

EXECUTIVE DIGEST

SCHOOL AID FUND

INTRODUCTION

This report contains the results of our financial audit of the School Aid Fund, Department of Education, for the period October 1, 1991 through September 30, 1994.

AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. Also, this audit complements the departmentwide financial audit.

BACKGROUND

The School Aid Fund is provided for by the State Constitution to furnish aid to school districts and provide financing for the Public School Employees' Retirement System. Principal financing sources are various tax revenues and annual transfers from the General Fund and the State Lottery Fund.

Through fiscal year 1993-94, State school aid payments to school districts were based on a statutory formula (the State School Aid Act, Sections 388.1601 - 388.1772 of the *Michigan Compiled Laws*). Annual expenditures of the School Aid Fund were approximately \$4.2 billion, \$3.4 billion, and \$3.1 billion for fiscal years 1993-94, 1992-93, and 1991-92, respectively. The Department provides administrative support for the Fund, but administrative costs are not charged to it.

The State Aid Unit (SAU), Office of Administrative Services, is primarily responsible for administering the State School

Aid Act. SAU receives and reviews membership, millage, and State equalized valuation (SEV) data from the local and intermediate school districts and county treasurers. In addition, SAU, in conjunction with the Information Services Center, maintains the State Aid Data System (SADS). As of September 30, 1994, SAU had three full-time employees.

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

Audit Objective: To assess the adequacy of the Department's internal control structure.

Conclusion: Our assessment of the Department's internal control structure did not disclose any material weaknesses. However, our assessment did disclose some reportable conditions that could have resulted in errors or irregularities occurring that would not have been detected and corrected in the normal course of the Department's operations. These reportable conditions related to using incomplete and inaccurate SEV information, establishing appropriate SAU processing controls, improving the general controls over SADS, performing required accounting reconciliations, and reducing State school aid payments to school districts that have not submitted annual education reports (Findings 1 through 5).

Noteworthy Accomplishments: SAU staff have improved the documentation of their various processes and have complied with several of the prior audit recommendations even though their resources have been limited. In addition, the Department has been upgrading SADS to improve data processing capabilities and controls. The Department developed a local area network (LAN) which allows greater and more direct access to SADS which, in turn, has allowed SADS to be more responsive to its users' needs. The LAN provides greater flexibility to SADS user groups (such as local school districts, intermediate school districts, and legislative agencies) for data reporting and system queries. The LAN allows the Department to make program logic changes more easily and more efficiently and has allowed

SAU staff to automate more of the calculations that are part of the State school aid payment process.

Audit Objective: To assess the Department's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and Department policies and procedures.

Conclusion: Our assessment of the Department's compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the financial statements. However, as previously reported in our internal control structure comments, there were internal control reportable conditions that could have resulted in State school aid payments that were not fully in accordance with the State School Aid Act (Findings 1 through 3).

Audit Objective: To audit the Fund's financial statements as of and for the fiscal years ended September 30, 1994, September 30, 1993, and September 30, 1992.

Conclusion: We expressed an unqualified opinion on the financial statements. We do not have any findings to report for this objective.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the School Aid Fund for the period October 1, 1991 through September 30, 1994. 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 other such auditing procedures as we considered necessary in the circumstances.

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

Our audit includes 5 findings and 9 corresponding recommendations. The agency's preliminary response indicated that it generally agreed with all of the findings and the corresponding recommendations. In addition, the Department indicated that it was in compliance with several of the recommendations and would be implementing corrective procedures for the remaining recommendations as time and resources allowed.

The Department had complied or substantially complied with 10 of the prior audit recommendations. Seven of the prior audit recommendations are repeated in this report.