



**GREGORY
TERRELL
& COMPANY**

November 2, 2015

To the Senior Management and
The Board of Directors of
Michigan Virtual Charter Academy

In planning and performing our audit of the financial statements of Michigan Virtual Charter Academy (the "Academy") for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

However, as discussed below, during our audit we became aware of a certain matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated November 2, 2015, on the financial statements of the Academy.

We will review the status of these comments during our next audit engagement. We have already disused these comments and suggestions with various members of the Academy's management, and we will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Grants Management

During our audit we noted the following:

- **Cash Management** - The Academy did not draw down grant funds for Title I to cover total Title I expenditures for the year ended June 30, 2015 in a timely manner. Given that the funds were not drawn down within 60 days of year end (August 31, 2015), Title I revenue of \$132,178 was not recognized for the year ended June 30, 2015. This is not a loss of revenue as this Title I revenue will be recognized in the 2015-2016 fiscal year.
- **Utilization and Monitoring of Grant Funds** - The Academy received Title I and Title II funding of \$1,547,339 and \$41,194, respectively, covering the period of July 10, 2014 through September 30, 2015. Through June 30, 2015, the Academy expended \$582,407 in Title I funding and \$0 in Title II funding.

We recommend that the Academy adhere to their procedures of the Operations Manager preparing the grant draw down requests with information provided monthly by the K12 Accountant and that the Title I Coordinator and the Head of School review and sign off on the accuracy of the monthly submissions. The K12 Accountant should report monthly on the status of grant expenditures compared to approved budgets (Title I, Title II and IDEA) and provide forecasts of monthly spending through the end of the funding periods of the grants. Those monthly reports and forecasts should be reviewed and monitored by the Head of School, the Title I Coordinator, the Special Programs Manager and the Board's Financial Consultants, to ensure that all grant funding is fully utilized consistent with the approved grant budgets.

Management's Response

The Academy will implement a monthly draw procedure led by the Finance Manager and Title I Coordinator. Supporting documentation will be reviewed in detail by the Finance Manager and Title Coordinator before receiving approval from the Head of School. Actual grant expenditures will be compared to budgeted expenditures on a monthly basis and presented to the Board and their Financial Consultants.

Bank Reconciliations

During our testing of the year end bank reconciliations we noted the following:

- There were approximately 20 checks listed on the June 2015 outstanding check list that were outstanding more than 6 months.
- There were 2 checks on the June 2015 outstanding check list that together totaled approximately \$97,000 that did not clear the bank and in July 2015 and were listed as VOID on the check register but the amounts had been deducted from the available cash balance. We made an audit adjustment to increase the cash balance and record a liability for this amount at June 30, 2015.
- There was one check for less than \$500 (which we believe to be a manual check) that cleared the bank in July 2015 but does not appear on the outstanding check list nor does it appear on the Academy's check registers covering the period July 1, 2014 through August 2015.
- Our review of the Academy's check register indicates that manual checks for the Academy were written out of sequence in a number of instances.

We recommend the following with respect to cash:

1. The Academy accountants and Operations Manager perform period reviews of checks outstanding more than 6 months to determine whether the amounts should be voided and reissued or whether they represent checks that were voided and not properly accounted for.
2. The Academy accountants and Operations Manager should both review the monthly bank reconciliations in detail to ensure that all manual, void, held checks are properly accounted for. The bank reconciliations should be signed off by both parties as to their review for accuracy.
3. Manual checks should be written in sequence and the Academy's accountants should monitor and account for the sequential issuance of checks from the manual check stock maintained by the Head of School and the Operations Manager.
4. The Academy should review with its bank the fraud protection services that they offer to protect against fraudulent checks and ACH debits. For check protection, they offer what is termed Positive Pay which would require the Academy to upload information from each check run and the bank would only honor checks presented that exactly match the uploaded information.

Management's Response

The Accountant and Finance Manager will review and resolve all outstanding checks over 6 months old during the monthly bank reconciliation process. Voided checks will be properly accounted for and manual checks will be used in sequence when possible. The Finance Manager will sign off on monthly bank reconciliations. Positive Pay is being evaluated in conjunction with a planned accounting software upgrade.

Capital Assets

During the year ended June 30, 2015, the Academy donated certain capital assets to three (3) public schools. We were able to locate approval of the donations in the Board of Directors' minutes but the Academy was not able to provide proof that the capital assets were either delivered to or picked up by the designated schools. We recommend that a signed receipt be obtained detailing the specific items each school received from the Academy and the date they received the capital items.

Management's Response

The donation of a large amount of capital assets was a rare incident. The recipient schools did provide a subsequent letter documenting the receipt of the assets. In the future, the Academy will plan to obtain these receipts at the time of donation.

Annual Physical Inventory of Capital Assets*

During our audit we noted that a complete inventory of Capital Assets and the required reconciliation of the results of the physical inventory to the accounting records was not performed by the K-12 Regional Technology Manager and the K-12 accounting staff, as required by the Academy's written accounting policies and procedures. We recommend an annual physical inventory of capital assets be performed in accordance with written policy.

Management's Response

K12 Regional Technology team is preparing to implement a new inventory management tool that will improve asset tracking. Annual physical inventory has been added to the school's annual reporting calendar and will be performed near the end of the fiscal year.

General Fund Budget

The Academy's expenditures for Instruction exceeded the final budget adopted by the Board by approximately \$2.5 million. The Uniform Budgeting and Accounting Act prohibits the administrative officer of the Academy from incurring expenditures against an appropriation account in excess of the amount appropriated by the Board. The Michigan Department reviews to determine whether total expenditures are materially in excess of the approved budget rather on a line by line basis. Overall the excess is less than 10% of total budgeted expenditures. However, the final budget that was presented to the Academy's Board for approval should have included a better estimate of the actual expenditures for Instruction.

We recommend that the K12 Accountant propose amendments to the Academy's budget when expenditures are expected to exceed appropriation accounts that were approved by the Board and provide the Board with explanations of the cause or causes for proposed budget amendments. This process should be monitored by the Board's Financial Consultant to ensure compliance with the Uniform Budgeting and Accounting Act.

Management's Response

The Academy prepared a budget revision in November 2014 that accounted for the actual enrollment as well as a significant increase in federal funding. The new funding was primarily used to fund academic support positions that were included in the *Pupil Services* and *School Administration* budget lines. Once the positions were staffed in the spring of 2015, it was determined that they should be recorded under *Instruction* but there was no final budget revision prepared to reflect this classification. The K12 Finance Manager will prepare a final budget revision near the end of the new fiscal year to reflect the Academy's position in the spring of 2016.

Early Warning Legislation

On July 7, 2015, Governor Snyder signed a bill into law that any Public School Academy or School District that has a fund balance below 5% of the general fund revenue at the end of their fiscal year will be affected by the provisions of the new law, which includes additional oversight from the Michigan Department of Treasury (MDT). This new law will require the Academy to send their budgetary assumptions to the MDT for review. This review could result in MDT making a recommendation for financial oversight of the Academy.

At June 30, 2015, the Academy's General Fund balance was below 5% of the current year's general fund revenue. The Academy should develop a plan for increasing the General Fund balance to avoid additional State review and oversight.

Management's Response

This new legislation was not passed until after the end of the audited fiscal year, so it does not apply specifically to the last year's financial activities. With a current fund balance of 2.6%, it may require a multi-year approach to amass a 5% fund balance without any negative impact on the Academy's academic goals.

K-12 Payroll Charges*

During our audit we noted that K-12 payroll charges that are invoiced to the Academy are reviewed in detail by the K-12 accountant but are not reviewed in detail by the Academy's Head of School. The Head of School and the Operations Manager review and approve the summary invoice before submission to the Academy Board for approval. Given that the Head of School is the person most knowledgeable of the K12 staff assigned to the Academy, including their positions and rate of pay, we recommend that the Head of School obtain the detailed payroll reports supporting the K-12 payroll charges that are invoiced to the Academy and review it in detail to ensure that K12 staff that are assigned/charged to the Academy have provided services to the Academy and that the payroll amounts charged are accurate.

Management's Response

The Finance Manager will review the payroll registers with the Head of School to verify staff and compensation.

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The Academy's responses were not subjected to the audit procedures applied in the audit of the Academy's financial statements and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of senior management, the Board of Directors, and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.



GREGORY TERRELL & COMPANY

Certified Public Accountants

November 2, 2015

* Repeat Comment