

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, 1994 through September 30, 1997.

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. Principal financing sources are various tax revenues and annual transfers from the State's General Fund and the State Lottery Fund.

Payments to school districts are based on statutory formulas (the State School Aid Act*, being Sections 388.1601 - 388.1772 of the *Michigan Compiled Laws*). Annual expenditures of the School Aid Fund were approximately \$8.6 billion, \$8.3 billion, and \$8.0 billion for fiscal years 1996-97, 1995-96, and 1994-95, respectively.

The Department provides administrative support for the School Aid Fund, but administrative costs are not appropriated for in the Fund.

The State Aid Unit* (SAU), Office of Administrative Services, is primarily responsible for administering provisions of the State School Aid Act. SAU receives and reviews membership and taxable valuation data from school districts and from county treasurers. In addition, SAU, in conjunction with the Office of Data and Technology Services, maintains the State Aid Data System* (SADS). As of September 30, 1997, SAU had four full-time employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

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 that would not have been detected and corrected in the normal course of the Department's operations. These reportable conditions related to establishing SAU processing controls, improving the access controls over SADS, and improving the application controls* pertaining to SADS (Findings 1 through 3).

Audit Objective: To assess the Department's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and Department policies and procedures that could have a material effect on the Fund's financial statements.

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, the reportable conditions included under our first audit objective (Findings 1 through 3) may result in payments that are not in compliance with the State School Aid Act.

Audit Objective: To audit the Fund's financial statements as of and for the fiscal years ended September 30, 1997, September 30, 1996, and September 30, 1995.

Conclusion: We expressed an unqualified opinion on the financial statements.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the School Aid Fund for the period October 1, 1994 through September 30, 1997. 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.

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

Our report includes 3 findings and 5 recommendations. The Department's preliminary response indicated that it agreed with all 5 of the recommendations. In addition, the Department indicated that it had implemented corrective actions to comply with 2 of the recommendations.

The Department had complied or substantially complied with 5 of the 9 prior audit recommendations. The other 4 recommendations are repeated in this report.