

PERFORMANCE AUDIT  
OF

AT RISK PROGRAMS

DEPARTMENT OF EDUCATION

# EXECUTIVE DIGEST

## AT RISK PROGRAMS

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**INTRODUCTION** This report contains the results of our performance audit\* of At Risk\* Programs, Department of Education.

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**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\* .

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**BACKGROUND** Article 8, Section 3 of the State Constitution vests in the State Board of Education the leadership and general supervision over all public education. The Department's Compensatory Education Unit administers the federally funded Title I Program and the State-funded Program for At Risk Pupils (Section 31a Program). The Department's Comprehensive Programs in Health and Early Childhood Unit administers the State-funded Michigan School Readiness Program for Four-Year-Olds At Risk of School Failure (Section 36 Program) and the Michigan School Readiness Competitive Grant Program (MSRP).

At Risk Programs are individually designed to target preschoolers and kindergarten through high school students who are at risk of becoming, or who are, educationally disadvantaged.

\* See glossary on page 42 for definition.

The Units are responsible for processing applications, providing technical assistance, monitoring and evaluating implementation and operation, and ensuring that school districts\* and other providers comply with State and federal requirements.

For fiscal years\* 1994-95 through 1996-97, State and federal funds appropriated for the At Risk Programs totaled \$561.3 million, \$593.9 million, and \$594.5 million, respectively.

For the fiscal year ended September 30, 1996, the Department expended approximately \$1.8 million to administer its At Risk Programs. As of March 31, 1997, the Department had approximately 23 full-time equated\* employees allocated to administer the Programs.

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**AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS**

**Audit Objective:** To assess the propriety of the Department's application and allocation processes for At Risk Program funds.

**Conclusion:** We concluded that the Department's application process for At Risk Programs was generally appropriate. However, we also concluded that the Department's process for allocating Program funds resulted in the inaccurate distribution of both State and federal Program funds. Our assessment disclosed one material condition\*:

- The Department allocated Program funds and school districts determined which elementary school buildings were eligible to use Program funds to reduce class size based on National School Lunch

\* See glossary on page 42 for definition.

Program (NSLP) free meal eligibility data\* . However, the NSLP data often significantly overstated the number of eligible students. The State's use of an inaccurate indicator of Program need could result in some school districts receiving substantially more or less funding than their relative need. (Finding 1)

The Department responded that it agrees with the finding and will work with school districts to increase the accuracy of free lunch counts. Also, the Department will work with the U.S. Department of Agriculture to improve the NSLP application and verification process. Further, the Department will review other potential allocation processes.

In addition, we noted reportable conditions\* involving the eligibility of MSRP competitive grant awards and the State Section 31a Program application review process (Findings 2 and 3).

**Audit Objective:** To assess the Department's efforts to evaluate the effectiveness of and to monitor At Risk Programs.

**Conclusion:** We concluded that the Department had not evaluated the effectiveness of or sufficiently monitored At Risk Programs. Our assessment disclosed one material condition:

- The Department had not established a continuous quality improvement process\* to evaluate and improve the effectiveness of its Title I and Section 31a At Risk Programs (Finding 4).

\* See glossary on page 42 for definition.

The Department responded that it agrees with the finding and that it finalized its definition of "adequate yearly progress" in December 1997.

In addition, we noted reportable conditions involving the Department's Section 31a Program monitoring and reporting and its Program assistance (Findings 5 and 6).

**Noteworthy Accomplishments:** To help increase student academic levels, many of the school districts that we visited had implemented innovative methods of adapting their Program operations to meet the needs of their students.

**Audit Objective:** To assess whether school districts and grantees operated At Risk Programs in compliance with applicable laws, regulations, policies, and procedures.

**Conclusion:** We concluded that school districts and grantees generally operated At Risk Programs in compliance with applicable laws, regulations, policies, and procedures. However, we noted a reportable condition involving the withholding of State school aid payments (Finding 7).

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of At Risk Programs. The audit scope included the examination of Department records and student files and other records of seven school districts and one MSRP grantee (see Exhibit 1). 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 methodology included an examination of Department, school district, and grantee records primarily covering the 1994-95, 1995-96, and 1996-97 (through February 1997) school years\* .

To accomplish our first audit objective, we obtained and reviewed a sample of Program applications and funding allocations. We evaluated the Department's review of Program applications. We verified the Department's Program funding allocations to Program providers and the providers' funding allocations to individual school buildings within school districts. Also, we received and evaluated the results of school districts' NSLP eligibility verification process.

To accomplish our second audit objective, we interviewed At Risk Program staff, including Department staff and staff at the seven school districts and one MSRP grantee visited. We evaluated the Department's process and procedures for monitoring and assessing the effectiveness of the Programs.

To accomplish our third audit objective, we reviewed a random sample of student files to determine that Program services were provided and that there was documentation to support the assessment of student accomplishments. In addition, we reviewed and assessed school district and grantee compliance with applicable federal and State statutes, administrative rules, regulations, and policies and procedures regarding the determination of student Program eligibility, Program funding, and the reporting of Program accomplishments.

\* See glossary on page 42 for definition.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report includes 7 findings and 10 corresponding recommendations. The Department's preliminary response indicates that it agrees with all the findings.

The Department complied with 9 of the 14 prior audit recommendations included within the scope of our current audit. The other 5 recommendations were rewritten for inclusion in this audit report.

Mr. Arthur E. Ellis, Chairman  
State Board of Education  
Hannah Building  
Lansing, Michigan

Dear Mr. Ellis:

This is our report on the performance audit of At Risk Programs, Department of Education.

This report contains our executive digest; description of programs; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; various exhibits, presented as supplemental information; 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.

AUDITOR GENERAL

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

The Compensatory Education Unit, Bureau of Instruction, Department of Education, is responsible for administering the State's federally funded Title I Program. This Program is governed by Title I, Part A, of the Elementary and Secondary Education Act of 1965\*, as amended by the Improving America's Schools Act of 1994\*. The Unit also administers the State-funded Program for At Risk Pupils, which is known as the Section 31a Program. This Program is governed by Section 388.1631a of the *Michigan Compiled Laws* and is funded through the State School Aid Fund\* .

The Comprehensive Programs in Health and Early Childhood Unit, Bureau of Instruction, Department of Education, is responsible for administering the State-funded Michigan School Readiness Program for Four-Year-Olds At Risk of School Failure. This Program, known as the Section 36 Program, is governed by Section 388.1636 of the *Michigan Compiled Laws* and is funded through the State School Aid Fund. The Unit also administers the Michigan School Readiness Competitive Grant Program (MSRP), which was established by Section 903, Act 373, P.A. 1996. MSRP awards funding to providers, which are usually nonprofit organizations, to provide services similar to the Section 36 Program.

\* See glossary on page 42 for definition.

At Risk Programs are individually designed to target preschoolers and kindergarten through high school students who are at risk of becoming, or who are, educationally disadvantaged. The eligibility criteria for receiving services from each program are shown in Exhibit 2. The purpose of each Program is:

Title I Program

To help disadvantaged students meet high academic standards through schoolwide programs in high-poverty schools and assistance in other eligible schools to students who are failing to meet state performance standards.

Section 31a Program

To provide instructional programs and direct noninstructional services, such as medical or counseling services, to students who are determined to be at risk of failing school.

Section 36 Program and MSRP

To provide services necessary to achieve school readiness for 4- and 5-year-old children determined to be at risk of becoming educationally disadvantaged.

The Compensatory Education Unit and the Comprehensive Programs in Health and Early Childhood Unit are responsible for processing applications, providing technical assistance, monitoring and evaluating implementation and operation, and ensuring that school districts and other providers comply with State and federal requirements.

Funding appropriated in fiscal years 1994-95 through 1996-97 for the At Risk Programs was as follows (in millions):

	Federal Funds	State School Aid Fund	State General Fund	Total
Fiscal Year 1996-97:				
Title 1 Program	\$ 301.3	\$	\$	\$ 301.3
Section 31a Program		230.0		230.0
Section 36 Program		52.7		52.7
MSRP Competitive Grants			10.5	10.5
Total for Fiscal Year				<u>\$ 594.5</u>
Fiscal Year 1995-96:				
Title 1 Program	300.4			\$ 300.4
Section 31a Program		230.0		230.0
Section 36 Program		53.0		53.0
MSRP Competitive Grants			10.5	10.5
Total for Fiscal Year				<u>\$ 593.9</u>
Fiscal Year 1994-95:				
Title 1 Program	278.1			\$ 278.1
Section 31a Program		230.0		230.0
Section 36 Program		42.6		42.6
MSRP Competitive Grants			10.6	10.6
Total for Fiscal Year				<u>\$ 561.3</u>
Total Funding Appropriated	<u>\$ 879.8</u>	<u>\$ 838.3</u>	<u>\$ 31.6</u>	<u>\$ 1,749.7</u>

Source: Federal Title I Allocation Report, State School Aid Act, and Department Appropriations Acts.

For the fiscal year ended September 30, 1996, the Department expended approximately \$1.8 million to administer its At Risk Programs. As of March 31, 1997, the Department had approximately 23 full-time equated employees allocated to administering the Programs.

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit of At Risk Programs, Department of Education, had the following objectives:

1. To assess the propriety of the Department's application and allocation processes for At Risk Program funds.
2. To assess the Department's efforts to evaluate the effectiveness of and to monitor At Risk Programs.
3. To assess whether school districts and grantees operated At Risk Programs in compliance with applicable laws, regulations, policies, and procedures.

### Audit Scope

Our audit scope was to examine the program and other records of At Risk Programs. The audit scope included the examination of Department records and student files and other records of seven school districts and one Michigan School Readiness Competitive Grant Program (MSRP) grantee (see Exhibit 1). 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 work was performed between September 1996 and March 1997 and included an examination of Department, school district, and grantee records primarily covering the 1994-95, 1995-96, and 1996-97 (through February 1997) school years.

To accomplish our first audit objective, we obtained and reviewed a sample of Program applications and funding allocations. We evaluated the Department's review of Program applications. We verified the Department's Program funding allocations to Program providers and the providers' funding allocations to individual school buildings

within school districts. Also, we reviewed and evaluated the results of school districts' National School Lunch Program eligibility verification process.

To accomplish our second audit objective, we interviewed At Risk Program staff, including Department staff and staff at the seven school districts and one MSRP grantee visited. We evaluated the Department's process and procedures for monitoring and assessing the effectiveness of the Programs.

To accomplish our third audit objective, we examined documentation supporting school district and grantee services provided and observed school district and grantee operational practices. We reviewed a random sample of student files to determine that Program services were provided and that there was documentation to support the assessment of student accomplishments. We compiled data from school district records to compare school district operations. In addition, we reviewed and assessed school district and grantee compliance with applicable federal and State statutes, administrative rules, regulations, and policies and procedures regarding the determination of student Program eligibility, Program funding, and the reporting of Program accomplishments.

#### Agency Responses and Prior Audit Follow-Up

Our audit report includes 7 findings and 10 corresponding recommendations. The Department's preliminary response indicates that it agrees with all of the findings.

The agency preliminary response which 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 audit report.

The Department complied with 9 of the 14 prior audit recommendations included within the scope of our current audit. The other 5 recommendations were rewritten for inclusion in this audit report.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## APPLICATION AND ALLOCATION PROCESSES

### COMMENT

**Audit Objective:** To assess the propriety of the Department of Education's application and allocation processes for At Risk Program funds.

**Conclusion:** We concluded that the Department's application process for At Risk Programs was generally appropriate. However, we also concluded that the Department's process for allocating Program funds resulted in the inaccurate distribution of both State and federal Program funds. Our assessment disclosed one material condition concerning the Department's use of inaccurate National School Lunch Program (NSLP) free meal eligibility data to allocate Program funds to school districts. In addition, we noted reportable conditions involving the eligibility of Michigan School Readiness Competitive Grant Program (MSRP) competitive grant awards and the State Section 31a Program application review process.

### FINDING

#### 1. Program Funding Allocation Basis

The Department allocated Program funds and school districts determined which elementary school buildings were eligible to use Program funds to reduce class size based on NSLP free meal eligibility data. However, the NSLP data often significantly overstated the number of eligible students.

Effective October 1, 1994, the Legislature increased State Program funding from approximately \$56 million to \$280 million annually. The Legislature also amended the State School Aid Act\* to allocate these funds based on the number of students eligible for NSLP free meals in the prior year. In addition, effective October 1, 1996, the Department began allocating federal Program funds (approximately \$300 million annually) based on NSLP eligibility data. Previously, the

\* See glossary on page 42 for definition.

Department allocated both State and federal Program funds based on the State's 1990 population census of "poor" children aged 5 through 17. This change in the basis for allocating Program funds occurred because the Department believed that the use of NSLP data was a more accurate and current indicator of school district poverty than the 1990 census data.

NSLP is a U.S. Department of Agriculture (USDA) meal entitlement program for all students. In Michigan, many students are determined eligible for NSLP's free or reduced price meals by a data match between school district enrollment records and State public assistance records for the federal Aid to Families with Dependent Children (AFDC) or Food Stamp (FS) Programs. Students whose families are not AFDC or FS eligible, or whose school districts do not perform a data match, apply directly to their school districts, which determine each student's NSLP eligibility based on reported household members and monthly income.

The seven school districts that we visited, which accounted for approximately 32% of the students Statewide who were eligible for NSLP, reported the following students eligible for NSLP by either data match or direct application for fiscal years 1996-97 and 1995-96:

Students Eligible for NSLP Free and Reduced Price Meals  
Fiscal Year 1996-97

District	Total Eligible Students	Students Determined Eligible by		Direct Applications as a Percentage of Total
		Data Match	Direct Application	
1	105,607	72,251	33,356	32%
2	16,027	4,957	11,070	69%
3	8,738	4,121	4,617	53%
4	4,734	2,184	2,550	54%
5	502	0	502	100%
6	1,142	563	579	51%
7	191	0	191	100%

Students Eligible for NSLP Free and Reduced Price Meals  
Fiscal Year 1995-96

District	Total Eligible Students	Students Determined Eligible By		Direct Applications as a Percentage of Total
		Data Match	Direct Application	
1	114,054	76,552	37,502	33%
2	17,859	5,473	12,386	69%
3	7,768	4,700	3,068	39%
4	4,934	1,692	3,242	66%
5	453	0	453	100%
6	1,042	544	498	48%
7	189	0	189	100%

To comply with federal regulations, school districts annually verify, on a test basis, the eligibility of students that they directly approve. If sampled, households must document their low income status or enrollment in the AFDC or FS Programs. Districts are to adjust a student's eligibility, if necessary, based on the response or declare the student ineligible if a response is not received. Currently, federal NSLP regulations do not require school districts to expand their verification sample if a significant ineligibility rate occurs.

As shown in the table on page 19, the eligibility verification process results for fiscal years 1996-97 and 1995-96, at the seven districts visited, disclosed that 72% and 68%, respectively, of the sampled direct application students who were receiving free meals were declared ineligible. Many of the students were declared ineligible based on their households' failure to respond.

Sample Verification Results  
Students Declared Ineligible for Free Meals

District	Fiscal Year 1996-97			Fiscal Year 1995-96		
	Students	Students	Percentage	Students	Students	Percentage
	Tested	Declared Ineligible	Declared Ineligible	Tested	Declared Ineligible	Declared Ineligible
1	912	776	85%	1,018	730	72%
2	150	92	61%	167	117	70%
3	217	70	32%	39	13	33%
4	61	43	70%	81	36	44%
5	10	3	30%	10	2	20%
6	25	6	24%	12	3	25%
7	5	4	80%	6	6	100%
Totals	<u>1,380</u>	<u>994</u>		<u>1,333</u>	<u>907</u>	
Average			<u>72%</u>			<u>68%</u>

Several other federal NSLP studies and audits also have reported high NSLP ineligibility rates that included the failure of many households to respond to repeated verification requests. The most recent comprehensive national NSLP study, which was based on school year 1986-87 data and included "in-home audits," reported an eligibility error rate of 21.2%. The eligibility error rate was slightly higher at 25.3% for the six districts we visited that used the same verification sampling process as schools in the national study. This higher rate would be expected because the students sampled at the districts we visited had a higher risk of being ineligible than students in the national study. The study's universe contained many households that had to meet lower eligibility standards (reduced price meals rather than free) and households that were automatically eligible for NSLP based on their AFDC or FS Program participation. For the six districts noted above, 65.4% of the students were automatically determined eligible by a data match based on their households' participation in the AFDC or FS Programs. The national study stated that applicants who did not respond to a verification request ". . . had markedly different characteristics than other approved households." These characteristics included being better educated, more likely to

be married, higher incomes, and less likely to be recipients of benefits from either the FS Program or the Women, Infants, and Children Program. The study concluded:

The finding that nonresponders have greater incomes lends support to the view that they may have underreported their household income at the time of application and therefore were correctly discouraged from responding by the request for documentation during verification.

Subsequent to these findings, but prior to the fiscal years that we reviewed, the USDA enhanced its verification process to help ensure that households that are eligible for continued free or reduced price meals would respond to NSLP verification requests.

As documented in our analysis of seven school districts' NSLP verification results and the results of other NSLP studies and audits, NSLP free meal eligibility data often significantly overstated the number of eligible students and, therefore, is not an accurate indicator of Program need. With the significant increase in State Program funding, the State's use of an inaccurate indicator could result in some school districts receiving substantially more or less funding than their relative need. Therefore, it is critical that the indicator of Program need be accurate.

### **RECOMMENDATION**

We recommend that the Department determine a more accurate methodology for allocating Program funds and determining which elementary school buildings are eligible to use Program funds to reduce class size.

### **AGENCY PRELIMINARY RESPONSE**

The Department agrees that, even when the districts follow the USDA application and verification process flawlessly, there are still many unverified students who may not be entitled to free lunch status. In order to increase the accuracy of the free lunch counts, the Department will work with school districts to increase the direct tape matches with the FS Program. Also, the Department will work with the USDA to improve the application and verification process. Further, the Department will review other potential allocation processes.

## **FINDING**

### **2. Eligibility of Michigan School Readiness Program (MSRP) Competitive Grant Awards**

The Department awarded an MSRP competitive grant to an ineligible entity in fiscal years 1996-97 and 1994-95.

The Department awarded MSRP competitive grants of approximately \$10.5 million annually for fiscal years 1996-97, 1995-96, and 1994-95. Generally, grants are available to public or private nonprofit entities other than school districts to provide school readiness program services. For fiscal year 1996-97, the Department awarded 71 grants ranging from \$6,000 to \$324,000 based on \$3,000 per eligible child served.

In both fiscal years 1996-97 and 1994-95, the Department's grant awards included a \$24,000 grant to an entity that did not apply for a competitive grant as required by the Department's annual appropriations act. As a result, funds made available to eligible applicants were reduced as funding requests exceeded funds appropriated for both fiscal years.

## **RECOMMENDATION**

We recommend that the Department award MSRP grants to only eligible entities in compliance with its annual appropriations act.

## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this finding and responded that it has reviewed its procedures manual to preclude recurrence of this situation.

## **FINDING**

### **3. State Section 31a Program Application Review Process**

The Department's process for reviewing and approving school district Section 31a Program applications sometimes resulted in approval of incomplete applications.

Beginning October 1, 1994, Section 31a of the State School Aid Act required school districts to request Program funding through a one-time application. To determine the school district's initial eligibility for Program funding and compliance

with the Act's various requirements for the proposed Program services, Department staff were to complete independent first and second reviews and an application review work sheet. The application was to be forwarded for final supervisory review and approval prior to entering the district's funding allocation on the State Aid Data System.

Our review of 10 fiscal year 1994-95 Section 31a Program grant applications disclosed that the Program's largest grant application (\$71.2 million) was:

- a. Recommended for approval by Department staff although it did not contain descriptions for five specific Program service areas totaling approximately \$11.5 million.
- b. Approved although it did not include the school district's summarized Program budget data, which was received approximately three weeks after the application was approved.
- c. Authorized for payment through the State Aid Data System although final review and approval of the application was not documented.

The thorough and appropriate review of Program applications and the proper documentation of such reviews and approvals is important in order to support the propriety of Program funding allocations to all school districts.

### **RECOMMENDATION**

We recommend that the Department improve its process for reviewing and approving school district Section 31a Program applications to help ensure a complete application review.

### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this finding. The Section 31a Program's largest grant application was not submitted to the Department until December 6, 1994. Because the application contained \$30 million in allowable continuation programs, it was approved pending receipt of additional information to allow the district to access funds.

## **EFFORTS TO EVALUATE PROGRAM EFFECTIVENESS AND TO MONITOR PROGRAMS**

### **COMMENT**

**Audit Objective:** To assess the Department's efforts to evaluate the effectiveness of and to monitor At Risk Programs.

**Conclusion:** We concluded that the Department had not evaluated the effectiveness of or sufficiently monitored At Risk Programs. Our assessment disclosed one material condition involving the Department's need for a continuous quality improvement process to evaluate and improve the effectiveness of its Title I and Section 31a At Risk Programs. In addition, we noted reportable conditions involving the Department's Section 31a Program monitoring and reporting and its Program assistance.

**Noteworthy Accomplishments:** To help increase student academic levels, many of the school districts that we visited had implemented innovative methods of adapting their Program operations to meet the needs of their students.

### **FINDING**

#### **4. Continuous Quality Improvement Process**

The Department had not established a continuous quality improvement process to evaluate and improve the effectiveness of its Title I and Section 31a At Risk Programs.

The federal government provided Title I Program funding of approximately \$880 million for the three fiscal years ended September 30, 1997. Also, the State School Aid Fund provided Section 31a Program funding of approximately \$690 million during the same time period. Without a continuous quality improvement process, the Department was unable to determine if the \$1.57 billion expended on the Programs was effective and/or if the Programs required changes for improvement.

The Department can best evaluate Program effectiveness by establishing a continuous quality improvement process. Such a process should include: performance indicators\* for measuring outputs\* and/or outcomes\* ; performance standards\* or goals\* that describe the desired level of outcomes; a management information system to gather accurate performance data; a comparison of performance data to desired outputs and/or outcomes; reporting of the comparison results to management; and proposal of Program changes to improve effectiveness. The State Legislature and the Governor have required, in various appropriations acts and Executive Directive 1996-1, that State programs use continuous quality improvement processes to manage the use of limited State resources.

The federal Improving America's Schools Act, effective October 1, 1995, provided the Department with a three-year period to establish baseline performance data for purposes of evaluating and reporting on the effectiveness of the Title I Program. The Department must evaluate Title I Program effectiveness at the end of fiscal year 1997-98. Department administrators informed us that they intend to assess the effectiveness of the Title I Program using a performance standard of "adequate yearly progress." In 1996, the Department appointed a Committee of Practitioners composed of State educators to define "adequate yearly progress." As of August 31, 1997, the Committee had not finalized its definition of "adequate yearly progress." The Department has proposed that the results of the Michigan Educational Assessment Program\* (MEAP) and the High School Proficiency Test\* be included as elements used to measure "adequate yearly progress." As of August 31, 1997, the Department had not finalized its methodology for assessing Title I Program effectiveness. Therefore, we could not determine the extent to which its methodology contained the necessary components of a continuous quality improvement process.

The Department had recently used a partial component of a continuous quality improvement process for the Section 31a Program. In conjunction with obtaining certain Program assurances from school districts as required by the fiscal year 1996-97 State School Aid Act, the Department requested that the districts submit

\* See glossary on page 42 for definition.

selected information regarding Program evaluation. At the conclusion of our audit fieldwork, the Department had neither reviewed this evaluation information nor determined how the information would be used. The Department had taken no other action to develop the various needed components of a continuous quality improvement process to assess the effectiveness of the Section 31a Program.

Our visit to seven school districts disclosed that none of the districts had processes to assess the overall effectiveness of their At Risk Programs. However, several districts used partial components of a continuous quality improvement process in an attempt to assess the effectiveness of certain Program services:

- a. The school districts that we visited measured Program student progress by using the results from standardized tests, such as the Michigan Educational Assessment Program, Metropolitan Achievement Test, High School Proficiency Test, and Gates Reading Test, as a performance indicator (see Exhibit 3).
- b. Two school districts that we visited measured student progress by monitoring grade point averages (see Exhibit 4) and student retention rates (see Exhibit 5) as performance indicators for certain academic programs.

The methods presented in items a. and b. are examples of performance indicators and outcome data that the Department could use in a continuous quality improvement process to evaluate and improve the effectiveness of Statewide and individual school district At Risk Programs.

Development of a continuous quality improvement process to evaluate Program performance is critical to ensure that school districts use Program funds most effectively. Also, development of such a process would allow the Department and school districts to identify and make needed Program revisions.

### **RECOMMENDATION**

We recommend that the Department establish a continuous quality improvement process to evaluate and improve the effectiveness of its Title I and Section 31a At Risk Programs.

## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this finding and responded that it finalized its definition of "adequate yearly progress" in December 1997.

## **FINDING**

### **5. Section 31a Program Monitoring and Reporting**

The Department did not have the resources to monitor and, therefore, did not monitor school district Section 31a Programs to help ensure that districts implemented their Programs in compliance with the State School Aid Act and reimbursed the State for services that were not in full compliance with the Act. In addition, the Act did not require school districts to inform the Department of any substantial changes to their approved Section 31a Program applications.

The Department is responsible for Program oversight, which includes monitoring school districts for compliance with the Act. Program monitoring should include a structured review of applicable compliance and service issues, the timely issuance of a written report which identifies the findings of the review, and subsequent follow-up to determine that deficiencies have been resolved.

Annual Section 31a Program funding increased from \$30 million in fiscal year 1993-94 to \$230 million in fiscal year 1994-95. However, Department staff have not performed Program monitoring activities because funding has not been available. In conjunction with the Program's expansion in fiscal year 1994-95, the Department requested an additional \$125,000 to fund oversight activities, but the request was not approved. Subsequently, the Department has not made additional requests to obtain funding for oversight activities.

In addition, staff have not conducted Title I Program monitoring visits since fiscal year 1994-95 because federal Program changes provided for a three-year period, beginning on July 1, 1995, for school districts to establish baseline data. After this period, the Department is to evaluate and report on Title I Program effectiveness.

Our visits to seven school districts and one MSRP grantee (see Exhibit 6) disclosed:

- a. Six of seven school districts did not limit Section 31a Program services to only eligible students and/or did not fund only eligible activities. The State School Aid Act limits Section 31a Program funding to serve specifically eligible students with instructional and direct noninstructional services:
  - (1) Five of the six school districts provided other specific Section 31a Program-funded services, such as computer-assisted learning, extended day/year services, and field trips, to students who were not eligible for the services. Therefore, these five school districts' Section 31a Programs were not in compliance with the Act.
  - (2) Three of the six school districts implemented their Section 31a Programs on the same basis as their federal Title I Program, which allows school districts to serve all students in an eligible school building on a schoolwide basis and requires parental involvement and staff training activities. Therefore, these three school districts' Section 31a Programs were not in compliance with the Act.
- b. One school district used Section 31a Program funds to reduce student/teacher ratios in 3 elementary school buildings during both fiscal years 1996-97 and 1995-96 and in 2 elementary school buildings in fiscal year 1994-95. However, the school buildings were not eligible for Section 31a Program services because their percentage of students eligible for the NSLP was less than the school district NSLP eligible percentage. In accordance with Section 31a(8) of the Act, a district must obtain a waiver, with certain restrictions, from the Department to use Section 31a Program funds for activities in such buildings.
- c. One school district had not yet fully implemented, as of May 1, 1997, the Section 31a Program services described in its fiscal year 1994-95 Program application and had used Program funds for ineligible purposes. The district's

superintendent stated that the district had used some Program funds to provide regular academic services because of budget constraints. We noted several school district Program staff positions that were improperly funded from the Title I and Section 31a Programs. At the time of our visit, the Department was also conducting a special review of the district's expenditures in response to a complaint received from a member of the district.

- d. Six of the seven school districts did not notify the Department of significant changes in their Section 31a Programs as previously described in the districts' Program applications and approved by the Department. Currently, the Act does not require school districts to inform the Department of any substantial changes to their approved Section 31a Programs. For example:
  - (1) The Department approved one school district to use approximately \$2.6 million of its approximately \$8.0 million annual Program funding allocation to provide alternative education\* services to district students. However, the district reduced its allocation of funds for these services by 88% to approximately \$300,000 and reallocated the \$2.3 million to other approved services.
  - (2) The Department approved the use of approximately \$10.5 million (15%) of a school district's approximately \$71.0 million annual Program funding allocation to reduce the student/teacher ratio of its elementary school building classes. However, the school district was unable to reduce the student/teacher ratio of its elementary school building classes because of space limitations. School district administrators informed us that they allocated the funds to other Program services that the Department had initially approved at lower funding levels.
- e. Beginning in fiscal year 1995-96, Section 31a(7) of the State School Aid Act requires that school districts reimburse the State for all disallowances found in audits of Section 31a Programs. As described in items a., b., and c., school districts have provided services not in compliance with the Act. The Department's lack of resources allocated to monitoring Section 31a Programs

\* See glossary on page 42 for definition.

has resulted in noncompliance not being detected and failure to recover amounts spent for ineligible services. The lack of monitoring reduces the incentive for school districts to comply with the Act.

In accordance with Section 31a(6) of the Act, school districts were to submit to the Department, by May 20, 1997, written assurance that all provisions of the Act would be complied with for the 1996-97 school year. As of June 30, 1997, six of the seven school districts that we visited had submitted their assurance and reported full compliance although our audit disclosed several districts had substantially not complied with the Act. Therefore, it is imperative that the Department initiate a monitoring function for the Section 31a Program to help ensure compliance with the Act and to increase the potential for Program success. It is also important that school districts inform the Department of any substantial changes to their approved Section 31a Program applications to facilitate an effective monitoring process.

### **RECOMMENDATIONS**

We recommend that the Department request the necessary resources to implement an effective Section 31a Program monitoring function to help ensure that school districts implement their Programs in compliance with the State School Aid Act.

We also recommend that the Department seek amendatory legislation to require school districts to inform the Department of any substantial changes to their approved Section 31a Program applications.

We further recommend that the Department obtain reimbursement from school districts that provided Section 31a Program Services not in compliance with the State School Aid Act.

### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this finding and responded that it has requested \$100,000 in State funds for Section 31a Program oversight activities.

## **FINDING**

### **6. Program Assistance**

The Department had not formally identified and reviewed successful and unsuccessful Program services at various school districts in order to better assist other school districts in selecting, implementing, and providing services. Also, the Department's Program files did not always document assistance provided to school districts.

Article 8, Section 3 of the State Constitution vests in the State Board of Education the leadership and general supervision over all public education, including At Risk Programs. As part of this responsibility, the Department provided assistance to school districts regarding Program development, implementation, and operation. Our review of the Department's assistance provided to school districts disclosed:

- a. The Department had not reviewed the different types of Program services that were successful or unsuccessful at various school districts. Such a review would enable the Department to have research-based services and practices information for providing districts with assistance regarding suggested Program services offered by other school districts with similar needs and conditions.

Generally, the Department provided Program assistance to school districts only upon request. The Department appropriately delegated to districts the responsibility of determining which Program services best met the districts' needs. Most districts provide a number of different Program services. Because the Department had not reviewed the successes and failures of the various services provided by districts throughout the State, districts were on their own to select, implement, and provide Program services without assistance from the Department regarding the likelihood of the service meeting the districts' needs and/or specific implementation and operational advice.

Our visits to seven school districts disclosed that several districts had implemented Program services and provided the services for an extended period of time before terminating the services because they were not successful. Of the seven districts visited, some had successfully provided

similar Program services. The Department had not determined why services provided in certain school districts were successful and similar services provided in other districts were unsuccessful. The districts that provided the unsuccessful services most likely would have benefited from the Department's assistance when selecting, implementing, and providing the services.

The Department taking an active role in providing assistance and guidance to school districts should increase the effectiveness of school district Program services.

- b. In two instances, the Department's school district files for the seven school districts that we visited did not contain documentation of the Department's provision of assistance concerning the eligibility of questioned Section 31a Program services:
  - (1) School district administrators at one district informed us that they requested the Department's assistance in determining the eligibility of funding for a particular Program service. The school district administrators told us that the Department determined that the service was ineligible for Program funding. However, Department Program administrators informed us that they considered the school district's Program service to be eligible for Program funding. The Department's school district Program file did not contain any documentation concerning the Department's assistance to the school district regarding the eligibility of the questioned service.
  - (2) Department Program staff provided assistance to another school district regarding the eligibility of funding a previously approved Section 31a Program service with federal Title I Program funding. The Department determined that the service was ineligible for Title I Program funding. The Department's school district Program file did not contain any documentation concerning the assistance provided or its impact on continuing support for the service with Section 31a Program funds.

Documentation of Program assistance provides important information in the event that Department Program staff who are knowledgeable of the school districts are

no longer available to provide assistance to the districts. Also, properly documented school district Program files are necessary to demonstrate the provision of the assistance services.

### **RECOMMENDATIONS**

We recommend that the Department formally identify and review successful and unsuccessful Program services at various school districts in order to better assist other school districts in selecting, implementing, and providing services.

We also recommend that the Department document all assistance provided to school districts.

### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this finding and responded that it has taken several steps to become more effective in assisting school districts with program selection and implementation.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

### **COMMENT**

**Audit Objective:** To assess whether school districts and grantees operated At Risk Programs in compliance with applicable laws, regulations, policies, and procedures.

**Conclusion:** We concluded that school districts and grantees generally operated At Risk Programs in compliance with applicable laws, regulations, policies, and procedures. However, we noted a reportable condition involving the withholding of State school aid payments.

### **FINDING**

#### **7. Withholding of State School Aid Payments**

The Department did not withhold school district Program funding from districts that did not submit Section 31a Program assurance of compliance and Program reports as required by the State School Aid Act.

Section 31a(6) of the fiscal year 1996-97 State School Aid Act required school districts receiving Program funds to submit to the Department by May 20, 1997 written assurance on compliance with provisions of the Act and a report on the usage of Program funds. For those districts that did not submit the required report by May 20, 1997, the Act required the Department to withhold from each district an amount equal to the district's June Program funding payment. The Act stated that those districts that did not submit the required report by September 30, 1997 would have the amount withheld forfeited to the State School Aid Fund.

Although the Department identified 36 school districts that did not submit the report by the required date, it inadvertently failed to withhold the June Program funding payments. However, the Department communicated to the school districts that an amount equal to the June Program funding payment would be forfeited to the State School Aid Fund from the first State School Aid payment in fiscal year 1997-98 if the districts did not submit the required report by September 30, 1997.

Withholding the June Program funding payments in compliance with the Act would have prevented these school districts from using the funds and maintained the incentive provided to ensure compliance with the Act.

### **RECOMMENDATION**

We recommend that the Department withhold school district Program funding from districts that do not submit Section 31a Program assurance of compliance and Program reports as required by the State School Aid Act.

### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this finding and responded that it will work with the Legislature to change the Act's wording so that there will not be an automatic reduction when it results in taking money away from the most needy districts in the State. Thirty-six of 560 districts is an extremely low percentage; this program should be looked at as successful.

# SUPPLEMENTAL INFORMATION

AT RISK PROGRAMS  
 Selected Program Data Reported for School Districts Visited  
 For School Year 1995-96

School District	Student Enrollment*	Poverty Percentage*	Title 1 Program Funding**	Section 31a Program Funding**	Section 36 Program Funding**	MSRP Competitive Grant Funding**	F
1	186,499	64%	\$ 93,591,420	\$ 67,151,582	\$ 8,592,000	\$	\$ 165
2	27,627	65%	7,029,916	8,574,851	1,938,000		17
3	13,424	63%	5,559,070	3,985,837	972,000		10
4	9,929	60%	3,287,631	2,425,161	648,000		6
5	2,983	15%	244,195	161,307	36,000		
6	2,274	46%	486,739	521,003	90,000		1
7	403	45%	148,039	96,031			
MSRP Grantee	N/A	N/A				210,000	
Totals	<u>243,139</u>		<u>\$ 110,347,010</u>	<u>\$ 82,915,771</u>	<u>\$ 12,276,000</u>	<u>\$ 210,000</u>	<u>\$ 205</u>
Statewide Totals	1,623,760	31%	\$ 300,397,928	\$ 230,000,000	\$ 52,980,000	\$ 10,528,000	\$ 593

\* Source: Department Report of School Breakfast and Lunch Information by District Building.

\*\* Source: Federal Title I Allocation Report, State School Aid Act, and Department Appropriations Act.

N/A = not applicable.

## ELIGIBILITY CRITERIA FOR RECEIVING SERVICES

### TITLE I PROGRAM

Title 34, Part 200 of the *Code of Federal Regulations* provides that Title I Program funds be provided to individual school buildings within school districts based primarily on the percentage of students from low income families. Once allocated to individual school buildings, Program funds are used to provide services to students on a schoolwide basis.

### SECTION 31a PROGRAM

Students must meet at least two criteria\* to be considered "at risk":

1. Is a victim of child abuse or neglect.
2. Is below grade level in English language and communication skills or mathematics.
3. Is a pregnant teenager or a teenage parent.
4. Is eligible for the federal National School Lunch Program.
5. Has atypical behavior or attendance patterns.
6. Has a family history of school failure, incarceration, or substance abuse.

\* For students for whom the results of at least the most recent applicable Michigan Educational Assessment Program (MEAP) test have been received, at risk criteria also include those students who do not meet the criteria above but who did not achieve at least a score of moderate on the MEAP reading test and mathematics test, or who achieved less than 50% of the objectives on the most recent MEAP science test.

Also, for students in grades kindergarten through third, a student who is not meeting the school district's core academic curricular objectives in English language and communication skills or mathematics.

Source: Section 31a(13) of the State School Aid Act.

*This exhibit continued on next page.*

## ELIGIBILITY CRITERIA FOR RECEIVING SERVICES

*Continued*

### SECTION 36 PROGRAM

Children must meet at least two criteria to be considered "at risk":

1. Low birth weight.
2. Developmentally immature.
3. Physical and/or sexual abuse and neglect.
4. Nutritionally deficient.
5. Long-term or chronic illness.
6. Diagnosed handicapping condition.
7. Lack of a stable support system or residence.
8. Destructive or violent temperament.
9. Substance abuse or addiction.
10. Language deficiency or immaturity.
11. Non-English or limited English speaking household.
12. Family history of low school achievement or dropout.
13. Family history of delinquency.
14. Family history of diagnosed family problems.
15. Low parental/sibling educational attainment or illiteracy.
16. Single parent.
17. Unemployed parent/parents.
18. Low family income.
19. Family density.
20. Parental/sibling loss by death or parental loss by divorce.
21. Teenage parent.
22. Chronically ill parent/sibling (physical, mental or emotional).
23. Incarcerated parent.
24. Housing in rural or segregated area.
25. Other (as identified by the school district and presented to the Department to justify funding).

Source: Section 36 Program Application.

AT RISK PROGRAMS

Percentage of Students Achieving Satisfactory Scores on the  
Michigan Educational Assessment Program (MEAP)  
For School Years 1989-90 through 1996-97

## FOURTH GRADE MATHEMATICS

School District	School Year 1996-97	School Year 1995-96	School Year 1994-95	School Year 1993-94	School Year 1991-92*	Increase in Percentage from School Year 1991-92* to School Year 1996-97
1	49%	49%	47%	33%	16%	32%
2	39%	50%	43%	35%	29%	10%
3	38%	44%	38%	28%	22%	17%
4	41%	45%	44%	22%	21%	21%
5	60%	66%	57%	40%	41%	18%
6	38%	51%	48%	40%	23%	15%
7	**					

## FOURTH GRADE READING

School District	School Year 1996-97	School Year 1995-96	School Year 1994-95	School Year 1993-94	School Year 1989-90*	Increase (Decrease) in Percentage from School Year 1989-90* to School Year 1996-97
1	47%	46%	39%	33%	17%	30%
2	31%	37%	28%	31%	23%	9%
3	31%	29%	20%	20%	20%	11%
4	43%	43%	36%	19%	31%	12%
5	45%	55%	35%	42%	40%	6%
6	26%	38%	23%	31%	34%	(8%)
7	**					

AT RISK PROGRAMS  
Grade Point Average (GPA)  
For School Districts 1 and 2

SCHOOL DISTRICT 1\*

School District Area**	School Year 1995-96		School Year 1994-95	
	GPA	Percentage of Students With a 2.0 GPA or Higher	GPA	Percentage of Students With a 2.0 GPA or Higher
1a	1.9	51%	1.8	46%
1b	1.3	27%	1.2	27%
1c	1.3	29%	1.3	29%
1d	1.7	42%	1.6	41%
1e	1.4	31%	1.4	32%
1f	1.4	32%	1.3	30%
District Average	1.5	36%	1.5	35%

\* Source: District Ninth Grade Restructuring Program Report.

\*\* School District 1 is separated into six distinct areas.

AT RISK PROGRAMS  
 Student Retention Rates  
For School Districts 1 and 2

SCHOOL DISTRICT 1 - Average Percentage of Ninth Grade Student Days Attended\*

School District Area**	School Year 1995-96		School Year 1996-97	
	Percentage of Student Days Attended	Percentage of Students With Attendance Over 92%	Percentage of Student Days Attended	Percentage of Students With Attendance Over 92%
1a	84%	46%	83%	46%
1b	72%	14%	72%	14%
1c	75%	26%	77%	26%
1d	82%	34%	81%	34%
1e	71%	14%	73%	14%
1f	75%	18%	74%	18%
District Average	77%	27%	77%	27%

\* Source: District Ninth Grade Restructuring Program Report

\*\* School District 1 is separated into six distinct areas.

SECTION 31a PROGRAM  
Implementation and Compliance at School Districts Visited  
For School Years 1996-97 and 1995-96

	School Districts						
	1	2	3	4	5	6	7
Number of school buildings reviewed	7	6	6	4	2	3	1
Number of activities reviewed	8	7	13	6	2	3	1
Number of files reviewed	60	30	71	36	30	25	20
Number of eligible students	54	30	62	36	30	24	15

Noncompliance Issues for Districts Visited:

Program not implemented on timely basis			X				
Program implemented on same basis as Title I Program	X	X					X
Program services provided to students regardless of eligibility	X		X	X		X	X
School buildings ineligible for student/teacher reduction				X			

## Glossary of Acronyms and Terms

AFDC	Aid to Families With Dependent Children.
alternative education	Nonconventional instruction designed to fulfill the requirements for a high school diploma for students who can be better served in a nonconventional environment.
at risk	For the Title I Program, students in high poverty school buildings; for the Section 31a Program, students at risk of failing school based on established criteria; for the Section 36 Program and MSRP, students at risk of becoming educationally disadvantaged based on established criteria.
continuous quality improvement process	Management system which focuses on the needs and expectations of internal and external customers and is designed to improve how products and services are provided.
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.
Elementary and Secondary Education Act of 1965	Original governing legislation for the Title I Program, amended effective July 1, 1995 by the Improving America's Schools Act of 1994.
fiscal year	October 1 through September 30 for the State; July 1 through June 30 for school districts.
FS Program	Food Stamp Program.

full-time equated	Equating to 2,080 hours of continuous service.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
High School Proficiency Test	Statewide testing for graduating students designed to provide for demonstrated student proficiency in communication arts, mathematics, and science.
Improving America's Schools Act of 1994	Title 34, Part 200 of the <i>Code of Federal Regulations</i> , effective July 1, 1995, amended the Elementary and Secondary Education Act of 1965 and provides regulations implementing the programs under Title I.
material condition	A serious reportable condition which could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the opinion of an interested person concerning the effectiveness and efficiency of the program.
Michigan Educational Assessment Program (MEAP)	Statewide standardized curricula-specific tests given to students in certain grade levels designed to measure selected essential performance objectives. The primary use of MEAP test results is to focus on improving student achievement. MEAP for high school students has been replaced by the High School Proficiency Test.
MSRP	Michigan School Readiness Competitive Grant Program.
NSLP	National School Lunch Program.
NSLP free meal eligibility data	The number of students that school districts report as eligible for the U.S. Department of Agriculture's National School Lunch, School Breakfast, and Special Milk Programs.

<b>outcomes</b>	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.
<b>outputs</b>	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
<b>performance audit</b>	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.
<b>performance indicators</b>	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.
<b>performance standards</b>	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
<b>reportable condition</b>	A matter coming to the auditor's attention that, in his/her 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.
<b>school district</b>	A local school district.
<b>school year</b>	July 1 through June 30.

State School Aid Act	Sections 388.1601 - 388.1772 of the <i>Michigan Compiled Laws</i> , which authorize funding to local and intermediate school districts and outline requirements for determining Program eligibility.
State School Aid Fund	A Fund created in 1955 and continued by the State Constitution of 1963 whose purpose is to aid in the support of public schools and the intermediate school districts of the State.
USDA	U.S. Department of Agriculture.