michigan Early Childhood Investment Corporation  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended September 30, 2010

**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)? \_\_\_\_\_ Yes   X   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: \$ 442,552

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

---

None noted.

**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, 2010

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements.

2008-3 INVESTMENT POLICY

Condition: During the course of our audit, it was noted that ECIC's investment policy does not address the various types of investment risk as described in GASB Statement No. 40.

Resolution: ECIC adopted a revised investment policy during the fiscal year, this condition has been resolved.

2009-1 FRAUD RISK MANAGEMENT

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

Resolution: ECIC adopted a formal fraud risk management program during the fiscal year, this condition has been resolved.

2009-2 DISBURSEMENT PROCEDURES

Condition: During the course of our audit, it was noted on one (1) of fifty (50) disbursements tested that ECIC did not follow their established procedure of having supervisory approval before disbursing funds. In addition, it was noted that on four (4) of fifty (50) disbursements tested that ECIC did not follow their established procedure of ensuring that DHS funds were received by ECIC prior to the associated disbursement of funds to vendors or subrecipients.

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

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

No prior audit findings noted.

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

No prior audit findings noted.