PERFORMANCE AUDIT
OF THE

OFFICE OF SPECIAL EDUCATION AND EARLY INTERVENTION SERVICES

DEPARTMENT OF EDUCATION

November 2001

31-180-99

EXECUTIVE DIGEST

OFFICE OF SPECIAL EDUCATION AND EARLY INTERVENTION SERVICES

INTRODUCTION

This report, issued in November 2001, contains the results of our performance audit* of the Office of Special Education and Early Intervention Services (OSE-EIS), Department of Education.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

Article VIII, Section 3 of the State Constitution vests in the State Board of Education the leadership and general supervision over all public education.

The primary objective* of OSE-EIS is to administer and fund Michigan's special education and early intervention programs, which includes the identification of eligible young children and students with disabilities and the provision of appropriate intervention and educational services. OSE-EIS coordinates with school districts* to ensure that a free and appropriate public education is provided to eligible children and youth from birth through

* *See glossary at end of report for definition.*

age 25 in accordance with federal and State requirements. OSE-EIS also coordinates early intervention services for infants and toddlers (birth through age 2) with disabilities and their families according to federal regulations and State standards.

OSE-EIS consists of three sections. Finance and Program Management is responsible for the average annual allocation of approximately $749 million in State funds and $147 million in federal funds to approximately 700 school districts or State agencies. Policy, Planning, and Compliance is responsible for helping to ensure compliance with all State and federal requirements for the administration and delivery of special education and early intervention services in the State. Quality Assurance is responsible for the collection of student and personnel data and the coordination of various improvement activities.

Intermediate school districts (ISDs) develop a written delivery plan for the provision of services to young children and students with disabilities within their boundaries. School districts and State agencies provide direct special education and early intervention services to young children and students with disabilities.

As of January 31, 2000, OSE-EIS had 45.1 full-time equated employees to administer its programs.

AUDIT OBJECTIVES, CONCLUSIONS, AND NOTEWORTHY ACCOMPLISHMENTS

Audit Objective: To assess OSE-EIS's efforts to evaluate the effectiveness of its programs and services to young children and students with disabilities.

Conclusion: We concluded that OSE-EIS could improve its efforts to evaluate the effectiveness of its programs and services to young children and students with disabilities. Our assessment disclosed two

reportable conditions* regarding individualized education programs and progress evaluation and a continuous quality improvement* process (Findings 1 and 2).

Audit Objective: To assess the effectiveness of OSE-EIS's monitoring and fiscal-related reviews of school district special education programs.

Conclusion: We concluded that OSE-EIS's monitoring and fiscal-related reviews of school district special education programs were generally effective. However, our assessment disclosed reportable conditions regarding monitoring, the December 1 count process, and on-site program fiscal review of State-funded program costs (Findings 3 through 5).

Noteworthy Accomplishments: During our audit period, the OSE-EIS monitoring process implemented a parent input survey, completed in person or via telephone, to help evaluate the special education programs and services provided.

Audit Objective: To assess the effectiveness of OSE-EIS's oversight and investigation of complaints.

Conclusion: We concluded that OSE-EIS's oversight and investigation of complaints were generally effective. However, our assessment disclosed a reportable condition regarding the timeliness of complaint investigations (Finding 6).

Audit Objective: To assess the propriety of OSE-EIS's allocation of State and federal funds to school districts.

* *See glossary at end of report for definition.*

Conclusion: We concluded that OSE-EIS properly allocated State and federal funds to school districts. However, our assessment disclosed a reportable condition regarding the oversight of "Early On" grant allocations (Finding 7).

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the program and other records of the Office of Special Education and Early Intervention Services and to examine special education student files and other records of three intermediate school districts. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures included an examination of records and activities primarily for the 1997-98 through 1999-2000 school years.

To accomplish our objectives, we reviewed applicable federal regulations, State statutes and administrative rules, and Department policies and procedures. Also, we interviewed OSE-EIS and ISD staff and documented various special education and early intervention program processes.

To accomplish our first objective, we evaluated OSE-EIS's efforts to establish measurable and quantifiable program goals* and objectives. Also, we reviewed the Department's process for evaluating the effectiveness of special education and early intervention programs. Further, we visited three ISDs to review the school districts'

* *See glossary at end of report for definition.*

preparation of individualized education programs and evaluation of student progress.

To accomplish our second objective, we examined selected, on-site monitoring reviews to determine compliance with established policies and procedures and we examined other monitoring issues. Also, we reviewed OSE-EIS's on-site program fiscal reviews of federally funded expenditures for selected ISDs to determine the level of reporting and frequency of follow-up for identified deficiencies. In addition, we reviewed desk audits of State expenditure reports to determine the appropriateness of reported expenditures and the propriety of expenditures disallowed. Further, we reviewed OSE-EIS's on-site audit process for verifying the accuracy of special education December 1 counts.

To accomplish our third objective, we determined the responsibilities of the school districts and OSE-EIS regarding complaints. We reviewed the complaint investigation process for randomly selected complaints, including adherence to established time requirements and appropriate resolution. We also reviewed selected complaint investigations to determine whether the ISDs had informed OSE-EIS of complaints received by the ISDs and to verify that appropriate complaint resolutions occurred.

To accomplish our fourth objective, we verified the accuracy of State-funded and federally funded program allocations for randomly selected school districts.

AGENCY RESPONSES

Our audit report includes 7 findings and 8 corresponding recommendations. The Department's preliminary response indicated that it agreed with our findings and recommendations.

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November 7, 2001

Mr. Thomas D. Watkins, Jr., Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Watkins:

This is our report on the performance audit of the Office of Special Education and Early Intervention Services, Department of Education.

This report contains our executive digest; description of programs; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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DEPARTMENT OF EDUCATION

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Description of Programs

The Department of Education was established by the Executive Organization Act of 1965 (Act 380, P.A. 1965). The Department is headed by the elected eight-member State Board of Education established by the State Constitution. The principal executive officer is the Superintendent of Public Instruction, who is appointed by the Board. Article VIII, Section 3 of the State Constitution vests in the State Board of Education the leadership and general supervision over all public education.

The authority for administering special education and early intervention programs in Michigan is provided by the School Code of 1976, which mandates special education and defines the responsibility of agencies for the delivery of services. The federal government identifies additional program regulations and requirements, initially under Public Law 94-142 and currently under the Individuals With Disabilities Education Act, which limits federal program eligibility to age 21.

The primary objective of the Office of Special Education and Early Intervention Services (OSE-EIS), Department of Education, is to administer and fund Michigan's special education and early intervention programs, which includes the identification of eligible young children and students with disabilities and the provision of appropriate intervention and educational services. OSE-EIS coordinates special education programs with school districts to ensure that a free and appropriate public education is provided to eligible children and youth from birth through age 25 in accordance with federal and State requirements. OSE-EIS also coordinates early intervention services for infants and toddlers (birth through age 2) with disabilities and their families according to federal regulations and State standards.

The State Board of Education promulgated special education administrative rules to help ensure consistency with federal laws and promote the quality of instruction. The rules serve as program standards for school districts and State agencies providing services to young children and students with disabilities.

OSE-EIS consists of the following three sections:

1. Finance and Program Management - This section is responsible for the average annual allocation of approximately $749 million in State funds and $147 million in federal funds to approximately 700 school districts and State agencies. The

section also reviews and approves final cost and expenditure reports and conducts program fiscal reviews to determine fiscal accountability.

2. Policy, Planning, and Compliance - This section is responsible for helping to ensure compliance with all State and federal requirements for the administration and delivery of special education and early intervention services in the State. Also, the section's responsibilities include disseminating policies and developing guidance concerning State and federal regulations, managing the special education administrative rule promulgation process, and managing the monitoring of special education programs and services.

3. Quality Assurance - This section is responsible for the collection of student and personnel data necessary for federal reporting, improvement planning, and the analysis of systems performance. The section is also responsible for the coordination of evaluation and research activities, personnel and intermediate school district plan review and approval, and other improvement activities.

Intermediate school districts develop a written delivery plan for the provision of services to young children and students with disabilities within their boundaries. School districts and State agencies provide direct special education and early intervention services to young children and students with disabilities.

State funding is appropriated annually through the State School Aid Act and Department of Education appropriations bill. Federal funding is appropriated through various sections of the Individuals With Disabilities Education Act, including: Part B for administration and federal requirements, grants, and special education services; Part C for administration and federal requirements, grants, and the coordination of services for infants and toddlers; Part D for state improvement strategies and other discretionary initiatives; and Section 619 for preschool special education administration, federal requirements, and services.

As of January 31, 2000, OSE-EIS had 45.1 full-time equated employees to administer its programs.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Office of Special Education and Early Intervention Services (OSE-EIS), Department of Education, had the following objectives:

1. To assess OSE-EIS's efforts to evaluate the effectiveness of its programs and services to young children and students with disabilities.

2. To assess the effectiveness of OSE-EIS's monitoring and fiscal-related reviews of school district special education programs.

3. To assess the effectiveness of OSE-EIS's oversight and investigation of complaints.

4. To assess the propriety of OSE-EIS's allocation of State and federal funds to school districts.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Special Education and Early Intervention Services and to examine special education student files and other records of three intermediate school districts (ISDs). Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, performed during the period April 1999 through January 2000, included an examination of records and activities primarily for the 1997-98 through 1999-2000 school years.

To accomplish our objectives, we reviewed applicable federal regulations, State statutes and administrative rules, and Department policies and procedures. Also, we interviewed OSE-EIS and ISD staff and documented various special education and early intervention program processes.

To accomplish our first objective, we evaluated OSE-EIS's efforts to establish measurable and quantifiable program goals and objectives in compliance with federal Individuals With Disabilities Education Act requirements. Also, we reviewed the Department's process for evaluating the effectiveness of special education and early intervention programs. Further, we visited three ISDs (Eaton ISD, Livingston Educational Service Agency, and Mecosta-Osceola ISD) to review the school districts' preparation of individualized education programs and evaluation of progress for randomly selected special education students.

To accomplish our second objective, we examined selected, on-site monitoring reviews to determine compliance with established policies and procedures. Also, we examined other monitoring issues regarding frequency and selection method, scope, reporting of results, and follow-up practices. In addition, we reviewed OSE-EIS's on-site program fiscal reviews of federally funded expenditures for selected ISDs to determine the level of reporting and frequency of follow-up for identified deficiencies. Further, we reviewed desk audits of State expenditure reports for selected school districts to determine the appropriateness of reported expenditures and the propriety of expenditures disallowed. Also, we evaluated OSE-EIS's guidance to school districts regarding allowable program expenditures and conducted a telephone survey of selected school districts with disallowed expenditures resulting from a desk audit. In addition, we reviewed OSE-EIS's on-site audit process for verifying the accuracy of special education December 1 counts and examined December 1 count verifications for selected ISDs.

To accomplish our third objective, we determined the responsibilities of the school districts and OSE-EIS regarding complaints. We reviewed the complaint investigation process for randomly selected complaints, including adherence to established time requirements and appropriate resolution. During our ISD visits, we also reviewed selected complaint investigations to determine whether the ISDs had informed OSE-EIS of complaints received by the ISDs and to verify that appropriate complaint resolutions occurred.

To accomplish our fourth objective, we verified the accuracy of State-funded special education program allocations made through the State Aid Data System for randomly selected school districts. Also, for federally funded special education programs, we verified the accuracy of allocations for randomly selected ISDs.

Agency Responses

Our audit report includes 7 findings and 8 corresponding recommendations. The Department's preliminary response indicated that it agreed with our findings and recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Education to develop a formal response to our audit findings and recommendations within 60 days after release of the report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFORTS TO EVALUATE EFFECTIVENESS OF PROGRAMS AND SERVICES

COMMENT

Audit Objective: To assess the Office of Special Education and Early Intervention Services' (OSE-EIS's) efforts to evaluate the effectiveness of its programs and services to young children and students with disabilities.

Conclusion: We concluded that OSE-EIS could improve its efforts to evaluate the effectiveness of its programs and services to young children and students with disabilities. Our assessment disclosed two reportable conditions regarding individualized education programs and progress evaluation and a continuous quality improvement process.

FINDING

1. Individualized Education Programs (IEPs) and Progress Evaluation

OSE-EIS did not ensure that IEP teams prepared IEPs for special education students in compliance with established requirements. Also, OSE-EIS did not ensure that school districts evaluated special education students' progress toward attaining goals and instructional objectives.

After an initial determination of eligibility for special education programs, a school district's IEP team develops an IEP annually for each eligible student. Such teams usually consist of the student's parents, a regular education teacher for the student (if the student participates in the regular education environment), a special education teacher or provider for the student, the school principal or designee, and other individuals having knowledge or special expertise regarding the student, as necessary.

The IEP is a written plan that specifies the programs and services necessary to meet the unique educational needs of the student. The IEP also contains considerable other information, including educational goals and objectives. The

IEP considers the strengths of the student, the concerns of the student's parents for enhancing the student's education, and the results of an initial or recent evaluation of the student, along with other factors. IEPs are written for a one-year period but may be revised or rewritten more frequently, depending upon individual circumstances, such as the early attainment of a goal. Each IEP should build on the results of the individual student's progress since the prior IEP. Complete and useful IEPs are critical to the achievement of optimal student progress, the preparation of subsequent IEPs, the evaluation of student progress, and the evaluation of overall program effectiveness.

To help ensure that IEP teams prepare complete and useful IEPs, OSE-EIS has issued administrative rules, policies, procedures, and monitoring models and standards. Also, OSE-EIS has periodically provided training seminars to school district special education program staff on updates to the revised monitoring models and standards and the preparation of IEPs.

During our audit, we accompanied OSE-EIS monitors on visits to three intermediate school district (ISD) special education programs. We reviewed case files that included the most current IEPs, many of which were for the 1999-2000 school year, for 91 special education students. Our review disclosed:

a. IEPs frequently did not contain a useful statement of the student's present level of educational performance.

   Michigan Administrative Code R 340.1721e(3)(a) requires that an IEP contain a statement of the student's present level of educational performance. OSE-EIS's Adjusted Michigan Monitoring Model (AMMM) requires the IEP to include how the student's disability affects his/her involvement and progress in the general curriculum. The IEP team's determination of how each student's disability affects the student's involvement and progress in the general curriculum is a primary consideration in the development of the student's IEP. The identification and documentation of a student's present level of educational performance provides the foundation for the IEP and is necessary to appropriately develop the student's annual goals and short-term objectives (STOs).

   We determined that 27 (30%) of the 91 IEPs reviewed did not have a useful statement of the students' present level of educational performance and, as

such, were not prepared in compliance with the administrative rule. Examples of such educational performance statements that we did not consider useful were:

(1) "Sometimes he has difficulty controlling his anger."

(2) "Because of visual impairment she has to depend on auditory & tactile."

(3) "Difficulty with peer & adult interaction. Lost job in food court."

These statements did not indicate the students' present level of educational performance and how the disability affects the students' involvement and progress in the general curriculum.

b. IEPs sometimes did not contain measurable and/or useful annual goals and STOs.

Michigan Administrative Code R 340.1721e(3)(b) requires that an IEP include a statement of annual goals for the student. The Individuals With Disabilities Education Act (IDEA) Amendments of 1997 require that these annual goals are to be measurable. Therefore, annual goals build on the present level of educational performance identified in part a. of this finding and should be stated in measurable terms that indicate the student's expected achievement or progress during the year.

The IEP Team Manual further requires that an IEP include two or more STOs for each annual goal. STOs must be measurable and represent an intermediate step between the present level of educational performance and the annual goal. STOs should be achievable within a shorter period of time (month, marking period, etc.) than the annual goal. The development of measurable STOs, in conjunction with annual goals, provides a mechanism to evaluate student progress on a timely basis and, if appropriate, review and possibly change a student's programs and/or services.

Either annual goals must be measurable in themselves or there must be a clear relationship between measurable STOs and annual goals. OSE-EIS believes that annual goals and STOs must be evaluated together to determine compliance with the measurability requirements. For example, an annual goal

such as "Improve math skills," which is difficult to measure as written because it is not quantified, may be acceptable if the associated STOs are measurable.

Applying this concept, we determined that annual goals and associated STOs in 17 (19%) of the 91 IEPs were not measurable and/or useful and, therefore, were not in compliance with the administrative rule.

As indicated in Finding 3, the OSE-EIS monitoring process did not include a review of annual goals and STOs for completeness and usefulness. Measurable and useful annual goals and STOs should increase the school districts' ability to evaluate student progress.

c. School districts frequently did not evaluate the progress of special education students in attaining annual goals and STOs.

Michigan Administrative Code R 340.1721e(3)(c) requires an IEP to include "appropriate objective criteria and evaluation procedures and schedules for determining whether instructional objectives are being achieved." Implicit in this requirement is that school districts determine or evaluate student achievement of both annual goals and STOs. These evaluations are used by the IEP teams to determine future annual goals, STOs, and related services for the students.

We determined that school districts had not performed an evaluation of the students' progress toward attaining STOs and goals for 27 (30%) of the 91 students reviewed. The lack of evaluation of these students' progress severely limits the school districts' ability to determine the propriety of, and make pertinent changes to, the students' goals, STOs, IEPs, and related services provided. Also, the lack of evaluation of student progress limits the school districts' ability to determine the effectiveness of their various special education services and make any needed improvements.

Our review noted that the IEP teams often prepared complete and useful IEPs. However, as a result of the issues identified in parts a. and b. of this finding, we determined that the IEP teams could have prepared more complete and useful IEPs for 32 (35%) of the 91 cases reviewed. Incomplete IEPs may affect the determination of appropriate services for the students and may also limit the ability to determine actual student progress. Also, failure to evaluate student progress, as

identified in part c. of this finding, minimizes the value of a complete and useful IEP and may have a negative effect on the appropriate determination and provision of subsequent special education services.

Further, approximately 11,500 (5%) of 214,000 special education students changed school districts between December 1, 1997 and December 1, 1998. When a special education student changes districts, the IEP follows the student and is an important tool in helping the new IEP team to determine the student's appropriate programs, services, and educational setting. Such student transfers add to the need for complete and useful IEPs for all special education students.

RECOMMENDATIONS

We recommend that OSE-EIS ensure that IEP teams prepare IEPs for special education students in compliance with established requirements.

We also recommend that OSE-EIS ensure that school districts evaluate special education students' progress toward attaining goals and instructional objectives.

AGENCY PRELIMINARY RESPONSE

The Department of Education agreed with the finding and recommendations and informed us that OSE-EIS would use its monitoring function to identify special education programs that need guidance in developing IEPs and evaluating special education students' progress. Also, the recently developed Revised Michigan Monitoring Standards 2000 provides ISDs with standards to help consistently evaluate special education programs, including the development of IEPs, in the years that OSE-EIS monitors do not conduct on-site monitoring.

FINDING

2. Continuous Quality Improvement (CQI) Process

The Department should establish a comprehensive CQI process to evaluate and improve the effectiveness of the Statewide and individual school district special education and early intervention programs.

The State Legislature and the Governor have required, in various appropriations acts and in Executive Directive No. 1996-1, that State programs use quality improvement processes to manage the use of limited State resources. Also, in

Executive Directive No. 2001-3, which rescinded Executive Directive No. 1996-1 effective June 8, 2001, the Governor stated that it was his goal to increase efforts toward continuous improvement and directed department and agency heads to actively support the State's Quality Recognition System and ensure the implementation of quality and customer service management techniques. Further, the United States Department of Education's (USDOE's) Office of Special Education Programs' 1999-2000 Continuous Improvement Monitoring Manual specifies that "States are accountable for identifying strengths and weaknesses, identifying and implementing strategies for improvement, and measuring and reporting progress."

The Department can best evaluate program effectiveness by establishing a CQI process. Such a process should include: performance indicators* for measuring outputs* and outcomes*; quantified performance standards* that describe the desired level of outputs and outcomes based on management expectations, peer group performance, and/or historical data; a management information system to gather actual output and outcome data; a comparison of the actual data with desired outputs and outcomes; a reporting of the comparison results to management; and proposals of program changes to improve effectiveness.

Other than establishing nonquantified goals for certain performance indicators and receiving data submitted by the school districts, the Department did not use the various components of a CQI process to evaluate the effectiveness of the Statewide or school district special education and early intervention programs. As a result, the Department was not able to determine the effectiveness of these programs.

Specifically, our review disclosed:

a. The Department had not established quantified performance standards by which management could assess the effectiveness of special education and early intervention programs.

   In June 1998, the Department established goals for certain special education program performance indicators on a Statewide basis using generalized terms, such as "increase," "decrease," "reduce," and "improve." For example,

** See glossary at end of report for definition.*

goals established included "Increase the percentage of students with disabilities who graduate", and "Reduce the number of minority students misplaced in special education." However, these nonquantified goals do not provide a measurable basis for determining specific performance and do not isolate performance to individual ISD and local school district programs.

Establishing quantified performance standards would allow the Department to assess the effectiveness of both the Statewide and individual school district special education and early intervention programs.

b. The Department did not use data reported by ISDs to evaluate the effectiveness of special education programs at the State and local levels.

ISDs submit various data for each school district program to OSE-EIS in conjunction with annual December 1 count data, as required by the IDEA Amendments of 1997. This data includes student populations served by type of disability, graduation rates, dropout rates, suspension/expulsion rates, returned to general education rates, primary educational setting, and minority placement rates. Although OSE-EIS has collected this data since 1989, the Department has not used the data for program evaluation purposes.

These categories of data would appear to be pertinent performance indicators. Also, this actual output and outcome data, if accurate, is an important component of a CQI process. In fact, the USDOE's Office of Special Education Programs' 1999-2000 Continuous Improvement Monitoring Manual states that much of this output and outcome data ". . . can be critical to the self-assessment . . ." of special education programs. Appropriate use of this and other pertinent data, in conjunction with implementing other components of a CQI process, should provide the Department with the ability to evaluate Statewide and individual program effectiveness.

Without a comprehensive process to evaluate effectiveness and identify potentially needed program changes, the Department's ability to administer special education and early intervention programs is significantly diminished.

RECOMMENDATION

We recommend that the Department establish a comprehensive CQI process to evaluate and improve the effectiveness of the Statewide and individual school district special education and early intervention programs.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and recommendation and informed us that OSE-EIS has entered into the self-assessment phase of the Statewide Continuous Improvement Monitoring Process that was initiated by the USDOE's Office of Special Education Programs. This process includes the identification of multi-source data used to assess the State's performance on 150 indicators. Also, OSE-EIS will use State-level monitoring at the school district level to incorporate elements of continuous improvement by developing data-based, targeted monitoring (targeting specific areas of performance with Statewide significance, such as secondary transition) as well as data-based, focused monitoring (focusing on districts with specific performance deficits, such as low participation in the State assessment system or high levels of compliance findings). Both targeted and focused monitoring will use school district- and State-level data for a number of indicators. Further, OSE-EIS's Quality Assurance Review was piloted in selected school districts during the 2000-01 school year and will continue during the 2001-02 school year with specific goals based on the analysis of building, classroom, and student performance data.

In addition, OSE-EIS will develop a web-based information management system that will allow for the use of and analysis of data reported by the ISDs to evaluate the effectiveness of special education programs at the State and local levels.

EFFECTIVENESS OF MONITORING AND FISCAL-RELATED REVIEWS

COMMENT

Audit Objective: To assess the effectiveness of OSE-EIS's monitoring and fiscal-related reviews of school district special education programs.

Conclusion: We concluded that OSE-EIS's monitoring and fiscal-related reviews of school district special education programs were generally effective. However, our assessment disclosed reportable conditions regarding monitoring, the December 1 count process, and on-site program fiscal review of State-funded program costs.

Noteworthy Accomplishments: During our audit period, the OSE-EIS monitoring process implemented a parent input survey, completed in person or via telephone, to help evaluate the special education programs and services provided.

FINDING

3. Monitoring

OSE-EIS should improve the effectiveness of its monitoring process.

Michigan Administrative Code R 340.1839 states that OSE-EIS shall establish monitoring procedures, criteria, and evaluation activities to ensure that minimum standards are being achieved by all school districts. OSE-EIS's AMMM states that one of the purposes of monitoring is to ensure that students with disabilities receive a free and appropriate public education in the least restrictive environment. IDEA states that a free and appropriate public education includes the provision of special education and related services in conformity with the students' IEPs.

ISDs annually receive federal funding to conduct required monitoring of both their own and constituent local school districts' special education programs. OSE-EIS requires each ISD to submit an assurance to OSE-EIS attesting to the completion of the monitoring. Also, OSE-EIS conducts monitoring visits at ISDs to validate the ISDs' prior year sampling procedure, review student files, and review any corrective action taken as a result of the ISDs' prior year monitoring. Effective October 1, 1999, OSE-EIS extended its cycle for monitoring ISDs from three to five years and began including on-site program/service reviews at the local school districts within each ISD to review IEPs and conduct parent surveys. OSE-EIS provides a written report to the ISD at the conclusion of each monitoring visit that identifies OSE-EIS's findings. The ISD has specified time frames to either appeal the findings or submit proof of compliance or corrective action for the issues noted.

Our review of OSE-EIS's monitoring process disclosed:

a. OSE-EIS did not use a risk-based approach when selecting ISDs for on-site monitoring visits.

   OSE-EIS completes its on-site monitoring visits on a regular schedule that is disclosed in the AMMM. This practice makes ISDs aware of planned visits, which could result in the ISDs and/or local school districts enhancing their compliance with established policies and procedures in the year of and prior to the planned visit. Also, extending its monitoring cycle from three to five years has increased OSE-EIS's reliance on ISD monitors. Therefore, ensuring the propriety of ISDs' monitoring practices is critical to the overall monitoring of special education programs Statewide.

   To make better use of its limited resources, OSE-EIS should monitor ISDs (and local school districts) with significant noncompliance issues more frequently and consider extending the monitoring cycle interval of ISDs that demonstrate compliance with established operational and monitoring policies and procedures. Also, OSE-EIS could combine such a risk-based approach with a random selection approach when determining which low-risk ISDs to monitor to help ensure that all ISDs comply with established policies and procedures.

   During our audit fieldwork, we accompanied OSE-EIS monitors on three ISD monitoring visits and noted that one ISD had not performed the prior school year monitoring as required by the AMMM even though the ISD attested to OSE-EIS that the required monitoring had been completed.

b. OSE-EIS did not review the quality of annual goals and STOs contained in the IEPs of special education students.

   An IEP with proper and useful annual goals and STOs provides a basis for evaluating special education students' progress at specified time intervals. Also, the IEP documents a student's present level of educational performance and identifies the services provided to the student to attain the annual goals and STOs. The 1999-2000 AMMM instructs OSE-EIS monitors to determine whether the IEP includes measurable annual goals "that address the student's needs related to his or her disability (ies) to enable the student to be involved

in and progress in the general curriculum . . . " as well as goals "that address the student's other educational needs." Further, the AMMM instructs the monitors to determine whether the IEP reports "the student's short-term objectives" stipulating that there should be a minimum of two STOs for each annual goal.

OSE-EIS monitors only determined whether IEPs identified a minimum of one annual goal and had two STOs for each goal. The monitors did not evaluate the quality of the annual goals and did not review the STOs to determine whether they were proper and useful in relation to the goals.

c. OSE-EIS did not review long-term progress on an individual student basis to determine the effectiveness of special education programs.

The AMMM requires that the OSE-EIS monitors review only the current year IEP of the students sampled and, therefore, prior year IEPs are not reviewed. Reviewing IEP's for more than one year should provide a basis for evaluating student achievement and progress and propriety of goals and STOs, as discussed in part b. of this finding. Also, such a review could help identify best program practices utilized in educating special education students for dissemination to other school district programs.

The monitoring practices identified in parts b. and c. of this finding likely contributed to the number of IEPs that were not complete and useful as noted in Finding 1. Monitoring of these IEP and student progress issues is critical in order to provide OSE-EIS with assurances that school districts have effective special education programs that provide services that result in optimal student progress. Improving the effectiveness of the monitoring process should have a direct impact on overall program effectiveness and individual student progress.

RECOMMENDATION

We recommend that OSE-EIS improve the effectiveness of its monitoring process.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and recommendation and informed us that OSE-EIS has identified risk factors in its recently developed Preliminary Michigan

Monitoring Model that could initiate "targeted" or "focused" monitoring as described in the response to Finding 2.

FINDING

4. December 1 Count Process

OSE-EIS should use a comprehensive process to verify the accuracy of special education December 1 counts.

The Department received annual federal grants of approximately $156 million for Special Education Grants to States (under provisions of IDEA) and Special Education Preschool Grants. The federal grants were awarded to the State based on the number of toddlers and children with disabilities, ages 3 through 21, in the State who received special education and related services as of December 1 of the prior fiscal year. OSE-EIS allocated all of the IDEA and the majority of preschool grants to 57 ISDs and 3 participating State agencies, based on the number of toddlers and children with disabilities served by the ISD or State agency as of the December 1 count date. The ISDs then distributed these funds to the local school districts based on an approved ISD plan.

OSE-EIS's December 1 count verification process consisted of conducting on-site audits of the 57 ISDs on a three-year cycle. The audits included reviewing pertinent records at the ISDs and/or local school districts within the ISDs. Our review of the December 1 count verification process disclosed:

a. OSE-EIS did not use a risk-based approach when selecting ISDs for on-site audits of the December 1 counts.

   OSE-EIS conducts an on-site audit of the December 1 counts at each ISD every three years, regardless of past on-site audit results or the effectiveness of the ISD's December 1 count process. OSE-EIS staff informed us that some ISDs merely accumulate the December 1 count data from their constituent local school districts and submit the data to OSE-EIS. These ISDs perform little or no data verification to ensure the counts' accuracy prior to submission. Other ISDs have detailed verification procedures that help to ensure that the December 1 count data includes only eligible students receiving special education and related services.

There is a significantly greater risk of count inaccuracies with an ISD that only accumulates the count data and performs little or no verification. OSE-EIS's audits have found that ISDs that perform little or no verification or have ineffective verification procedures usually have considerably more errors in their reported December 1 counts. Therefore, OSE-EIS should focus its limited audit efforts on those ISDs that have a greater risk of reporting inaccurate December 1 counts. ISDs considered to have effective count verification processes should have less frequent audits, unless other risk factors are present, such as ISD staff turnover or significant prior audit exceptions. OSE-EIS could combine a risk-based approach with a random selection approach when determining which ISDs to audit. Partial use of the random selection approach should be an incentive to the ISDs to improve the accuracy of their December 1 counts.

A risk-based approach to selecting ISDs would allow OSE-EIS to improve the effectiveness of its on-site audit function by concentrating on ISDs having a greater risk of inaccurate December 1 counts and, therefore, should result in more accurate overall counts.

b. OSE-EIS did not use available exception reports for all ISDs to help verify the accuracy of reported December 1 counts.

OSE-EIS selects students to review during its on-site December 1 count audits based on two factors: a random sample of students included in the December 1 count data reported by the ISD and students identified in an exception report generated by OSE-EIS. All special education students are to have a current IEP on file at the ISD office as of December 1 to be included in the December 1 count. IEPs remain current for one year. OSE-EIS's exception report identifies students included in the count with expired IEPs.

OSE-EIS used the exception reports only for ISDs that were visited for an on-site audit. OSE-EIS could send the exception reports to all other ISDs for follow-up and request that the ISDs resolve within a specified time frame the propriety of students identified on the lists.

Such use of the exceptions reports would provide more thorough audit coverage and, therefore, should improve the accuracy of December 1 counts. Also, OSE-EIS could incorporate the results of the ISD follow-up into the risk-

based approach noted in part a. of this finding for use in selecting ISDs for on-site audits.

c. OSE-EIS did not expand its on-site audit scope to include prior year December 1 counts, when warranted.

OSE-EIS's on-site audits address only the most recent December 1 count. OSE-EIS did not determine the impact on previous December 1 counts in instances in which the current audit of an ISD identified a significant number of exceptions.

At the completion of each on-site audit, OSE-EIS provides an ISD with a list of students deleted from the count and the reason for their exclusion. However, if the reason for exclusion of the student impacted the same student's eligibility in a prior December 1 count, OSE-EIS did not verify the appropriateness of this student's inclusion in prior counts. For example, if OSE-EIS deleted a student from the December 1, 1998 count because the student exited the program on September 16, 1996, it was likely that the ISD included the same student in the December 1, 1997 and December 1, 1996 counts as well. OSE-EIS did not review the prior December 1 counts to determine whether the ISD erroneously included the student in the prior counts.

One on-site audit deleted 87 students from the December 1, 1998 count. We noted that 21 of the 87 students deleted from the 1998 count were also ineligible for the 1997 count, based on OSE-EIS's reasons for exclusion. However, OSE-EIS did not expand its audit coverage to determine whether the 21 students were also improperly reported in the 1997 count. At our request, OSE-EIS subsequently reviewed this condition and determined that 16 (76%) of these 21 students were also ineligible for the December 1, 1997 count.

Implementing the issues in parts a. through c. of this finding should improve the effectiveness of the December 1 count verification process by increasing the accuracy of the counts and, therefore, increasing the propriety of the allocation of federal funds to ISDs.

RECOMMENDATION

We recommend that OSE-EIS use a comprehensive process to verify the accuracy of special education December 1 counts.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and recommendation and informed us that, beginning with fiscal year 2000-01, OSE-EIS started to use a selection process to identify ISDs for audit based on a routine cycle adjusted for ISDs that have had a high percentage of inaccuracies relative to prior December 1 counts. Also, OSE-EIS will expand the distribution of available exception reports to all ISDs requiring the resolution of the propriety of the students identified within a specific time frame, including instances impacting prior years' December 1 counts.

FINDING

5. On-Site Program Fiscal Review of State-Funded Program Costs

OSE-EIS should conduct on-site program fiscal reviews of State-funded special education program costs.

OSE-EIS allocated approximately $790 million, $735 million, and $723 million in State funds and $168 million, $149 million, and $124 million in federal funds to special education programs in fiscal years 1999-2000, 1998-99, and 1997-98, respectively. State funds are allocated directly to school districts, but federal funds are allocated directly to ISDs, which then allocate federal funds to local school districts in accordance with an approved ISD plan. There are established guidelines for both State and federal funds that identify allowable program costs that ISDs and local school districts must comply with when expending program funds.

OSE-EIS conducts on-site program fiscal reviews of federally funded expenditures at the 57 ISDs on a three-year cycle. These on-site reviews consist of examining both fiscal and programmatic records at an ISD and certain local school districts within the ISD. Also, OSE-EIS reviews individual federally funded transactions to determine their appropriateness and allowability. The on-site reviews may include a very limited examination of State-funded transactions.

At the end of each fiscal year, the school districts file with OSE-EIS a detailed report of actual State-funded costs for their special education programs. OSE-EIS performs an annual desk review of the actual cost reports for all districts. The desk review consists of an evaluation of individual line items on each report, using a series of reasonableness tests. When individual line items deviate from expected ranges, OSE-EIS requires the school district to provide supporting documentation for the reported costs in question.

OSE-EIS estimated that desk reviews annually identify program costs that warrant follow-up with the school districts on more than 60% of the actual cost reports. As a result of the desk reviews, OSE-EIS recovered approximately $7 million (net of identified allowances and disallowances) in unallowable program costs for fiscal year 1997-98 and more than $44 million (net) in unallowable program costs over a period of five fiscal years ended with fiscal year 1997-98. Individually, 16 school districts have had a net disallowance of over $100,000 in two or more of the last five fiscal years.

The desk review function has been a cost-effective method of providing fiscal oversight of the State-funded portion of school district special education programs. However, a desk review may not identify inherent deficiencies in a school district's internal control that result in consistent or occasional overcharges to the State. If designed on a risk-based approach that expands to prior years when appropriate (see Finding 4), on-site reviews of State-funded program expenditures should also be cost-effective and help ensure that school districts do not submit unallowable costs for reimbursement.

RECOMMENDATION

We recommend that OSE-EIS conduct on-site program fiscal reviews of State-funded special education program costs.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and recommendation and informed us that OSE-EIS has been constrained in its ability to conduct on-site program fiscal reviews because of limited State funding. OSE-EIS has requested additional State funding for the purpose of adding personnel to conduct on-site program fiscal reviews.

EFFECTIVENESS OF OVERSIGHT AND INVESTIGATION OF COMPLAINTS

COMMENT

Audit Objective: To assess the effectiveness of OSE-EIS's oversight and investigation of complaints.

Conclusion: We concluded that OSE-EIS's oversight and investigation of complaints were generally effective. However, our assessment disclosed a reportable condition regarding the timeliness of complaint investigations.

FINDING

6. Timeliness of Complaint Investigations

OSE-EIS sometimes did not complete complaint investigations on a timely basis.

A complainant (an organization or an individual) may file a written complaint against an ISD's or local school district's special education program. The complainant can file the complaint with the ISD or directly with OSE-EIS. In most instances, complainants file the complaints with the ISD, which, upon receipt, sends a copy of the complaint to OSE-EIS. OSE-EIS either directs the ISD to conduct an investigation of the complaint or will conduct the investigation itself. OSE-EIS usually directs the ISD to conduct the investigation.

Michigan Administrative Code R 340.1851(1) states that the ISD shall complete its investigation of the complaint and submit a report that documents its conclusions to the complainant and OSE-EIS within 21 calendar days. The report also notifies the complainant of the right to appeal the ISD's conclusions of the investigation and have OSE-EIS review the ISD's decision on the complaint. Upon appeal, OSE-EIS reviews the investigation and reports its conclusions to the complainant. The complainant may appeal OSE-EIS's final decision to a court with jurisdiction in the matter. Title 34, Part 300, Section 661 of the *Code of Federal Regulations* and *Michigan Administrative Code* R 340.1853 require OSE-EIS to conduct its investigation of written complaints within 60 calendar days. The 21-day ISD and the 60-day OSE-EIS requirements run concurrently and begin upon the initial receipt of the complaint by either the ISD or OSE-EIS. Time extensions, at the discretion of OSE-EIS, are allowable if exceptional circumstances exist.

We reviewed 20 complaints filed between January 1997 and July 1999 and determined that OSE-EIS did not complete 5 (25%) complaint investigations within the 60-day time requirement. Four of the 5 investigations were completed in 82 to 118 days and the fifth complaint was completed in 231 days. OSE-EIS had granted a one-week time extension to the 21-day ISD timeline for 1 of the 5 investigations. In 3 of the 5 investigations, the ISDs had not completed their investigation within the 21-day time requirement, which may have contributed to OSE-EIS's untimely completion of its investigation.

OSE-EIS consultants are to use a consultant case report running record for each complaint to document progress and contacts made relating to the investigation. OSE-EIS staff informed us that usage of the records varied among complaint investigators. The record for 1 of the 5 untimely investigations did not indicate any activity for the complaint. Also, there was no indication of the reason for delays on the records for the 5 investigations. Proper use of the record by investigators would provide documentation to support the reason for not complying with the 60-day requirement and may help to expedite the completion of investigations.

In November 1996, the USDOE's Office of Special Education conducted a follow-up monitoring review that identified recurring problems with OSE-EIS's completion of complaint investigations on a timely basis. Although the percentage of late complaint investigations decreased, the USDOE considered the 12% rate of noncompliance "a serious problem."

RECOMMENDATION

We recommend that OSE-EIS complete complaint investigations on a timely basis.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and recommendation and informed us that OSE-EIS attributed the delays in complaint investigations primarily to two vacant, funded positions. OSE-EIS has filled one of the positions and efforts to fill the other position are ongoing. We were also informed that OSE-EIS has identified additional recommendations to improve timeliness and will implement those recommendations as soon as new data collection software is adopted and a compliance interface is developed.

PROPRIETY OF FUNDING ALLOCATIONS

COMMENT

Audit Objective: To assess the propriety of OSE-EIS's allocation of State and federal funds to school districts.

Conclusion: We concluded that OSE-EIS properly allocated State and federal funds to school districts. However, our assessment disclosed a reportable condition regarding the oversight of "Early On" grant allocations.

FINDING

7. Oversight of "Early On" Grant Allocations

OSE-EIS should provide proper oversight of Part C (Special Education Grants for Infants and Families With Disabilities) of the IDEA grant allocation process.

Part C, also referred to as "Early On," provides assistance to states for the administration and delivery of a statewide interagency early intervention system for infants and toddlers with disabilities and their families. OSE-EIS, in collaboration with the State Interagency Coordinating Council, develops the State Plan for Early On.

Annually, the State receives an Early On grant of approximately $12 million. This federal allocation is based on the number of infants and toddlers, from birth through age 2, in the State in proportion to the number of infants and toddlers in all states. In accordance with federal regulations, the approved State plan for the three-year period ended June 30, 1999 provided for grant distributions based on "the annual count of infants and toddlers eligible under Part C and the inclusion of a basic grant amount necessary to support the administrative activities of the local lead agency. . . ." OSE-EIS allocates a substantial portion (70%) of Early On funds to the 57 ISDs based on a basic administrative grant ($50,000), a performance component based on the number of individualized family service plans (IFSP), and a service need component based on the number of births in each ISD over a four-year period. ISDs then distribute these funds to the local school districts or other local agencies based on an approved grant application.

The Department has a contractor who is responsible for accumulating IFSP count data and calculating Early On allocations to ISDs. During our audit period, OSE-

EIS provided no oversight and conducted no review of the contractor's Early On allocations that were presented to the State Board of Education. Our review for the three fiscal years 1997-98 through 1999-2000 disclosed that allocations, although materially correct, were not always based on the prescribed methodology.

We noted that, in response to concerns that a single count date for each year did not provide an accurate representation of children served, the State Interagency Coordinating Council's approved methodology provided for the performance component to be based on the prior June 1 and December 1 IFSP data reported by ISDs. For fiscal year 1997-98, the contractor appropriately used the average of the June 1, 1997 and December 1, 1996 count data, which was the most recent data. However, the contractor inappropriately used December 1, 1997 count data only and the average of the December 1, 1998 and June 1, 1998 count data for fiscal years 1998-99 and 1999-2000, respectively. The contractor informed us that the most current June 1 count data was not always available or considered accurate at the time that grant allocations were calculated, which necessitated the deviations from the approved methodology.

RECOMMENDATION

We recommend that OSE-EIS provide proper oversight of Part C of the IDEA grant allocation process.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the finding and recommendation and informed us that OSE-EIS will develop procedures to ensure that the previous December 1 and June 1 completed count data is used to calculate Early On grant allocations. Also, OSE-EIS will review the contractor's allocation methodology.

Glossary of Acronyms and Terms

AMMM	Adjusted Michigan Monitoring Model.
continuous quality improvement (CQI)	A system that defines the vision and mission of an organization and focuses on the needs and expectations of internal and external customers. It normally includes performance indicators and performance standards for measuring outputs and outcomes, the collection of data to measure performance in relation to the standards, and the use of the data to make modifications to improve program effectiveness and efficiency. It has an underlying philosophy that is team oriented and open to making changes on a continuous basis to improve processes.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
IDEA	Individuals With Disabilities Education Act.
IEP	individualized education program.
IFSP	individualized family service plan.
ISD	intermediate school district.
mission	The agency's main purpose or the reason that the agency was established.

objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.
OSE-EIS	Office of Special Education and Early Intervention Services.
outcomes	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.
outputs	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
performance indicators	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.
performance standards	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

school district	A local school district or an ISD as defined by Sections 388.1603(5) and 388.1605 of the *Michigan Compiled Laws* (the State School Aid Act of 1979), respectively.
STO	short-term objective.
USDOE	United States Department of Education.