

Schoolcraft College

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

Independent Auditor's Reports:

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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 Trustees
Schoolcraft College

We have audited the financial statements of the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of Schoolcraft College (the "College") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated September 10, 2014, which contained unmodified opinions on the financial statements of the College and its discretely presented component unit. 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 September 10, 2014.

The accompanying schedule of expenditures of federal awards is 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 is 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 financial statements as a whole.

Plante & Moran, PLLC

September 10, 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 Trustees
Schoolcraft College

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 financial statements of the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of Schoolcraft College (the "College") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 10, 2014. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Schoolcraft College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To Management and the Board of Trustees
Schoolcraft College

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2014-001 and 2014-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Schoolcraft College'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Schoolcraft College's Responses to Findings

Schoolcraft College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Schoolcraft College'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

September 10, 2014

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Trustees
Schoolcraft College

Report on Compliance for Each Major Federal Program

We have audited Schoolcraft College'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. Schoolcraft College'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 Schoolcraft College'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 Schoolcraft College'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 Schoolcraft College's compliance.

To the Board of Trustees
Schoolcraft College

Opinion on Each Major Federal Program

In our opinion, Schoolcraft College 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.

Report on Internal Control Over Compliance

Management of Schoolcraft College 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 Schoolcraft College'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 College's internal control over compliance.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

September 10, 2014

Schoolcraft College

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

Federal Grantor/Program Title	Federal CFDA Number	Pass-through or Entity Identifying Number	College Grant Number	Federal Expenditures
Student Financial Aid Cluster - U.S. Department of Education:				
Federal Pell Grant Program	84.063	P063P141652	45-5658	\$ 17,687,270
Federal Supplemental Educational Opportunity Grants	84.007	P007A142073	45-5653	325,645
Federal Work-Study	84.033	P033A142073	45-5655	164,635
Federal Direct Student Loans (Note 2)	84.268	P268K141652	45-5662	<u>13,825,240</u>
Total Student Financial Aid Cluster				32,002,790
Other federal awards:				
U.S. Department of Education - Carl D. Perkins Program Cluster - Passed through the State of Michigan Department of Education - Vocational Education - Basic Grants to States				
	84.048	Various	Various	469,966
U.S. Department of Defense (Defense Logistics Agency) - Procurement Technical Assistance for Business Firms - Cost Sharing Cooperative Agreement - 2014				
	12.002	SP4800-12-2-1218	40-3349	195,042
U.S. Small Business Administration - Passed through the Michigan Small Business Development Center:				
Satellite Office 2014 - Passed through Eastern Michigan University				
	59.037	NA	40-3345	19,661
Satellite Office 2013 - Passed through Eastern Michigan University				
	59.037	NA	40-3347	<u>22,245</u>
Total Michigan Small Business Development Center				41,906
U.S. Department of Labor:				
Employment and Training Administration - Trade Adjustment Assistance Community College and Career Training Grants Program (TAACCCT-MCAM)				
	17.282	TC-25072-13-60-A-26	40-3346	29,914
Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU):				
Motorcycle Safety Training 2014 - Passed through the State of Michigan Department of State				
	20.612	NA	40-3220	22,627
Motorcycle Safety Training 2013 - Passed through the State of Michigan Department of State				
	20.612	NA	40-3221	30,088
Training Motorcycles				
	20.612	NA	40-3216	<u>1,842</u>
Total U.S. Department of Labor				<u>84,471</u>
Total federal awards				<u>\$ 32,794,175</u>

Schoolcraft College

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 Schoolcraft College (the "College") 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-21, 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 Schoolcraft College, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of Schoolcraft College. Pass-through entity identifying numbers are presented where available.

Note 2 - Loans Outstanding

Schoolcraft College participates in the Federal Direct Loan Program (CFDA Number 84.268). This program is considered a component of the Student Financial Aid Cluster. New loans processed for eligible students during the year ended June 30, 2014 were as follows:

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Student Financial Aid Cluster/Federal Direct Loan Program - Subsidized	84.268	\$ 6,702,756
Student Financial Aid Cluster/Federal Direct Loan Program - Unsubsidized	84.268	<u>7,122,484</u>
Total		<u>\$ 13,825,240</u>

Note 3 - Adjustments and Transfers

As allowable and in accordance with federal regulations issued by the U.S. Department of Education, in the year ended June 30, 2013, the College carried forward \$24,655 of the 2012-2013 Federal Work Study Program (84.033) award and \$39,804 of the 2012-2013 Federal Supplemental Educational Program (84.007) award, which it spent in the 2013-2014 award year. In addition, in the year ended June 30, 2014, the College carried forward \$24,499 of the 2013-2014 Federal Work Study Program (84.033) award and \$36,352 of the 2013-2014 Federal Supplemental Educational Program (84.007) award, which it intends to spend in the 2014-2015 award year.

Schoolcraft College

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

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
84.063, 84.007, 84.033, and 84.268 84.048	Student Financial Aid Cluster Vocational Education

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Schoolcraft College

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

Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-001	<p>Finding Type - Significant deficiency</p> <p>Criteria - In accordance with generally accepted accounting principles, maintaining financial information is a critical part of the financial reporting process. Such a process should include proper accounting for unearned revenue.</p> <p>Condition - The College did not have a process in place to properly calculate and analyze the unearned revenue balance related to tuition at year end.</p> <p>Context - We noted that the unearned revenue liability and the related instructional equipment fee revenue were not properly adjusted at June 30, 2014.</p> <p>Cause - Processes in place related to calculation and analysis of the unearned revenue balance did not allow management to identify the error.</p> <p>Effect - An audit adjustment of \$472,000 was recorded to reduce the unearned revenue liability, which increased the related instructional equipment fee revenue by the same amount.</p> <p>Recommendation - The College should review the process used to record unearned revenue. We also recommend that a secondary review of the calculation be performed to ensure that deferred revenue is recorded properly.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The College has taken the auditor's recommendation into consideration and will take the necessary actions to ensure the issue does not occur again.</p>

Reference Number	Finding
2014-002	<p>Finding Type - Significant deficiency</p> <p>Criteria - In accordance with generally accepted accounting principles, maintaining financial information is a critical part of the financial reporting process. Such a process should include proper preventive and detective controls over information and technology systems.</p>

Schoolcraft College

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 - During our assessment of the College's information technology control environment, we noted that key internal controls related to source code change management were not in operation for a portion of the year after the departure of the former CIO. These internal controls included an independent review and approval of changes to the College's information system source code. Effective January 2014, these key controls were implemented and were in place for the remainder of the year under audit.</p> <p>Context - Without these key controls in operation for a portion of the year under audit, there was a lack of segregation of duties, review, and oversight over programmers with the ability to make changes to the system source code.</p> <p>Cause - The CIO position was vacated for a portion of the year under audit and the key internal controls described above were not reassigned to other staff.</p> <p>Effect - Preventive and detective change management internal controls over the College's information system were not operating as designed for a portion of the year.</p> <p>Recommendation - The College should reassign key internal controls performed by the CIO to other appropriate staff until such time as the CIO role is filled.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The College has taken the auditor's recommendation into consideration and has taken the necessary actions to ensure the issue does not occur again.</p>

Schoolcraft College

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

Section III - Federal Program Audit Findings

None

Schoolcraft College

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

<u>Prior Year Finding Number</u>	<u>Federal Program</u>	<u>Original Finding Description</u>	<u>Status</u>	<u>Planned Corrective Action</u>
2013-A		Key internal controls related to source code change management were not in operation after departure of the CIO.	Partially corrected	See corrective action plan in conjunction with Finding 2014-002
2013-001	Student Financial Aid Cluster	Inputs in the Title IV refund calculation were not properly calculated for certain students, resulting in incorrect refund amounts.	Fully Corrected	Not applicable