



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

May 14, 2013

Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 8th Floor
Lansing, MI 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and corrective action plan to address recommendations contained within the Office of the Auditor General's audit report of the Michigan Department of Education's single audit.

Questions regarding the summary table or corrective action plans should be directed to me at 5-6858 or KrefmanN@michigan.gov.

Sincerely,

Signature Redacted

Naomi Krefman, CPA
Assistant Director
Office of Financial Management -Audits

cc: John Nixon, CPA, State Budget Director
Thomas McTavish, CPA, Auditor General
Mary Ann Cleary, House Fiscal Agency
Ellen Jeffries, Senate Fiscal Agency
Joseph Haveman, House Appropriations Committee Chair
Roger Kahn, M.D., Senate Appropriations Committee Chair
Bill Rogers, House Appropriations Sub-Committee Chair
Howard Walker, Senate Appropriations Sub-Committee Chair
Mike Flanagan, State Superintendent, MDE
Carol Wolenberg, Deputy Superintendent, MDE

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**Michigan Department of Education
Summary Responses to Recommendations
Single Audit for Fiscal Years 09/10 and 10/11**

1. Audit recommendations the agency complied with:

Findings 1 partially, 2, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 17

2. Audit recommendations the agency agrees with and will comply:

Findings 3 anticipated compliance date of 9/13
4 anticipated compliance date 9/13;
9 anticipated compliance date 9/13;

3. Audit recommendations the agency disagrees with:

Finding 1 - partially
Finding 16

STATEWIDE SINGLE AUDIT – Fiscal Year Ended 9/30/12
 Summary Schedule of Audit Findings
As of September 30, 2011

AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES / STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131201
Finding Title:	Grants and Cash Management Systems' Access Controls
Finding:	<p>MDE had not established effective access controls over its grants and cash management systems. As a result, MDE could not ensure that it could prevent or detect errors or irregularities that may be caused by users performing unauthorized activities.</p> <p>Part a: MDE did not limit the number of users with privileged access rights and did not assign appropriate security levels to some users to ensure proper segregation of duties.</p> <p>Part b: MDE assigned access rights to some users in one of its grant systems that were incompatible with their job requirements.</p> <p>Part c: MDE did not monitor user activity in its grant systems, including the activity of those with privileged access rights, to ensure that users are performing only authorized activities relevant to their respective jobs and positions.</p> <p>Part d: MDE did not monitor user access rights to MDE grants and cash management systems to ensure that only authorized users have access to the data and applications.</p> <p>Part e: MDE did not ensure the protection of passwords from unauthorized use by forcing users to change their passwords after they were assigned by a system administrator.</p>
Agency Comments:	<p>Part a: MDE agrees with part a. as it relates to the Michigan Electronic Grant System (MEGS) and has taken appropriate corrective actions. MDE does not agree with part a. as it relates to the Cash Management System (CMS). However, to improve internal controls, MDE has developed monitoring reports to</p>

review high risk transactions associated with privileged access.

Part b: MDE does not agree with Part b(1) and partially agrees with Part b(2). MDE has taken appropriate action by downgrading the access of the two DTMB project managers to read only.

Part c: MDE agrees and has taken appropriate actions. MDE has hired a MEGS Manager that oversees the day-to-day operations of MEGS. Part of the responsibility for the MEGS Manager will be to review the MEGS High Risk transaction report on a quarterly basis and to report any discrepancies to the Supervisor of the Grants Administration and Coordination unit. Similarly, MDE has defined high risk transactions for all of the Food Nutrition System Fiscal Reporting System (FNS-FRS), which will include the former CNAP application. These transaction reports will be run and reviewed on a quarterly basis by the Supervisor of the Fiscal and Administrative Services Team. In both cases any discrepancies will be reported to the Assistant Director of School Support Services.

Part d: MDE agrees and will periodically monitor access user rights as suggested in the recommendation. MDE will monitor at least 2% of all external users annually and 20% of State of Michigan users.

Part e: MDE agrees. MEIS is the user identity management system that is used by multiple applications within MDE. These applications have diverse requirements as they support multiple business functions. Enhancements were made to the MEIS application to allow for enforcing password resets for users, to address the finding noted in Part e. After assessing the impact of implementing a standard password expiration policy, MDE determined it was not viable to implement across all applications, and that each program office would evaluate the type of transactions being performed, and the frequency of access by the user. The Michigan Electronic Grant System (MEGS) supports the grant application process. There is no sensitive or financial data in the system. Users may access as frequently as daily, or as infrequently as annually. The Cash Management System

	(CMS) is a financial management system.
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Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131202
Finding Title:	Schedule of Expenditures of Federal Awards (SEFA)
Finding:	MDE's internal control over financial reporting did not ensure the preparation of its SEFA in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and State financial management policies.
Agency Comments:	MDE had prepared the SEFA consistently for the past 15 years without incident and agreed to change our method of reporting accounts payable write-offs as recommended by the auditors. MDE now includes accounts payable write-offs in the computation of reporting current period expenditures on the SEFA. The Chief Accountant will review the final report before submission.

AUDIT FINDINGS RELATED TO THE FEDERAL PROGRAMS

Audit Findings That Have Been Fully Corrected:

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131205
Finding Title:	Emergency Food Assistance Program Cluster, <i>CFDA</i> 10.568 and 10.569
Finding:	MDE's internal control over the Emergency Food Assistance Program (TEFAP) did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.
Agency Comments:	The Excluded Parties List System (EPLS) was reviewed on September 20, 2012, and agencies participating in TEFAP did not appear on the list. The list will be checked and documented in September of each year to assure agencies participating TEFAP

	<p>are not suspended or debarred.</p> <p>Subrecipient monitoring was conducted during FY 2012 in the form of desk audits and/or agency reviews to verify that expenditures made with administrative funding were for allowable activities and costs.</p>
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Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131206
Finding Title:	Title I, Part A Cluster, <i>CFDA</i> 84.010 and 84.389 ARRA
Finding:	MDE's internal control over the Title I, Part A Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs / cost principles and matching, level of effort, and earmarking.
Agency Comments:	There is no change from the previous response. On October 16-17, 2012 MDE received an on-site visit from the U.S. Department of Education. During the visit the State Fiscal Stabilization Fund (SFSF) Grant was reviewed, including the use of SFSF funds to meet Title I maintenance of effort and no discrepancies or issues were noted by the Federal reviewers. No further action necessary.

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131207
Finding Title:	Migrant Education - State Grant Program, <i>CFDA</i> 84.011
Finding:	MDE's internal control over the Migrant Education - State Grant Program did not ensure its compliance with federal laws and regulations regarding allowable costs / cost principles.
Agency Comments:	<p>Audit Finding has been corrected.</p> <p>OFS has initiated internal controls where specific supervisor-approval for all work planned, completed and paid are authorized and verified.</p>
Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131208
Finding Title:	Special Education Cluster (IDEA), <i>CFDA</i> 84.027, 84.173, 84.391

	ARRA, and 84.392 ARRA
Finding:	MDE's internal control over the Special Education Cluster did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring.
Agency Comments:	<p>Part a: This finding was specific to a CFDA number error related to the American Recovery and Reinvestment Act of 2009 (ARRA). The correction for the error was delayed. Any potential future errors in CFDA #'s will be corrected in a timely manner.</p> <p>Part b: The OSE is currently in the process of acquiring the necessary information from the charter school office to be timely and accurately updated of the new and significantly expanding charter schools. Those processes are being developed. Currently within the OSE, we are working with Intermediate School Districts to determine what funding has been currently provided to these charter schools.</p>

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131210
Finding Title:	Early Intervention Services (IDEA) Cluster, CFDA 84.181 and 84.393 ARRA
Finding:	MDE's internal control over the Early Intervention Services (IDEA) Cluster did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking.
Agency Comments:	The Office of Great Start – Early Childhood Education & Family Services (OGS/ECE&FS) has worked with the Office of Special Education and with the Office of State Aid and School Finance in developing a process for ensuring compliance with federal laws and regulations regarding maintenance of effort for Early Intervention Services (IDEA Part C). The OGS/ECE&FS has also been working closely with federal program contacts to ensure that the process being developed will meet the federal requirement. A meeting with stakeholders was held to solicit input on the process as it was being developed. A letter introducing the process was sent from the MDE to ISDs and training on the process took place during the spring of 2012.

	Information on expenditures will be collected annually in the Financial Information Database (FID). Information on budgeting will be collected annually in the Michigan Electronic Grants System Plus (MEGS+). Service areas provided confirmation in the MEGS+ application submitted in July of 2012 that systems were being put into place locally to enable this required reporting. Collection of this information from the local service areas will then enable the MDE to analyze statewide spending from state and local funds and provide the required assurance of state maintenance of effort.
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Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131211
Finding Title:	Safe and Drug Free Schools and Communities - State Grants, <i>CFDA</i> 84.186
Finding:	MDE's internal control over the Safe and Drug-Free Schools and Communities - State Grants (SDFSC) Program did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.
Agency Comments:	This grant ended, effective September 30, 2012. If MDE receives this type of funding (federal formula funding) in the future, the MDE will ensure its compliance with federal laws, policies and regulations regarding subrecipient monitoring. Contacts: Louis Burgess/ Noel Kelty, MDE.

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131212
Finding Title:	Twenty-First Century Community Learning Centers, <i>CFDA</i> 84.287
Finding:	MDE's internal control over the Twenty-First Century Community Learning Centers (21st CCLC) did not ensure its compliance with federal laws and regulations regarding eligibility and subrecipient monitoring.
Agency Comments:	There were two exceptions for corrective action: 1) Eligibility Exception: A review of the eligibility process procedure was conducted and the weakness was found.

	<p>The procedure was revised to allow any appropriate MDE representatives to participate in the eligibility process and not just consultants. In addition, the two priority points sheets that were found to not have staff initials were reviewed by an MDE consultant and a cross-check to the applications file was done to confirm that the two applications were included in the grant competition even though the priority points sheets were not initialed. They were. Remediation to this exception was fully corrected in June 2012.</p> <p>2) Subrecipient Monitoring Exception: It was found that fiscal monitoring was not conducted at the subrecipient level. A dedicated Auditor 12 position was hired in July 2011 to conduct fiscal audits of 21st CCLC grantees. A schedule of audits has been created and each of the subrecipients will have a fiscal audit completed twice within the five year grant cycle. The creation of the Auditor 12 position and establishment of an audit schedule has been completed and this exception has been fully corrected.</p>
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Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131213
Finding Title:	English Language Acquisition Grants, <i>CFDA</i> 84.365
Finding:	MDE's internal control over the English Language Acquisition (ELA) Grants Program did not ensure its compliance with federal laws and regulations regarding allowable costs / cost principles, subrecipient monitoring, and special tests and provisions.
Agency Comments:	<p>Part a: Audit Finding has been corrected. LEAs reopened their Application and charged the funds to the correct Federal Program.</p> <p>Part b: Audit Finding has been corrected. LEAs identified in the Audit were required to adjust their FERs and use resources that exceeded the 2% as carryover in the next year. Letters were sent to LEAs identifying the requirement for a maximum 2% administrative cost and the OFS internal protocol has been revised to increase our review of this requirement.</p>

	Part c: Audit Finding has been corrected. A letter was sent to all newly-opening and significantly-expanded Public School Academies to identify procedures to receive funding for English Language Learners. The Letter was prepared and sent for 2012-13.
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Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131214
Finding Title:	School Improvement Grants Cluster, <i>CFDA</i> 84.377 and 84.388 ARRA
Finding:	MDE's internal control over the School Improvement Grants Cluster did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.
Agency Comments:	All future contracts will include the following language in the body of the contract: <i>Suspension and Debarment Certification</i> <i>Contractor certifies and affirms that it is not included on the federal Suspension and Debarments list of Excluded Parties List; nor is contractor affiliated with any party that is included on the federal Suspension and Debarments list or Excluded Parties List.</i>

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131215
Finding Title:	College Access Challenge Grant Program, <i>CFDA</i> 84.378
Finding:	MDE's internal control over the College Access Challenge Grant Program did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking and reporting.
Agency Comments:	<u>Matching</u> In terms of meeting and documenting match at the time of the audit, MDE did not have a systematic tracking process. MDE contacted the grant partners and got additional match documentation for the period October 1, 2010 through September 30, 2011 and provided that documentation to USDOE on October 17, 2012. Although required match documentation for fiscal year 2011 was not provided to the auditors when requested, MDE provided full documentation of match to USDOE during their monitoring follow-up.

	<p><u>Level of Effort</u> The State of Michigan did not meet federal requirements regarding level of effort and MDE reported this in the annual performance report submitted May 27, 2011. State budget decisions served to reduce the State's level of effort to the extent that meeting the grant's current requirement for state effort is not possible. MDE appealed for a waiver of this requirement, but USDOE denied the waiver in a letter dated February 27, 2012. Michigan's CACG funding ceased as of August 13, 2012. As there was no change in the program's level of effort requirements, MDE is no longer eligible for funds.</p> <p><u>Earmarking</u> At the time of the audit, MDE did not accurately track administrative versus outreach expenditures. MDE took corrective action and implemented new tracking practices to separate administrative and outreach expenditures resulting in an adjustment to administrative expenditures of -\$377,889. One staff member (supervisor) was solely responsible for grant administration, and three staff had outreach duties. MDE procedures were put in place to separately track and monitor administrative expenditures for the grant through the use of separate index codes.</p> <p><u>Reporting</u> Although documentation was collected for the information provided on the annual performance report, some of it was not adequate and/or was held by a sub-recipient and not routinely reported to MDE. MDE took corrective action and required sub-recipients to provide documentation for all sources and amounts of match, and implemented procedures to regularly collect match documentation from each sub-recipient prior to reimbursement. This was done through the cash request (invoicing) process where sub-recipient matching funds are reported. Sub-recipients were required to obtain match amounts by the end of the grant period, August 13, 2012.</p>
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Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131217
Finding Title:	Subrecipient Monitoring

Finding:	MDE's internal control did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring.
Agency Comments:	Part a.: MDE has implemented and is utilizing a standard template for program office to report management decisions to the Office of Audits. The Office of Audits is currently issuing the management decisions to the subrecipients. Part b.: MDE is currently reviewing all corrective action plans for completeness when the audits are received.

Audit Findings Not Corrected or Partially Corrected:

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131203
Finding Title:	Monitoring of Internal Control Over Financial Reporting
Finding:	MDE did not periodically monitor the effectiveness of its internal control over financial reporting. As a result, MDE was not assured that its internal control was effectively designed to ensure that its assets were safeguarded and accounting data was accurate, reliable, and properly reported.
Agency Comments:	MDE just completed an assessment of internal controls for the Internal Control Evaluation (ICE) covering fiscal years 2010-11 and 2011-12. The ICE is currently being tested by the DTMB Office of Internal Audit Services (OIAS). In addition, MDE requested that OIAS act in an advisory capacity to assist with the development of a methodology based on proper statistical sampling to test internal controls. The methodology is scheduled to be completed by Sept. 30, 2013, and MDE will implement the testing in fiscal year 2013-14.

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131204
Finding Title:	Child Nutrition Cluster, <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559
Finding:	MDE's internal control over the Child Nutrition Cluster did not

	ensure its compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.
Agency Comments:	<p>a. Subrecipient Monitoring (1) – The School Nutrition Program unit hired a consultant (6/25/2012) to focus on food safety issues. As part of her responsibilities she coordinates with Michigan Department of Agriculture and Rural Development staff to monitor the required on-site inspections of food service management companies that prepare meals for the Summer Food Service Program for Children. MDARD issued MDE a memorandum stating that MDARD is the state agency authorized to inspect food establishments one to two times each year using the Michigan Food Law of 2000. She has initiated a Food Safety Committee which includes MDARD staff in order to insure compliance 7 CFR 225.7 for all school meal programs. Lastly, for fiscal year 2013, all sponsors in the SFSP will be required to upload a copy of the most current vendor food safety inspection report by MDARD. Sponsor applications will be reviewed and approved only if these reports are submitted and current. (2) The School Nutrition unit has procedures in place to ensure all reviews are tracked for both the NSLP and SFSP. MDE has two Department Managers that track these reviews and update the management team at weekly Update Meetings.</p> <p>b. The Food Distribution Unit has a process in place for conducting sales verification every six months. We have completed sales verification for School Year 2012. We are in the process of completing the first half (July 2012 to December 2012) of SY 2013. We are continuing to use the modifications we made to our process for ensuring that we are verifying the required sample size for each processor.</p>

Audit Period:	October 1, 2009 through September 30, 2011
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Finding Number:	3131209
Finding Title:	Career and Technical Education - Basic Grants to States, <i>CFDA</i> 84.048
Finding:	MDE's Career and Technical Education - Basic Grants to States Program did not comply with federal laws and regulations regarding matching, level of effort, and earmarking.
Agency Comments:	The Office of Career and Technical Education submitted a Proposal for Change to the MDE Budget Office for an increase of \$40,000 in general fund appropriations for FY 2014, as stated in the corrective action.

Audit Period:	October 1, 2009 through September 30, 2011
Finding Number:	3131216
Finding Title:	Education Jobs Fund, <i>CFDA</i> 84.410
Finding:	MDE did not comply with federal laws and regulations related to matching, level of effort, and earmarking for the Education Jobs Fund Program.
Agency Comments:	The Michigan Department of Education (MDE) disagrees with the finding. As noted the State Budget Office (SBO), Department of Technology, Management and Budget.(DTMB) prepared the maintenance of effort (MOE) calculations. There was an increase in FY2011 revenues which was not known prior to 9/30/2011. The only option for the State to get these funds to the school districts was to earmark a portion of the ending fund balance for specific purposes, which is what the Legislature did in PA 62 of 2011. This increase of funds (\$442,000,000) was included in the MOE calculations for the State to meet the Education Jobs Fund level of effort requirement. DTMB determined that the appropriation in PA 62 of 2011 was appropriate and in accordance with the Federal guidance.