

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, 1995 through September 30, 1997.

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 Single Audit Act of 1984 and the federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The Department is responsible for managing numerous State and federally funded educational programs. During fiscal years 1996-97 and 1995-96, the Department had 17 and 20 major federal financial assistance programs, respectively, and 2 major federal nonfinancial assistance (food commodities) programs. Of all the State departments, the Department of Education has the largest number of and the most diverse major federal assistance programs.

In December 1997, the Department reorganized and established the Education Services, Administrative and

Support Services, and Innovation and Community Services Bureaus. Deputy superintendents administer these Bureaus. In addition to the Bureaus, the Department has an associate superintendent responsible for institutional education and an assistant superintendent who oversees audit services. Department operations also include the State School Aid Fund, a special revenue fund, which is audited and reported on separately.

The Department's major funding sources were the State General Fund and the U.S. Departments of Education and Agriculture. Department General Fund expenditures and operating transfers out for fiscal years 1996-97 and 1995-96 were approximately \$989.5 million and \$1,292.1 million, respectively. In addition, the Department received and distributed approximately \$38.2 million and \$37.8 million in federal nonfinancial assistance (food commodities) for fiscal years 1996-97 and 1995-96, respectively.

As of September 20, 1997, the Department had 519 employees.

**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 one material weakness*:

- The Department should improve its internal control structure pertaining to the oversight of operations by

giving higher priority to the internal auditor functions that are specified in Section 18.1486(4) of the *Michigan Compiled Laws* (Finding 1).

The Department disagrees with the comprehensive nature of this finding, as explained in the agency preliminary response to Finding 1.

Our assessment also disclosed numerous reportable conditions* concerning the Department's management of its federal assistance programs (Findings 2 through 7); reportable conditions relating to common control functions over the administration of federal assistance programs, such as cash management, personnel-payroll cost distributions to federal grant programs, federal reporting requirements, and completion of nonconflict of interest statements (Findings 8, 9, 11, and 13); and material noncompliance* with laws and regulations for one of the Department's major federal financial assistance programs (as described in the conclusion for our compliance objective and in Finding 14).

In addition, our assessment disclosed other reportable conditions relating to control functions, such as the Personnel-Payroll Information System for Michigan and mail opening and cash receipts (Findings 10 and 12).

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. However, our assessment did disclose material noncompliance with federal laws and regulations pertaining to one major federal financial assistance program:

- The Department did not perform required oversight and monitoring of intermediate school districts (ISDs) participating in the Special Education - Grants for Infants and Families with Disabilities Program to determine that the ISDs complied with federal regulations (Finding 14).

The Department agrees with parts a. and c. of the finding. The Department partially agrees with part b. of the finding as the Department had a process in place whereby ISDs reported that they had current individualized family service plans in effect for each eligible child and the child's family. However, on-site review of compliance with this requirement was postponed until the new compliance monitoring component of the Early On Systems Review process was implemented in November 1997.

Our assessment also disclosed reportable conditions regarding noncompliance with laws and regulations pertaining to subrecipient* monitoring and private nonprofit school student participation (Findings 15 and 16).

In addition, our audit disclosed questioned costs* totaling at least \$986,000 and negative questioned costs* totaling

approximately (\$286,000) for the two-year period ended September 30, 1997, 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, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules. However, we did note a reportable condition pertaining to equipment inventory controls and financial reporting (Finding 17).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Education for the period October 1, 1995 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. Department operations also include the State School Aid Fund, a special revenue fund, which is audited and reported on separately.

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 report includes 17 findings and 28 corresponding recommendations. The agency preliminary responses indicated that the Department generally agrees with 15 findings and disagrees with 2 findings. In addition, the Department informed us that it has initiated corrective action for many of the recommendations with which it agrees.

The Department had complied with 10 of the 27 prior audit recommendations included within the scope of the current audit, 15 recommendations are repeated, and 2 recommendations were rewritten for inclusion in this audit report.