

EXECUTIVE DIGEST

DEPARTMENT OF EDUCATION

INTRODUCTION

This report contains the results of our financial audit, including provisions of the Single Audit Act, of the Department of Education for the period October 1, 1991 through September 30, 1993.

AUDIT PURPOSE

This financial audit of the department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the federal Single Audit Act of 1984 and Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The department is responsible for managing numerous State-funded and federally funded educational programs. For fiscal years 1992-93 and 1991-92, the department had 21 and 19 major federal assistance programs, respectively. Of all the State departments, the Department of Education has the largest number of and the most diverse major programs. In October 1992, the department reorganized into four bureaus. These bureaus (Direct Services, Instructional Programs, Administration, and Post Secondary)

have primary responsibility for establishing grant and program policies. In addition to the bureaus, an administrative support group, headed by a chief of staff, provides audit services and budgetary and personnel support.

The department's major funding sources were the State General Fund and the U.S. Departments of Education and Agriculture. Department expenditures and operating transfers out for fiscal years 1992-93 and 1991-92 were approximately \$1.9 billion and \$1.6 billion, respectively. In addition, the department received and distributed approximately \$59 million in federal nonfinancial assistance (food commodities) for each fiscal year.

Department operations also include the School Aid Fund, the Michigan Higher Education Assistance Authority, and the Michigan Higher Education Student Loan Authority, which are audited and reported on separately.

As of September 30, 1993, the department had 1,947 employees. After our audit period, the Governor issued Executive Orders 1993-19, 1993-20, 1993-21, and 1995-3. These Executive Orders transferred the School Bond Loan Program to the Department of Treasury; the Direct Services programs to the Michigan Jobs Commission and the Department of Social Services; and Student Financial Assistance Services, including the Michigan Higher Education Assistance Authority and the Michigan Higher Education Student Loan Authority, to the Department of Treasury. These transfers included approximately 1,478 full-time equated positions and approximately 27% of the

department's operating expenditures including two major federal assistance programs included in the scope of this audit.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the adequacy of the department's internal control structure, including applicable administrative controls related to the management of federal assistance programs.

Conclusion: Our assessment of the department's internal control structure disclosed two material weaknesses:

- Because of limited resources, department management did not provide appropriate administrative oversight to ensure that applicable administrative controls existed to manage federal assistance programs in accordance with federal laws and regulations (Finding 1). As a result, our audit identified numerous program management internal control exceptions (Findings 4 through 18) and material noncompliance with laws and regulations for three of the department's major federal assistance programs (as described in the conclusion for our compliance objective on page 51 and Finding 25).

The department continues to disagree with the comprehensive nature of Finding and Recommendation 1 but will continue to implement corrective actions as resources permit. The individual responses related to grant management are addressed in Findings 4 through 18 and Finding 25.

- The department did not always monitor the expenditure of federal assistance distributed to all its subrecipients as required by federal laws and regulations (Finding 2). The Single Audit Act of 1984 requires the department to determine that subrecipients of federal assistance expend the assistance in accordance with federal laws and regulations. In fiscal years 1992-93 and 1991-92, the department distributed approximately \$676 million and \$626 million, respectively, in federal assistance to subrecipients.

The department agrees and has implemented corrective action as additional resources have been obtained.

Our assessment also disclosed that the department had partially complied with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its system of internal accounting and administrative control. We have a finding relating to the organizational placement and duties of the internal auditor (Finding 3).

In addition, our assessment disclosed other reportable conditions pertaining to common control functions, such as indirect cost determination and accounting, personnel-payroll cost allocations and processing controls, federal financial reporting and grant overpayment collections, approval of spending plans that require State matching funds, and cash receipts and deposits (Findings 19 through 24).

Audit Objective: To assess the department's compliance with both State and federal laws and regulations that could have a material effect on either the department's financial schedules or any of its major federal assistance programs.

Conclusion: Our assessment did not disclose any noncompliance with laws and regulations that could have a material effect on the department's financial schedules. Our assessment did disclose material instances of noncompliance with federal laws and regulations pertaining to three major federal assistance programs:

- The department did not ensure that the Adult Education - State Administered Basic Grant Program (CFDA #84.002) for fiscal year 1991-92; Migrant Education - Basic State Formula Grant Program (CFDA #84.011) for fiscal year 1992-93; and Drug Free Schools and Communities Program (CFDA #84.186) for fiscal year 1992-93 were administered in accordance with federal laws and regulations (see the conclusion for our compliance objective on page 51 and Finding 25).

The department agrees and has implemented corrective action pertaining to the Adult Education and Migrant Education Programs.

Our assessment also disclosed noncompliance with laws and regulations pertaining to private nonprofit school student participation (Finding 26).

In addition, our audit disclosed questioned costs totaling at least \$2.5 million for the two-year period ended

September 30, 1993, which are presented as supplemental information in the schedule of questioned costs.

Audit Objective: To audit the department's financial schedules for the fiscal years ended September 30, 1993 and September 30, 1992.

Conclusion: We expressed an unqualified opinion on the financial schedules. However, we did note exceptions in the recognition and reporting of certain financial transactions, the coding of certain federal grant awards, and the valuation of fixed assets and corresponding operations (Findings 27 through 29).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Education for the period October 1, 1991 through September 30, 1993. Our audit was conducted in accordance with generally accepted auditing standards and *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. The following Department of Education operations are audited and reported on separately: School Aid Fund, Michigan Higher Education Assistance Authority, and Michigan Higher Education Student Loan Authority. The scope of this audit excluded these operations.

Our audit objective for the assessment of the internal control structure included an evaluation of the department's implementation of the requirements for establishing and

maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

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

Our audit includes 29 findings and 60 corresponding recommendations. The agency's preliminary response prepared for our audit conference indicated that the department disagreed with 6 findings and agreed with 54 findings. In addition, the department informed us that it has initiated corrective action for many of the recommendations with which it concurred.

The department had complied with 32 of the 58 prior audit recommendations included in our scope of audit. Of the other 26 recommendations, 24 are repeated in this audit report and 2 are contained in the schedule of immaterial noncompliance.