FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF EDUCATION

October 1, 1995 through September 30, 1997

31-100-98

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

* *See glossary at end of report for definition.*

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

** See glossary at end of report for definition.*

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.

* *See glossary at end of report for definition.*

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

* *See glossary at end of report for definition.*

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.

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Education for the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains the Department of Education financial schedules and notes to financial schedules; supplemental financial schedules; a schedule of questioned costs and a schedule of immaterial noncompliance, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Department of Education was established under the Executive Organization Act of 1965. The Department is headed by the elected eight-member State Board of Education established by the 1963 State Constitution. The principal executive officer is the Superintendent of Public Instruction, who is appointed by the Board.

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. Individual service area program units, within these Bureaus, have the responsibility for establishing and implementing grant and services program policies. In addition to the Bureaus, the Department has an associate superintendent responsible for institutional education and an assistant superintendent who oversees audit services. The Bureau of Administrative and Support Services is responsible for accounting and financial reporting, including the preparation and submission of most federal program cost reports. 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, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Department of Education, had the following objectives:

1. To assess the adequacy of the Department's internal control structure, including applicable administrative controls related to the management of federal assistance programs.

2. 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.

3. To audit the Department's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

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.*

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.

We considered the Department's internal control structure policies and procedures for its federal assistance programs and assessed the Department's compliance with

federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, in addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the prior audit findings and questioned costs and the Department's corrective action plan. The Department's major programs are identified on the schedule of federal financial assistance.

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 agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 required the Department of Education to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

In addition, the Single Audit Act of 1984 requires the Department to prepare and submit to its federal cognizant agency and applicable grantor agencies a plan for corrective action.

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.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Background: The Department of Education expends or disburses to subgrantees numerous federal grants. As defined by the Single Audit Act, the Department had 17 and 20 major federal financial assistance programs in fiscal years 1996-97 and 1995-96, respectively, and 2 major federal nonfinancial assistance programs in both fiscal years.

Of all the State departments, the Department of Education has the largest number of and the most diverse major federal assistance programs. The Department's internal control structure for administering these numerous federal programs is generally delegated to program service areas. Except for processing approved grant distributions, federal direct and indirect cost recovery, and financial accounting, the program service areas are responsible for managing the numerous programs.

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* .

Our assessment also disclosed numerous reportable conditions concerning the Department's management of its federal assistance programs; 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; and material noncompliance with laws and regulations for one of

the Department's major federal 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.

FINDING

1. Departmental Internal Control Structure

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* .

Internal control is a process designed to provide reasonable assurance regarding financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. A properly designed internal control structure supports effective methods to achieve program goals and increases efficiency by reducing the total resources needed to ensure that assets are safeguarded and liabilities to third parties, such as federal grantor agencies, are avoided.

Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and Title 34, Part 80 of the *Code of Federal Regulations (CFR)* state that Department management is responsible for the Department's internal control structure. These responsibilities include implementing a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; effective and efficient internal control techniques; and a system to ensure compliance with applicable laws and regulations. Also, management is to ensure that the system is functioning as described and is modified as appropriate for changes in the condition of the system.

Section 18.1486(4) of the *Michigan Compiled Laws* established specific functions for the internal auditor to perform. These functions include conducting audits of

the Department's financial activities, reviewing the design of and compliance with the service areas' decentralized internal control structures, reviewing Department programs and operations for efficiency, and keeping the Department's top management fully and currently informed about problems and deficiencies relating to the administration of the Department's programs and operations and the necessity for and progress of corrective actions.

During our audit period, the Department had a decentralized internal control structure that delegated to various organizational units the responsibility to provide administrative support services and to establish and carry out State and federal grant management functions. Such an organizational structure makes the internal audit function a critical component in the internal control structure.

Our review of the Department's internal control structure and its internal audit function disclosed:

a. The Department did not provide the oversight necessary to ensure that the internal control structures for various organizational units were properly designed. As a result, several programs continued to operate with internal control structure weaknesses after management had agreed that the weaknesses existed and program staff had indicated corrective action had been taken. For example:

   (1) The Department had not developed procedures to ensure that payments made to federal Adult Basic Education Program subrecipients were based on actual student participation as required by federal regulations (Finding 2). This resulted in errors that were material to the Department's administration of this program in each of the prior three Single Audits.

   (2) The Department had not followed established procedures to ensure that payments made to federal Migrant Education Program subrecipients were based on formulas approved by the federal government (Finding 3). This resulted in errors that were material to the Department's administration of this program in two of the prior three Single Audits.

(3) The Department had not followed established procedures to ensure that payroll charges to federal programs were properly documented as required by federal regulations (Finding 9). We have reported this noncompliance in our prior three Single Audits.

(4) This audit report contains 15 recommendations repeated from our prior report for the period ended September 30, 1995, many of which were also reported in prior Single Audits. The Department responded that it agreed with the audit findings and that it had or would be implementing corrective actions.

(5) The Department did not report material internal control structure weaknesses in its biennial assessments. Section 18.1485 of the *Michigan Compiled Laws* requires each department to perform biennial assessments of the department's internal control structure and to report any material inadequacy or weakness. Recent Auditor General financial audits, including the provisions of the Single Audit Act, have identified numerous material internal control structure weaknesses pertaining to administrative operations and federal assistance programs. The Department has concurred with these findings. However, the Department did not report these material internal control structure weaknesses in its biennial internal control structure assessment reports, when appropriate, for the fiscal years ended September 30, 1998 and September 30, 1996.

b. The Department often did not monitor its decentralized units to ensure that weaknesses in their internal control structures, identified in prior audits, were corrected as indicated in the Department's audit responses.

The Department's internal auditor maintained a log of internal control structure weaknesses, reported in our prior audits, and program staff efforts to correct the weaknesses. However, the internal auditor was not involved in designing internal control structure modifications and did not determine the accuracy of reported corrective action, which are critical functions in a decentralized organization. Our follow-up reviews have often disclosed that corrective action was not taken or that the actions taken were not effective.

An internal control model developed by the federally sponsored Committee of Sponsoring Organizations (COSO) of the Treadway Commission specifies that:

> Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

c. The Department did not fully comply with the statutory requirements pertaining to the duties and functions that are to be performed by the internal auditor.

The Department's internal auditor performed many of the functions specified by law, including reviewing and recommending activities designed to ensure compliance with directives from the Office of Financial Management, Department of Management and Budget, and recommending policies for the Department's operations to prevent and detect fraud and abuse. However, the Department has also assigned various other duties to the internal auditor, including monitoring the audits of federal grant subrecipients and improving the State School Aid Fund pupil membership audit process, that are not specified or intended by law. Although necessary, these other duties are not internal auditor functions under either the *Michigan Compiled Laws* or professional standards. Performing these other duties has precluded the internal auditor from conducting audits of the Department's financial activities and performing reviews and audits of the Department programs operated with federal funds to help ensure compliance with federal laws and regulations.

We conclude that an enhanced internal control structure, with full compliance with statutory internal auditor requirements, could have prevented material noncompliance with the federal laws and regulations for the Special Education - Infants and Families with Disabilities Program (*CFDA* #84.181) and repeated audit findings related to administrative functions and noncompliance with federal laws and regulations for several of the Department's other federal financial assistance programs. Also, we believe that new audit findings pertaining to the Migrant Education Program, the Safe and Drug-Free Schools and Communities Program, and the Commodity Supplemental Food Program could have been prevented.

RECOMMENDATION

We recommend that the Department 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.*

AGENCY PRELIMINARY RESPONSE

The Department disagrees with the comprehensive nature of this finding. The Department's first priority is to provide adequate oversight of the $10 billion of State school aid payments and $900 million of federal funds. The Department informed us that it has implemented partial corrective actions for similar prior audit recommendations and will continue to increase internal audit activities as resources permit.

Regarding the specifics of the finding, the Department disagrees that it did not report material internal control structure weaknesses in its biennial internal control assessment. The assessment is a management self-assessment and the Department's management believes that the weaknesses referred to by the auditors are not material. Also, the 1998 assessment is not within the scope of this audit and should be deleted from the report. Further, it is not true that the internal auditor was not involved in designing internal control structure modifications. The internal auditor, as well as Office of the Auditor General staff, was involved in discussions and decisions about the design of internal control structure modifications.

EPILOGUE

The Department's internal audit activities related to State School Aid Fund payments consist of reviewing school districts' annual financial audit reports and conducting quality control reviews of intermediate school districts' membership auditing processes on a three-year cycle. Our follow-up review of the performance audit of the Membership Reporting and Auditing Process disclosed that no quality control reviews were completed between December 2, 1997 and February 10, 1999. The Department's internal audit activities related to the oversight of federal funds consist of reviewing federally required audit reports of federal program subrecipients.

FINDING

2. Federal Adult Basic Education (ABE) Participation

The Department's internal control structure did not ensure that federal ABE Program subrecipients were allocated federal funds based on actual participation in accordance with the ABE State Plan. As a result, subrecipients received federal funds in excess of their allowable reimbursement. Also, the Department did not ensure that all overpayments to subrecipients were recovered on a timely basis.

In accordance with the ABE State Plan, the Department allocated federal funds to subrecipients based on participation. Subrecipients reported their student count annually on the ABE "Fourth Friday Report," which requested data based on full-time equivalent (FTE) students' participation in three categories: (1) persons functioning at or below the sixth grade skill level who have been counted for State school aid, (2) persons functioning at or below the sixth grade skill level who cannot be counted for State school aid, and (3) persons functioning at or below the sixth grade skill level who are institutionalized. The report stated that reported FTE students and funding would be adjusted, if necessary, based on intermediate school district (ISD) and Department pupil membership audits.

The Department did not verify the accuracy of FTE student data included on the ABE Fourth Friday Report. For State school aid payments, the Department distributed aid based on the ISD's audited membership counts. Therefore, on a test basis, we reviewed and compared ABE and ISD participation data for 8 subrecipients for fiscal year 1996-97 and fiscal year 1995-96. ABE participation data exceeded ISD data by 14 FTE students for 2 of 8 subrecipients in fiscal year 1996-97 and by 139 students for 2 of 8 subrecipients for fiscal year 1995-96. Based on the variances noted, we estimated that the Department overpaid the subrecipients by approximately $4,900 and $46,600 in fiscal years 1996-97 and 1995-96, respectively (see schedule of questioned costs item 9).

We also noted that the Department had not recovered overpayments of approximately $34,400, $39,480, $25,120, and $27,360 from fiscal years 1994-95, 1993-94, 1992-93, and 1991-92, respectively, that were identified during prior audits.

We reported similar findings in our three prior audits. In response, the Department stated that it concurred and had implemented corrective action.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENSURE THAT FEDERAL ABE PROGRAM SUBRECIPIENTS ARE ALLOCATED FEDERAL FUNDS BASED ON ACTUAL PARTICIPATION IN ACCORDANCE WITH THE ABE STATE PLAN.

We also recommend that the Department improve its internal control structure to help ensure that overpayments to subrecipients are recovered on a timely basis.

AGENCY PRELIMINARY RESPONSE

The Department agrees with this finding. The Department informed us that, in order to address these concerns, it has implemented several measures which have already resulted in improved program management.

FINDING

3. Migrant Education Program Funding Allocations

The Department's internal control structure did not ensure that funding for local migrant education projects was allocated to local educational agencies (LEAs) in accordance with the Migrant Education Program's approved State Plan, that funding formulas had been approved by the State Board of Education and the U.S. Department of Education (USDOE), or that the basis used for the allocations to LEAs was documented. As a result, several LEAs received federal funds in excess of their proper allocation.

Federal law 20 *United States Code* (*USC*) 6394 (Section 1304 of the Improving America's School Act of 1994) requires that the Department use or distribute migrant funds to meet the special educational needs of migratory children in projects administered in accordance with the approved State Plan. To comply with the federal legislation, the Department is required to develop a description of how it will allocate funds to LEAs. The Department is to include all funding formulas in the Program's State Plan, which is to be approved by the State Board of Education and the USDOE. Departmental Standard Operating Procedure (SOP) Manual item

E-4 requires State Board of Education approval of all funding formulas plus any modifications to funding formulas prior to the distribution of funds.

Our review disclosed:

a. The Department used a funding allocation formula, for summer programs operated during 1996, that was different from the formula specified in the Program's approved Preliminary Consolidated State Plan.

   Summer program services were provided by both center-based programs and home-based programs. The approved State Plan required allocations to individual projects to be based on the number of FTE students during the season as calculated by the Migrant Student Record Transfer System (MSRTS).

   For summer programs funded during 1996, the Department allocated the funding specified in the Program's approved State Plan funding formula to center-based programs, but allocated only 50% of the funding specified in the Program's State Plan to home-based programs. This reduced the amount of funding made available to the home-based programs and correspondingly increased funding for center-based programs.

   Department staff stated that the funding formula was changed because the costs of operating center-based programs were greater than the costs of operating home-based programs, but had not submitted the funding formula changes to the State Board of Education for approval as required by SOP Manual item E-4. Also, these changes were not consistent with the Program's State Plan, which had been approved by the USDOE (see schedule of questioned costs item 13).

b. The Department did not include funding formulas for the 1996-97 school year in its 1996-97 consolidated State Plan. Federal law 20 *USC* 6394(b)(5) requires that states include in their state application a description of how the state will determine the amount of any subgrants the state will award to LEAs. SOP Manual item E-4 requires that the State Board of Education approve the funding formula for grants to subrecipients.

For funding allocations made for the 1996-97 regular school year, the Department used the 1995-96 funding formula. For funding allocations made for the 1996-97 summer school programs, the Department developed a new funding formula, using a different source for the number of FTE students. The Department allocated approximately $4.3 million and $5.2 million to LEAs during 1996-97 for the regular school year and the summer school programs, respectively.

Department staff could not explain why the Program's State Plan, which was approved by the State Board of Education, did not contain the funding formulas for the 1996-97 school year.

c. The Department could not document that the allocations to LEAs were based on the FTE student counts as specified in the Program's State Plan. As a result, it appeared that several LEAs received federal funds in excess of their proper allocation.

MSRTS was established by the federal government to serve as a database record of FTE students, organized by region, county, and school codes. The Department used MSRTS to obtain FTE student numbers for use in calculating grant allocations for LEAs.

Our review of allocations made to 17 LEAs disclosed:

(1) For 3 of the 10 regular school year allocations in 1996-97 and 1995-96, the Department used FTE student counts that exceeded the FTE students listed in MSRTS by 95 FTE students, 209 FTE students, and 442 FTE students. This resulted in overpayments to these LEAs of $42,872, $94,476, and $221,339, respectively. Based on the limited funding available, these overpayments resulted in corresponding underpayments to the other LEAs (see schedule of questioned costs items 14 and 15).

(2) For 1 of 3 summer school program allocations in 1996, the Department did not use the FTE student counts contained on MSRTS but instead used other FTE student numbers to calculate the LEA's program

allocation. Department staff informed us that the FTE student count on the MSRTS report was overstated for this LEA but could not provide any documentation to support this assertion. Also, the Department could not document the source of the FTE student numbers that were used to calculate the LEA's allocation. The Department provided funding of $180,456 to this LEA (see schedule of questioned costs item 16).

(3) The Department included the same 35 FTE student counts in allocations to 2 different LEAs for the 1996 summer school program. This resulted in an overpayment to one LEA totaling $41,821 (see schedule of questioned costs item 17).

Department staff stated that they believed the allocations cited in parts (1) and (2) were proper but were unable to locate documentation to support the allocations that were made.

RECOMMENDATIONS

(a) WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS INTERNAL CONTROL STRUCTURE TO HELP ENSURE THAT FUNDING FOR LOCAL MIGRANT EDUCATION PROJECTS IS ALLOCATED IN ACCORDANCE WITH THE APPROVED STATE PLAN.

(b) We recommend that the Department obtain approval from the State Board of Education and USDOE for all funding formulas used in allocating federal funds to LEAs.

(c) We recommend that the Department document the basis used for allocations to LEAs.

AGENCY PRELIMINARY RESPONSE

The Department agrees that the funding formula used during the audit period was not approved by the State Board of Education. The Department informed us that this problem has been corrected for the current funding period and that the State Board of Education has approved the funding formula for the Migrant Education Program.

FINDING

4. Migrant Education Program Documentation

The Department's internal control structure did not help ensure that Migrant Education Program documentation was retained to support the annual performance report figures submitted to the USDOE or that Program records were adequately safeguarded.

Our review disclosed:

a. Based on available documentation, we determined that the Department overstated the number of students it actually served during school year 1996-97 as reported on the annual performance reports.

In accordance with federal law 20 *USC* 6394(c)(7) and other federal program guidance, the Department submits an annual performance report to the USDOE. The Department is required to report the total number of eligible migrant students and various counts of students actually served. The USDOE uses these amounts as a basis to calculate awards to be made to the Department in subsequent years.

The Department overstated the number of regular school year students served by approximately 322 and overstated the number of summer program students served by approximately 43. This resulted in the State receiving an overallocation of approximately $129,900 from the USDOE for the 1998-99 grant year.

b. In May 1998, the Department could not locate all Program files that had been stored electronically and were presumed destroyed. Also, the Department could not locate many of the Program's hard copy files that contained essential Program data.

Federal regulations 34 *CFR* 76.730 and 76.731 require the Department to maintain records to show compliance with Program requirements and to facilitate an effective audit.

The Department had not maintained any backups for the missing Program records. As a result, Department staff had to spend considerable resources attempting to reconstruct critical Program documentation. However, the Department could not reconstruct many of the Program's records.

RECOMMENDATION

We recommend that the Department enhance its internal control structure to help ensure that Migrant Education Program documentation is retained to support the annual performance report figures submitted to the USDOE and that Program records are adequately safeguarded.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has complied.

FINDING

5. Safe and Drug-Free Schools and Communities (SDFSC) Maintenance of Effort

The Department's internal control structure did not help ensure that SDFSC Program subrecipients complied with federal maintenance of effort requirements.

Federal law 20 *USC* 8891 (Section 14501 of the federal Elementary and Secondary Education Act) specifies the SDFSC Program's maintenance of effort requirements. Program subrecipients may receive funds for covered program activities only if the combined expenditures of the State agency responsible for administering the program and program subrecipients in the preceding fiscal year were not less than 90% of the combined expenditures for the second preceding year. Federal law requires the Department to reduce funding to program subrecipients whenever these maintenance of effort requirements are not met.

The SDFSC Program is administered by the Office of Drug Control Policy (ODCP), Department of Community Health (DCH), in accordance with the terms of an agreement between ODCP and the State Board of Education. The Department is responsible for the oversight of ODCP's administration of the SDFSC Program, including ensuring that ODCP fully complies with all applicable federal requirements.

ODCP had not established procedures to determine whether SDFSC Program subrecipients were meeting the federal maintenance of effort requirements. The Department distributed approximately $14.4 million and $9.3 million to program subrecipients during fiscal years 1996-97 and 1995-96, respectively (see schedule of questioned costs item 23).

RECOMMENDATION

We recommend that the Department enhance its internal control structure to help ensure that SDFSC Program subrecipients comply with federal maintenance of effort requirements.

AGENCY PRELIMINARY RESPONSE

ODCP agrees with the finding and informed us that it is taking steps to comply with the recommendation. ODCP informed us that it is working with the USDOE to obtain clarification of two issues to ensure proper implementation.

FINDING

6. Commodity Supplemental Food Program (CSFP) Grant Distributions

The Department's internal control structure did not help ensure that all CSFP funds were distributed as required by federal regulations; that distributions were accurately reported to Food and Consumer Services (FCS), U.S. Department of Agriculture; and that documentation was retained to support CSFP payments.

Our review disclosed:

a. Federal regulation 7 *CFR* 247.18(a)(2) states that all obligations shall be liquidated before final closure of a fiscal year grant and requires the Department to submit final fiscal year closeout reports to FCS within 90 days after the end of the fiscal year. During fiscal year 1995-96 the Department awarded $4,730,923 to CSFP subrecipients but only distributed $4,664,908, a difference of $66,015. In January 1997, the Department inaccurately reported to FCS that $4,730,923 had been distributed during fiscal year 1995-96.

b. Federal regulation 7 *CFR* 247.13(a) requires the Department to maintain accurate and complete records with respect to the receipt and disbursement of administrative funds.

CSFP funds are awarded to program subrecipients on an annual basis; however, payments are made quarterly to subrecipients based on actual case loads. We reviewed 15 quarterly payments and determined that 2 did not agree with the Department's supporting documentation. We noted that 1 payment exceeded the amount documented "to be paid" by $114,111 and that another payment was $119,460 less than the amount documented "to be paid." Department staff could not locate documentation necessary to support the payments that were actually made (see schedule of questioned costs item 4).

The Department's verification of the accuracy of calculations used to obligate funds and retention of documentation are necessary to ensure that subrecipients receive the appropriate amount of funding.

RECOMMENDATION

We recommend that the Department develop and implement controls to help ensure that all CSFP funds are distributed as required by federal regulations, that distributions are accurately reported to FCS, and that documentation is retained to support all CSFP payments.

AGENCY PRELIMINARY RESPONSE

The Department agrees. Key staff responsible for CSFP retired in June 1997. The Department informed us that new procedures have been put into place that provide for adequate monitoring and oversight of payments to recipient agencies. Status reports are used to track payments. Support documents are retained as required by federal regulations.

FINDING

7. CSFP Dual Participation

The Department's internal control structure did not help ensure that procedures for the detection and prevention of dual participation in similar federal assistance programs were being completed as required by federal regulations.

The federal Women, Infants, and Children (WIC) Program, operated by DCH, provides services similar to those provided by CSFP. Federal regulation 7 *CFR* 247.7 requires the State to be responsible, in conjunction with local agencies, for the detection and prevention of dual participation in CSFP and the WIC Program. In most of the State, CSFP is operated in conjunction with the WIC Program and dual participation is prevented during the enrollment process. However, in the State's largest service area, CSFP and the WIC Program are operated separately.

The Department has an agreement with DCH that requires DCH to test for dual participation in CSFP and the WIC Program. Under the terms of this agreement, the Department is to provide DCH with a record of all CSFP participants on a monthly basis. DCH is to compare this record against its record of WIC Program participants and return a listing of any dual participants to the Department.

The Department did not provide DCH with a record of CSFP participants for 9 of the 24 months during fiscal years 1996-97 and 1995-96 and, therefore, DCH could not test for dual participation. As of August 1998, the Department had not provided DCH with a record of CSFP participants since June 1997. DCH's tests of the June 1997 data disclosed that 6.9% of the CSFP participants had also been enrolled in the WIC Program. CSFP expenditures, in the service areas where the WIC Program is operated separately, were approximately $2.3 million and $2.8 million in fiscal years 1996-97 and 1995-96, respectively (see schedule of questioned costs item 5).

RECOMMENDATION

We recommend that the Department improve its internal control structure to help ensure that procedures for the detection and prevention of dual participation in similar federal assistance programs are completed as required by federal regulations.

AGENCY PRELIMINARY RESPONSE

The Department agrees. The Department informed us that its staff are working collaboratively with DCH's WIC staff to ensure an accurate and consistent monthly match of WIC and CSFP clients to eliminate dual participation. Additional collaboration will be needed with CSFP sponsors to ensure timely and consistent submission of participants' names and to resolve database incompatibility problems between the various CSFP sponsors and the WIC database.

FINDING

8. Cash Management

The Department did not report to the Michigan Department of Treasury the time delays in requests for federal funds. As a result, we estimated that the State did not recover approximately $578,400 in interest income.

The federal Cash Management Improvement Act (CMIA) of 1990 was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. Beginning in fiscal year 1993-94, the State entered into an agreement with the U.S. Department of Treasury to implement CMIA for selected major federal programs, in accordance with federal regulation 31 *CFR* 205. Compliance with CMIA requires an annual review of actual cash draws compared with prescribed drawdowns and a settlement of interest due from or to the U.S. Department of Treasury. Also, Section 18.1395(5) of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1210.6 require State departments to obtain federal funds when they become available.

Our review of the Department's cash management practices disclosed:

a. The Department did not report the necessary information to the Michigan Department of Treasury to calculate the interest lost to the State because of time delays experienced in requesting and receiving federal funds for fiscal years 1996-97 and 1995-96.

Federal regulation 31 *CFR* 205.11(a) states:

> The Federal Government will incur an interest liability to a State if the State pays out its own funds for program purposes with valid obligational authority under Federal law, Federal regulation, or Federal-State agreement. A Federal interest liability will accrue from the day a State pays out its own funds for program purposes to the day Federal funds are credited to a State account.

During fiscal years 1996-97 and 1995-96, the Department expended approximately $1.2 billion for federal programs subject to CMIA. We selected 8 cash draws relating to these programs in order to assess the timeliness of the Department's cash draw procedures. The Department made only 1 of these cash draws on a timely basis. For the remaining 7 cash draws, there were delays ranging from 1 to 19 days between the time that the Department made the program expenditures and the time that the State was reimbursed by the federal government:

Line of Credit and Cash Draw Numbers	Cash Draw Amount	Delay Between Date of Expenditure and Date of Receipt of Federal Funds
Line of Credit 91021021		
Fiscal year 1996-97:		
Cash Draw 690	$ 41,428,845	7 days
Cash Draw 693	$ 6,993,028	19 days
Cash Draw 729	$ 4,588,963	5 days
Cash Draw 732	$ 11,241,944	4 days
Fiscal Year 1995-96:		
Cash Draws 701 - 703	$ 36,865,111	1 day

Based on the delays noted and using the interest rate specified in CMIA, we estimated that for these 7 cash draws (representing federal program expenditures of approximately $101.1 million) the State did not recover approximately $75,000 in interest income because of the delays in receiving reimbursements from the federal government.

The Department reported that there were billing delays to the Michigan Department of Treasury; however, the Department did not provide the detail necessary to calculate the corresponding interest due to the State (see schedule of questioned costs item 30).

b. The Department did not report the necessary information to enable the Michigan Department of Treasury to file a claim with the federal government to recover interest lost to the State during fiscal years 1994-95 and 1993-94. As a result, we estimated that the State did not recover approximately $503,400 in interest income owed to the State by the federal government.

During our prior audit, based on our review of a limited number of cash draws, we estimated potential interest recoveries of approximately $452,000 and $51,400 during fiscal years 1994-95 and 1993-94, respectively, resulting from time delays experienced in requesting and receiving federal funds. As a result of this audit, the Department did inform the Michigan Department of Treasury of these billing delays; however, the Department did not provide sufficient detail to enable the Michigan Department of Treasury to submit a claim for this money to the federal government.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT WORK IN CONJUNCTION WITH THE MICHIGAN DEPARTMENT OF TREASURY TO RECOVER INTEREST DUE TO THE STATE FROM THE FEDERAL GOVERNMENT, IN ACCORDANCE WITH CMIA, FOR REIMBURSEMENTS FOR FEDERAL PROGRAM EXPENDITURES THAT WERE NOT REQUESTED ON A TIMELY BASIS.

AGENCY PRELIMINARY RESPONSE

The Department disagrees with the finding. It is the Department's belief that the cost of assembling the detailed data necessary to substantiate the interest claim is not justified because of the lack of probability of success. Similar claims filed by the Michigan Department of Treasury have not been paid by the federal government.

FINDING

9. Personnel-Payroll Cost Distributions to Federal Grant Programs

The Department's internal control structure did not ensure that personnel-payroll cost distributions to certain federal and State programs were accurate and properly documented in accordance with federal and Department requirements.

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, requires employee salaries and wages chargeable to more than one grant program or other cost objectives to be supported by appropriate time distribution records. OMB Circular A-87 also requires employees charged 100% to a single grant program or cost objective to certify, at least semiannually, that the employee worked solely on a single grant program or cost objective. Department SOP Manual item A-3, dated December 1995, states that all employees paid from federal funds are to prepare biweekly time and activity reports to support their time and its distribution and that such employees should work and report their time in accordance with splits indicated in the service areas' approved spending plan.

Service areas develop a spending plan for each federal assistance program after the funding award is received from the federal government. The spending plan details the portion of each employee's personnel-payroll related costs to be charged to the program. After the Department's Office of Budget, Contracts, and Grants approves the spending plan, the cost distributions are entered into the Personnel-Payroll Information System for Michigan (PPRISM). The Department's personnel-payroll expenditures were approximately $32.2 million and $34.1 million during fiscal years 1996-97 and 1995-96, respectively. Approximately 43.1% of the Department's personnel-payroll expenditures were distributed to federally funded grant programs.

Our review of personnel-payroll cost distributions disclosed:

a. Department employees administering certain federal grant programs generally completed time and activity reports but did not make adjustments for variances between planned and actual work activities.

   We noted variances for employees charged to the following federal programs: Job Training Partnership Act (*CFDA* #17.250), Adult Education - State Grant

Program (*CFDA* #84.002), Title I Grants to Local Educational Agencies (*CFDA* #84.010), Migrant Education - Basic State Grant Program (*CFDA* #84.011), Special Education - Preschool Grants (*CFDA* #84.173), Special Education - Grants for Infants and Families with Disabilities (*CFDA* #84.181), Bilingual Education Support Services (*CFDA* #84.194), and Even Start - State Educational Agencies (*CFDA* #84.213) (see schedule of questioned costs items 7, 10, 12, 18, 21, 22, 25, and 26).

b. The Department did not ensure that employees who were charged to more than one grant program or cost objective prepared and retained biweekly time and activity reports to document the hours charged to federal grant programs.

These allocation documentation exceptions pertained to employees charged to the following federal programs: Commodity Supplemental Food Program (*CFDA* #10.565), Emergency Food Assistance Program (*CFDA* #10.568), Job Training Partnership Act (*CFDA* #17.250), Veterans Information and Assistance (*CFDA* #64.115), Adult Education - State Grant Program (*CFDA* #84.002), Title I Grants to Local Educational Agencies (*CFDA* #84.010), Migrant Education - Basic State Grant Program (*CFDA* #84.011), Special Education - Grants to States (*CFDA* #84.027), Special Education - Preschool Grants (*CFDA* #84.173), Special Education - Grants for Infants and Families with Disabilities (*CFDA* #84.181), Even Start - State Educational Agencies (*CFDA* #84.213), Goals 2000 - State and Local Education Systemic Improvement Grants (*CFDA* #84.276), and Innovative Education Program Strategies (*CFDA* #84.298) (see schedule of questioned cost items 3, 6, 7, 8, 10, 12, 18, 19, 21, 22, 26, 27, and 28).

c. The Department did not ensure that employees who were charged 100% to a single federal grant program prepared at least semiannual certifications as required by federal regulations.

These certification exceptions pertained to employees charged to the following federal programs: State Administrative Expenses for Child Nutrition (SAECN) Program (*CFDA* #10.560), Job Training Partnership Act (*CFDA* #17.250), Adult Education - State Grant Program (*CFDA* #84.002), Migrant Education - Basic State Grant Program (*CFDA* #84.011), Special

Education - Grants for Infants and Families with Disabilities (*CFDA* #84.181), Safe and Drug-Free Schools and Communities - State Grants (*CFDA* #84.186), Even Start - State Educational Agencies (*CFDA* #84.213), and the Goals 2000 - State and Local Education Systemic Improvement Grants (*CFDA* #84.276) (see schedule of questioned costs items 1, 7, 10, 18, 22, 24, 26, and 27).

d. The Department did not ensure that all employee personnel-payroll costs were correctly charged to federal grant programs:

(1) Personnel-payroll costs for several Department employees working on CSFP activities were not appropriately charged to CSFP. In June 1997, a CSFP employee responsible for conducting, monitoring, and performing on-site reviews of CSFP subrecipients retired from State employment. The CSFP responsibilities of this employee were transferred to other Department employees whose personnel-payroll costs were charged 100% to the SAECN Program (*CFDA* #10.560).

Federal regulation 7 *CFR* 235.1 does not allow CSFP personnel-payroll costs to be charged to the SAECN Program. Because the Department did not document the amount of time spent on these CSFP activities, we could not determine the amount of personnel-payroll costs that were inappropriately charged to the SAECN Program (see schedule of questioned costs items 2 and 3).

(2) The Department charged 55% of one employee's time to the Job Training Partnership Act (JTPA) (*CFDA* #17.250) even though the employee did not perform any activities for the JTPA program. The Department charged 80% of another employee's time to the JTPA program even though 100% of the employee's time was actually spent on JTPA program activities. Neither of these employees completed time and activity reports to document their actual time worked on federal program activities (see schedule of questioned costs item 7).

(3) The Department charged 100% of one employee's time to the federal Adult Education - State Grant Program (*CFDA* #84.002) even though a

significant amount of the employee's time was actually spent working on State-funded program activities. This employee did not complete time and activity reports to document the actual time worked on federal program activities (see schedule of questioned costs item 10).

e. The Department did not ensure that quarterly comparisons of budgeted payroll costs to actual payroll costs were completed for the Title I Grants to Local Educational Agencies (*CFDA* #84.010) as required by federal regulations.

The Department received approval from the U.S. Department of Education in March 1997 for a plan to allocate personnel-payroll costs to the Title I Program. This plan was based on documenting the projected or budgeted costs for all Department employees charged to the program, instead of documenting the actual time of each individual employee. However, this approval was contingent on the Department complying with OMB Circular A-87, Attachment B, paragraph 11.h.5(e)(ii), which requires that the projected or budgeted payroll costs be compared against actual payroll costs at least on a quarterly basis. The Circular also requires that costs charged to federal programs be adjusted if the budgeted costs are different from actual costs.

The Department charged personnel-payroll costs of approximately $1.3 million to the Title I Program during fiscal year 1996-97 (see schedule of questioned costs item 11).

Similar exceptions were noted in our three prior audits. In response, the Department concurred with our related recommendations and also responded that it would comply.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPROVE ITS INTERNAL CONTROL STRUCTURE TO HELP ENSURE THAT PERSONNEL-PAYROLL COST DISTRIBUTIONS ARE ACCURATE AND PROPERLY DOCUMENTED IN ACCORDANCE WITH FEDERAL AND DEPARTMENT REQUIREMENTS.

AGENCY PRELIMINARY RESPONSE

The Department partially agrees and informed us that it has taken corrective actions.

FINDING

10. PPRISM

The Department did not develop and implement a proper internal control structure for PPRISM functions. A proper internal control structure is critical to help prevent and detect, on a timely basis, the processing of erroneous and unauthorized transactions. Our review of PPRISM functions disclosed the following internal control structure weaknesses:

a. Office of Human Resources (OHR) staff assignments did not provide an adequate separation of duties.

   Various sections of the PPRISM Procedures Manual identify specific duties for personnel aides, designated control staff, and transaction operators. However, the Department has elected to operate under the "generalist" concept whereby OHR staff perform all personnel-payroll functions for specific operating units within the Department. Without compensating controls, such assignments weaken personnel-payroll internal controls because they do not provide an adequate separation of duties.

b. OHR generalist staff inappropriately completed the PPRISM transaction control log.

   To help ensure that only authorized transactions are processed, PPRISM Procedures Manual section 2.3 requires that a designated control person, who does not have the capability to process transactions on PPRISM, record all authorized transactions in a transaction control log before a transaction operator, a generalist who also prepared the transaction, processes the data. On the following day, the control person is to total the transactions on the control log, reconcile the control log with the PPRISM control report, and initial the control log after it is reconciled.

Although the designated control person reconciled the transaction control log to the PPRISM control report, the preparation of the transaction control log by the generalist staff negates the controls established in PPRISM Procedures Manual section 2.3.

c. Department staff did not obtain PPRISM control reports or prepare PPRISM transaction control logs for days when transactions were not processed on PPRISM.

Because of the weaknesses found in OHR's separation of duties, the Department should obtain PPRISM control reports for each working day to serve as documentation that unauthorized transactions were not processed and to document that it was not necessary to prepare the PPRISM transaction control log.

d. The Department permitted timekeepers to record their own time on the biweekly time and attendance reports without the time being verified by someone else.

PPRISM Procedures Manual section 7.3 requires that employees not record their own time on the time and attendance reports. The Department permitted timekeepers to record their own time based on a compensating control that requires designated time and attendance report certifiers to verify and initial timekeepers' time. However, OHR staff did not enforce the compensating control as 3 of 19 time and attendance reports reviewed were processed without appropriate approvals.

e. The Department did not reconcile the PPRISM biweekly transaction reports (PE-110 reports) with source documents.

To help ensure that transactions are accurately processed, the PE-110 report should be reconciled with source documents by a control person who does not have the capability to process PPRISM transactions.

f. The Department did not reconcile the PPRISM biweekly hours entered reports (PR-180 reports) with time and attendance records.

To provide a proper PPRISM internal control structure, the Office of Financial Management, Department of Management and Budget (DMB), instructed all departments and agencies to ensure that the PR-180 reports are reconciled with time and attendance records by employees who are not responsible for processing PPRISM transactions.

Parts a., b., and d. have been reported in our three prior audits. In response to our most recent audit, the Department disagreed with parts a. and b., stating that it believed that using the generalist approach was more efficient and that effective internal controls can be implemented with the generalist approach.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT THE DEPARTMENT COMPLY WITH SOUND INTERNAL CONTROL POLICIES AND PRESCRIBED PPRISM PROCEDURES PERTAINING TO THE:

(a) ADEQUATE SEPARATION OF DUTIES ASSIGNED TO OHR STAFF.

(b) PREPARATION OF THE TRANSACTION CONTROL LOGS.

(c) OBTAINING OF PPRISM CONTROL REPORTS FOR EACH WORKING DAY TO SERVE AS DOCUMENTATION THAT UNAUTHORIZED TRANSACTIONS WERE NOT PROCESSED ON PPRISM.

(d) RECORDING OF TIMEKEEPERS' TIME.

We also recommend that the Department reconcile the PE-110 reports and PR-180 reports with appropriate source documents to help ensure that PPRISM transactions were properly entered.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has complied.

FINDING

11. Federal Reporting Requirements

The Department's internal control structure did not ensure that required program activity and statistical reports were submitted on a timely basis.

Our review disclosed:

a. Federal regulations 34 *CFR* 80.40 and 80.41 require the Department to submit various narrative performance reports, statistical performance reports, financial status reports, and program evaluation reports to the USDOE on an annual basis relating to the Adult Education - State Grant Program (*CFDA* #84.002).

   Our review of 10 of these reports due during the audit period disclosed that none of the reports had been submitted in a timely manner. These reports had been submitted from 14 to 560 days late, an average of 294 days after they were due.

b. Federal regulation 7 *CFR* 247.13(c) requires program participants to submit a monthly participation and food distribution report (FNS-153 report) within 7 days after the end of each month for CSFP.

   Our review of the 24 FNS-153 reports due for fiscal years 1996-97 and 1995-96 disclosed that 11 of the reports had been submitted from 1 to 62 days late.

RECOMMENDATION

We recommend that the Department improve its internal control structure to help ensure that required program activity and statistical reports are submitted on a timely basis.

AGENCY PRELIMINARY RESPONSE

The Department agrees. The Department informed us that its Food and Nutrition Program staff have been working with the CSFP sponsors to ensure that they submit reports in a timely manner. The Department stated that timely

submission of reports by recipient agencies is critical if the Department is to submit the FNS-153 reports in a timely manner.

FINDING

12. Mail Opening and Cash Receipts

The Department did not maintain adequate internal control over its decentralized mail opening and cash receipts process as required by the DMB Administrative Guide and the Department SOP Manual. This increased the risk that cash receipts could be mishandled or misappropriated.

As noted in prior audits, the Department continued its decentralized mail processing. As of September 30, 1997, numerous different locations opened mail and may have handled cash receipts. We estimated that the Department processed approximately $4.1 million in cash receipts during fiscal year 1996-97. We reviewed mail opening and receipt processing at the Department's Financial Management and Administrative Services (FMAS) and at 8 locations within 2 program service areas that received cash through the mail. Our review disclosed:

a. Only one employee opened mail and processed cash receipts at 8 of the 9 locations that we reviewed. Also, employees did not restrictively endorse checks at the same 8 locations. FMAS, which receives most of the Department's cash receipts, was the only unit that restrictively endorsed checks.

   In accordance with DMB Administrative Guide procedure 1270.02 and SOP Manual item A-4, at least two employees are to open mail and checks are to be restrictively endorsed immediately upon receipt.

b. Employees processing cash receipts at 7 of the 9 locations reviewed did not prepare cash logs and, therefore, could not reconcile cash received with cash transferred to the Department's cashier's office.

   In accordance with DMB Administrative Guide procedure 1270.02 and SOP Manual item A-4, employees are to prepare a cash log and reconcile the log with actual receipts.

The exceptions noted during our audit included one instance when a school district mailed a check for $1,164,000 made payable jointly to the Department and a Department employee. Because of the Department's decentralized mail processing procedures, this check was delivered directly to the employee whose name was on the check. The same employee was responsible for opening the mail and did not maintain a cash log. We determined that this check was forwarded to the Department's cashier and properly deposited; however, use of required control procedures would have prevented the employee from having direct access to the check.

We reported on the Department's noncompliance with required control procedures in our three prior audits. In response, the Department agreed and stated that it would comply by enforcing prescribed controls, including additional compensating controls that are required of a decentralized process. The Department has improved its controls by adding an FMAS post office box address on remittance forms used by several program service areas. This will decrease the number of checks delivered to the program service areas. However, as evidenced by the weaknesses noted during the current audit, the Department needs to make further improvements in its internal control structure over mail opening and cash receipts.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPROVE ITS INTERNAL CONTROL STRUCTURE OVER ITS DECENTRALIZED MAIL OPENING AND CASH RECEIPTS PROCESS.

AGENCY PRELIMINARY RESPONSE

The Department agrees with this finding but stated that it lacks the necessary resources to implement a process whereby all incoming mail is opened in one central location by two staff persons. The Department will, however, work diligently to improve internal controls using the current decentralized system.

FINDING

13. Completion of Nonconflict of Interest Statements

The Department's internal control structure did not require all Department employees involved in the subrecipient grant application and award process to complete nonconflict of interest statements.

Department SOP Manual items E-7 and E-8 both address the use of nonconflict of interest statements to disclose any potential conflicts of interest of Department staff involved in the grant application and award process. Currently, these procedures are applicable only to the initial reviewers of grant applications. However, numerous other individuals in the Department's program service areas were also significantly involved in the decisions to recommend grant awards but were not required to and did not complete nonconflict of interest statements.

The Department distributed approximately $739.0 million and $719.7 million to subrecipients during fiscal years 1996-97 and 1995-96, respectively. To help ensure that all grant award recommendations are made objectively and without bias, all individuals responsible for making recommendations to award grant funds should be required to complete nonconflict of interest statements.

In response to a similar finding in our prior audit, the Department disagreed with the corresponding recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT AMEND SOP MANUAL ITEMS E-7 AND E-8 TO REQUIRE ALL EMPLOYEES INVOLVED IN THE SUBRECIPIENT GRANT APPLICATION AND AWARD PROCESS TO COMPLETE NONCONFLICT OF INTEREST STATEMENTS.

AGENCY PRELIMINARY RESPONSE

The Department agrees that there is a need for a more extensive process for staff declaration of nonconflict of interest in matters concerning the awarding of grants. By the beginning of the next fiscal year, a procedure will be implemented whereby staff whose duties include involvement in the grant application and award process, including providing funding recommendations, will be required to annually submit a

nonconflict of interest statement. In general, this will be required of staff from the consultant level through the deputy superintendent level.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Background: The Department of Education expends or disburses to subgrantees numerous federal grants. In fiscal years 1996-97 and 1995-96, the Department transferred, expended, or disbursed to subgrantees $768.2 million and $747.7 million, respectively, in federal financial assistance. As defined by the Single Audit Act, the Department had 17 and 20 major federal financial assistance programs in fiscal years 1996-97 and 1995-96, respectively, and 2 major federal nonfinancial assistance programs in both fiscal years. Responsibility for administering the various federal programs is generally delegated to program units as few federal functions have common administration.

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. We consider this to be a material noncompliance exception for both fiscal years 1996-97 and 1995-96.

Our assessment also disclosed reportable conditions regarding noncompliance with laws and regulations pertaining to subrecipient monitoring and private nonprofit school student participation.

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.

FINDING

14. Infants and Families with Disabilities (IFD) Program Monitoring

The Department did not perform required oversight and monitoring of ISDs participating in the IFD Program to determine that the ISDs complied with federal regulations. We consider this to be a material noncompliance exception for both fiscal years 1996-97 and 1995-96.

Federal regulation 34 *CFR* 303.501(a) requires the Department to be responsible for the general administration, supervision, and monitoring of programs and activities receiving assistance from the IFD Program.

Our review of the Department's oversight and monitoring activities disclosed:

a. The Department did not determine that ISDs had completed a comprehensive multidisciplinary evaluation of each child referred to the IFD Program on a timely basis.

   Federal regulations 34 *CFR* 303.322(c) and 303.322(e) state that the Department is responsible for ensuring that evaluations are completed within 45 days after referral. Based on a Departmental survey of ISDs, IFD Program evaluations were not completed within 45 days for 39% and 37% of the children referred to the Program during fiscal years 1996-97 and 1995-96, respectively.

b. The Department did not determine that the ISDs had documented that a current individualized family service plan was in effect and implemented for each eligible child and the child's family.

   Federal regulation 34 *CFR* 303.340 requires that the Department ensure that a written plan is completed detailing the early intervention services to be provided to the eligible child and the child's family.

c. The Department did not ensure that ISDs effectively implemented procedural safeguards.

Federal regulation 34 *CFR* 303.400 requires the Department to ensure that ISDs adopt and implement procedural safeguards. Procedural safeguards are the rights that are guaranteed to the parents of children receiving IFD Program services and include the right to inspect and review program records and the right to have all personnel records kept confidential. The Department developed a guidebook that suggests procedural safeguards to the ISDs. However, the Department had not fully implemented its monitoring procedures to determine whether the ISDs had operated programs in accordance with the guidebook or had developed comparable procedural safeguards.

ISDs submit final reports that contain information pertaining to these procedural safeguards. We reviewed 14 final reports and noted that 2 ISDs (14.3%) had indicated that the procedural safeguards had not been completely implemented. The Department did not document any follow-up in response to these reports.

Federal regulation 34 *CFR* 303.341 requires the Department to ensure that program requirements are being met by no later than the beginning of the fifth year of participation in the IFD Program. Fiscal year 1996-97 marked the Department's eighth year of participation.

A similar finding was also reported in our prior audit report. The Department responded that several monitoring components had been in place and that additional components of monitoring were added to help ensure compliance with federal regulations. However, as of the end of the current audit period, the required monitoring had been completed for only 2 of the IFD Program's 57 ISDs.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT PERFORM REQUIRED OVERSIGHT AND MONITORING OF ISDs PARTICIPATING IN THE IFD PROGRAM TO DETERMINE THAT THE ISDs COMPLIED WITH FEDERAL REGULATIONS.

AGENCY PRELIMINARY RESPONSE

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.

FINDING

15. Subrecipient Monitoring

The Department did not monitor all of its subrecipients in accordance with the Single Audit Act of 1984 and OMB Circulars A-128 and A-133 to determine that the subrecipients complied with federal laws and regulations. The Department's noncompliance could result in a State liability for any misspent federal funds and in federal agencies withholding or suspending subrecipient federal financial assistance.

The Single Audit Act of 1984 and the applicable audit requirements of OMB Circulars A-128 and A-133 require State agencies that provide federal financial assistance to subrecipients to determine that the subrecipients expended the funds in compliance with applicable federal requirements. The Department provided federal financial assistance to numerous subrecipients during our audit period, including 656 school districts (this number includes local school districts, ISDs, and charter schools) and 233 nonprofit organizations.

The Department performed the required subrecipient monitoring of school districts. However, the Department did not perform the required subrecipient monitoring of all nonprofit organizations.

We selected 19 nonprofit organizations that received at least $25,000 in funding from the Department during fiscal year 1995-96 and determined that the Department had not performed the required monitoring of 6 (32%) of these subrecipients. The Department had distributed a total of $903,313 to these 6 subrecipients during fiscal year 1995-96 (see schedule of questioned costs item 29).

The Department generally complied with its monitoring responsibilities by reviewing and following up on audits of its subrecipients. The Department's internal control structure identified all nonprofit organizations that were subject to the federal monitoring requirements, and the Department had controls to ensure that these organizations submitted audit reports on a timely basis. However, the Department informed us that it lacked the resources to properly review and follow up on the audits conducted of all nonprofit organizations.

RECOMMENDATION

We recommend that the Department monitor all subrecipients in accordance with the Single Audit Act of 1984 and OMB Circulars A-128 and A-133.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has complied. The Department informed us that it has a strong and effective subrecipient monitoring system. The Department temporarily fell behind because of an inability to fill a position on a timely basis. The position has been filled with a student assistant who is able to review the audits on a timely basis.

FINDING

16. Private Nonprofit School Student Participation

The Department did not document compliance with federal regulations requiring that private nonprofit school students be provided an opportunity for equitable participation in certain USDOE programs.

Federal regulations 34 *CFR* 76.650 through 76.662 require the State to ensure that subrecipients provide students enrolled in private schools a genuine opportunity for equitable participation in most USDOE programs. These regulations also require subrecipients to report certain information in their program grant applications to document their efforts to provide equitable participation.

In conjunction with the Department's decentralized organizational structure, program staff developed various application disclosure formats pertaining to private nonpublic school student participation. The application disclosure formats

did not comply with federal regulations for the following major federal financial assistance programs:

a. Vocational Education - Basic Grants to States (*CFDA* #84.048), Secondary Education Program

b. Tech-Prep Education (*CFDA* #84.243)

As a result, the Department could not document that private nonprofit school students had an opportunity for equitable participation.

A similar exception was reported in our two prior audit reports. In response, the Department stated that it agreed with the corresponding recommendation as it applied to the Tech-Prep Education Program and the Secondary Education Program of the Vocational Education Program.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT DOCUMENT COMPLIANCE WITH FEDERAL REGULATIONS REQUIRING THAT PRIVATE NONPROFIT SCHOOL STUDENTS BE PROVIDED AN OPPORTUNITY FOR EQUITABLE PARTICIPATION IN CERTAIN USDOE PROGRAMS.

AGENCY PRELIMINARY RESPONSE

Regarding Tech-Prep Education (*CFDA* #84.243), the Department informed us that it complied with this requirement as a result of the 1995 audit. At the time of the 1995 audit, however, the applications for fiscal years 1995-96 and 1996-97 had already been processed, and they could not be corrected. Because of the receipt of the 1995 audit after the fiscal year 1995-96 and fiscal year 1996-97 grant applications were processed, the Department stated that this finding could not have been avoided. The Department also stated that the timing of the audit and the period it covers should be taken into consideration.

Regarding Vocational Education - Basic Grants to States (*CFDA* #84.248), Secondary Education Program, the Department agrees with the finding and informed us that it has complied with this requirement. The Department also informed us that the Office of Career, Curriculum, Technical and Adult Education

responded quickly to this finding by sending a letter on July 20, 1998 to all fiscal year 1998-99 grant recipients requesting that each region collect more detailed information on the seven application-related information items pursuant to Section 76.656 of the Federal Register, 34 *CFR*. The same information will be requested in future regional grant application materials.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

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. Equipment Inventory Controls and Financial Reporting

The Department did not comply with prescribed fixed asset control and financial reporting requirements. As a result, the Department did not provide adequate inventory control over equipment items and misstated the value of its equipment for State financial reporting purposes as of September 30, 1997 and September 30, 1996.

In accordance with Section 18.1201 of the *Michigan Compiled Laws*, DMB issued numerous directives to State agencies pertaining to equipment inventory controls and the recording and reporting of acquisition and disposal data for financial reporting purposes. The Department's Office of Administrative Services is primarily responsible for administering the Department's equipment control and related financial functions.

Our review of these functions disclosed:

a. The Department had not implemented procedures to ensure that equipment was properly tagged and that proper inventory records were maintained.

   The State's General Fixed Assets Accounting Manual (GFAAM) requires that all equipment items costing more than a prescribed amount be tagged and included in the agency's equipment inventory records. During fiscal year 1995-96, items costing more than $1,000 were required to be tagged and recorded in the Department's inventory records. Effective October 1, 1996, this amount was raised to $5,000.

   The Department did not maintain equipment inventory records. Also, we examined equipment items purchased during fiscal years 1996-97 and 1995-96 and noted that none of these items had been tagged. Equipment acquisitions during fiscal years 1996-97 and 1995-96 as recorded on the State's accounting system totaled approximately $755,000 and $735,000, respectively.

b. The Department did not complete annual physical inventories of equipment during fiscal years 1996-97 and 1995-96.

   DMB Administrative Guide procedure 1270.05 requires that an annual physical inventory be conducted to determine that assets are functional and are in the Department's custody.

c. The Department did not submit required annual fixed asset inventory reports during our audit period.

   GFAAM requires departments to annually submit to DMB a fixed asset inventory report that includes fixed asset inventory additions, disposals, and transfers. Because equipment acquisitions were not tagged and equipment inventory records have not been maintained (part a.), the Department could not complete the required fixed asset inventory report.

d. The Department did not report to DMB any decreases in the amount of equipment under its control caused by the transfer of program areas to other State agencies.

DMB has been estimating the value of the Department's equipment because the Department has not submitted the required fixed asset inventory reports. As of September 30, 1994, DMB had estimated the value of the Department's equipment at approximately $14.2 million.

Over the last several years, several major program areas have been transferred from the Department to other State agencies. For example, during fiscal year 1994-95, the Michigan Rehabilitation Services Program area was transferred to the Michigan Jobs Commission and the Student Financial Assistance Services Program area was transferred to the Department of Treasury. However, the Department has not requested DMB to adjust the value of its recorded equipment to reflect these transfers.

e. The Department has not established a policy regarding how to identify and account for equipment items that are considered to be susceptible to theft.

DMB guidelines require that equipment items costing more than a specified amount be tagged and recorded in an inventory record. These guidelines also specify that the Department should also tag and record equipment items costing less than this amount if these items are considered to be susceptible to theft.

The Department has acquired a significant number of laptop computers for use by its staff. Laptop computers are items that could be susceptible to theft. Department records indicated that the purchase price of laptop computers acquired during fiscal year 1996-97 ranged from $1,790 to $4,477 per computer.

Parts a., b., and c. were included in a similar finding in our three prior audits. In response to the finding in our prior audit, the Department agreed with the corresponding recommendations.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT THE DEPARTMENT COMPLY WITH PRESCRIBED FIXED ASSET CONTROL AND FINANCIAL REPORTING REQUIREMENTS BY:

(a) PROMPTLY TAGGING EQUIPMENT ITEMS AND MAINTAINING PROPER INVENTORY RECORDS.

(b) COMPLETING ANNUAL PHYSICAL INVENTORIES OF EQUIPMENT.

(c) PREPARING AND SUBMITTING, ON A TIMELY BASIS, REQUIRED ANNUAL FIXED ASSET INVENTORY REPORTS.

We also recommend that the Department:

(d) Report to DMB any decreases in the amount of equipment under its control caused by the transfer of program areas to other State agencies.

(e) Establish a policy regarding how to identify and account for equipment items that are considered to be susceptible to theft.

AGENCY PRELIMINARY RESPONSE

The Department agrees with this finding and informed us that it has complied for the fiscal year ended September 30, 1998.

Independent Auditor's Report on the
Internal Control Structure

September 25, 1998

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

We have audited the General Fund financial schedules of the Department of Education for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated September 25, 1998. We have also audited the Department of Education's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 25, 1998.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement and about whether the Department complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1997 and September 30, 1996, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Department's financial schedules and not to provide assurance on the internal control structure. We also considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Department of Education is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

<u>Accounting Controls</u>
- Revenue
- Payroll expenditures
- Administrative expenditures
- Grant payments
- General fixed assets

<u>Administrative Controls</u>
- General requirements:
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
- Specific requirements:
  - Allowable services
  - Eligibility
  - Matching, level of effort, or earmarking
  - Special reporting
  - Special tests and provisions
  - Monitoring and evaluation

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1997 and September 30, 1996, the Department of Education expended 96.9% and 96.8%, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Department's major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or the Department's ability to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions are more fully described in Findings 1 through 13.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the Department of Education's internal control structure and its operation that we considered to be a material weakness as defined above. As described in Finding 1, 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.* As a result, material noncompliance with laws and regulations was noted for one of the Department's major federal financial assistance programs (Special Education - Grants for Infants and Families with Disabilities, *CFDA* #84.181), as more fully described in Finding 14.

This condition was considered in determining the nature, timing and extent of the procedures to be performed in our audit of the Department of Education's financial schedules and of its compliance with requirements applicable to its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996, and this report on the internal control structure does not affect our reports thereon dated September 25, 1998.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
Compliance With Laws and Regulations

September 25, 1998

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

We have audited the General Fund financial schedules of the Department of Education for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated September 25, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Education is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Department of Education complied, in all material respects, with the provisions referred to in the previous paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Department had not complied, in all material respects, with those provisions.

We have also audited the Department's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions; reporting; claims for advances and reimbursements; amounts claimed or used for matching; and monitoring and evaluation that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996. The management of the Department is responsible for compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for Special Education - Grants for Infants and Families with Disabilities (*CFDA* #84.181) disclosed that the Department of Education had not complied with monitoring requirements. In our opinion, properly monitoring program participants is necessary for the Department to comply with program requirements.

In addition, the results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the findings and recommendations, the accompanying schedule of questioned costs, and/or the accompanying schedule of immaterial noncompliance. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the instances of noncompliance with the requirements applicable to the Special Education - Grants for Infants and Families with Disabilities program referred to in the second previous paragraph and described in Finding 14, the Department of Education complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions; reporting; claims for advances and reimbursements; amounts claimed or used for matching; and monitoring and evaluation that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996.

In connection with our audit of the financial schedules of the Department of Education for the fiscal years ended September 30, 1997 and September 30, 1996 and with our consideration of the Department's internal control structure used to administer federal

financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed and unallowed; eligibility; matching or level of effort; and monitoring and evaluation that are applicable to those transactions. Also, we have applied procedures to test the Department of Education's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedules of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996:

Political activity
Civil rights
Cash management
Federal financial reports
Allowable costs/cost principles
Drug-Free Workplace Act

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements and the requirements applicable to the nonmajor programs, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Department of Education's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Education had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the findings and recommendations and/or the accompanying schedule of questioned costs.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Schedules

September 25, 1998

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of General Fund sources and disposition of authorizations of the Department of Education for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the management of the Department of Education. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Education for the fiscal years ended September 30, 1997 and September 30, 1996 on the basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion on the Department's financial schedules. The accompanying supplemental financial schedules, consisting of the schedule of General Fund assets, schedule of General Fund liabilities, and the schedules of federal financial assistance, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the Department's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Department's financial schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 1998 on our consideration of the Department of Education's internal control structure and a report dated September 25, 1998 on its compliance with laws and regulations.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

DEPARTMENT OF EDUCATION
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

	1997	1996
REVENUE		
Federal agencies:		
General purpose	$ 985,630	$ 1,031,687
Restricted	649,380,772	630,254,271
Local agencies:		
General purpose	115,411	
Restricted	199,249	2,858,902
Licenses and Permits:		
General purpose		130,165
Restricted	10,449,804	10,497,063
Miscellaneous:		
General purpose	400,165	450,911
Restricted	604,564	1,001,197
Total Revenue	$ 662,135,595	$ 646,224,196
OPERATING TRANSFERS		
General purpose	5,400,000	15,925,021
Restricted	5,556,401	3,690,947
Total Revenue and Operating Transfers	$ 673,091,996	$ 665,840,164

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF EDUCATION
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Years Ended September 30

	1997	1996
SOURCES OF AUTHORIZATIONS		
General purpose appropriations (Note 2)	$ 323,497,560	$ 641,139,577
Balances carried forward	5,792,195	10,200,983
Restricted financing sources (Note 3):		
Federal revenue	649,380,772	630,254,271
Other	17,032,467	17,825,661
Total	$ 995,702,994	$ 1,299,420,492
DISPOSITION OF AUTHORIZATIONS		
Expenditures and operating transfers out (Note 4)	$ 989,520,955	$ 1,292,119,349
Balances carried forward:		
Multi-year projects	296,519	487,835
Encumbrances (Note 5)	3,653,217	3,827,081
Restricted revenue - authorized		1
Restricted revenue - not authorized (Note 6)	1,390,954	1,483,393
Balances lapsed	873,778	1,502,834
Overexpended (Note 7)	(32,431)	
Total	$ 995,702,994	$ 1,299,420,492

The accompanying notes are an integral part of the financial schedules.

Notes to Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Education for the fiscal years ended September 30, 1997 and September 30, 1996. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

The footnotes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

c. Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs, financed entirely

by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment understates both assets and liabilities, so there is no impact on fund balance.

Note 2 General Purpose Authorizations

The general purpose authorizations include original appropriations and any supplemental appropriations that are financed by General Fund/general purpose appropriations.

Note 3 Restricted Financing Sources

The restricted financing sources include collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations acts. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

Note 4 Operating Transfers Out

Included within the amounts reflected as disposition of authorizations are total authorized operating transfers to the State's School Aid Fund of $277,947,800 and $596,352,000 in fiscal years 1996-97 and 1995-96, respectively. The operating transfers represent supplemental funding to local school districts in connection with the Department's annual appropriations act.

Note 5 Encumbrances

Encumbrances are authorizations carried forward to finance payments for goods and services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

Note 6 Restricted Revenue - Not Authorized

Restricted revenue - not authorized is revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry forwards of this type are Safety Education Fund revenue, certification fees, and private occupational school license fees.

Note 7 Overexpended Authorizations

The Department overexpended its legislative authorization for the fiscal year ended September 30, 1997 by $32,431. Article 9, Section 17 of the State Constitution prohibits overexpenditures except in pursuance of appropriations made by law.

Note 8 Contingencies and Commitments

Donald Durant, et al v *State of Michigan, et al*: In an order dated June 10, 1997 and a decision rendered July 31, 1997, the Michigan Supreme Court decided, in the consolidated cases of *Durant* v *State of Michigan* and *Schmidt* v *State of Michigan*, that the special education, special education transportation, bilingual education, driver training, and school lunch programs provided by local school districts are State-mandated programs within the meaning of Article 9, Section 29 of the State Constitution (part of the Headlee Amendment) and, therefore, the State is obligated to fund these programs at the levels established by the Headlee Amendment. In fashioning a remedy in this case of first impression under the Headlee Amendment, the Court concluded that, in future cases, the correct remedy will typically be limited to a declaratory judgment. However, because of the protracted nature of the Durant and Schmidt litigation, the Court ruled that the 84 plaintiff school districts should be compensated for the full amount of the underfunding without interest for the State-mandated programs during the 1991-92, 1992-93, and 1993-94 school years. On November 19, 1997, the Governor signed legislation providing $212 million to the 84 plaintiff school districts to cover the underfunding for those three years. Most of the $212 million was paid to the plaintiff school districts on April 15, 1998, through the State School Aid Act, using funds transferred from the State's Counter-Cyclical Budget and Economic Stabilization Fund to the School Aid Fund. The board of education of each plaintiff school district is to determine the appropriate

distribution of the award between taxpayer relief and/or use by the district for other public purposes. The Court has affirmed the award to the plaintiffs of their costs including attorney fees. Over 400 other school districts have asserted claims similar to those asserted by the Durant plaintiffs. In companion legislation signed by the Governor on November 19, 1997, the State will pay each "non-Durant" school district for its underfunded State-mandated program costs for those same three years, if the district agreed by March 2, 1998, to waive any claim against the State of the same nature made by the 84 Durant plaintiffs through September 30, 1997. All of the non-Durant school districts signed waivers on or before March 2, 1998. It is estimated that the aggregate payments to the non-Durant school districts will, over time, total $632 million. Those payments, commencing in fiscal year 1998-99, will be paid through the State School Aid Act, using funds transferred to the School Aid Fund from the Counter-Cyclical Budget and Economic Stabilization Fund and General Fund, half in annual payments over 10 years and half in annual payments over 15 years.

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SUPPLEMENTAL

FINANCIAL SCHEDULES

DEPARTMENT OF EDUCATION
Schedule of General Fund Assets
As of September 30

	1997	1996
ASSETS		
Due from federal agencies for:		
National School Lunch Grants	$ 23,719,182	$ 11,813,549
Title 1 Program	8,867,591	8,106,626
Adult Education	1,160,652	2,431,800
Education of the Handicapped	882,304	609,292
Goals 2000	852,121	267,076
Eisenhower Professional Development	222,524	309,575
Title VI Innovative Strategies	192,962	269,491
Other miscellaneous accounts and activities	2,473,772	2,254,142
Transfers to other State agencies	5,067,897	2,257,404
Total Due From Federal Agencies	$ 43,439,005	$ 28,318,955
Due from other agencies:		
Local units of government	$	$ 125
Total Due From Other Agencies	$ 0	$ 125
Due from individuals:		
Travel advances	$ 4,772	$ 6,542
Returned check suspense	925	650
Total Due From Individuals	$ 5,697	$ 7,192
Due from State of Michigan funds and authorities:		
School Aid Fund	$ 443,170,423	$ 464,213,267
Total Due From State of Michigan Funds and Authorities	$ 443,170,423	$ 464,213,267
Other Current Assets:		
Prepaid expenditures	$ 13,335	$ 114,660
Other miscellaneous accounts receivable	3,537	13,727
Total Other Current Assets	$ 16,872	$ 128,387

This schedule of General Fund assets is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include only those assets for which the Department is directly responsible. The schedule excludes other assets, such as equity in Common Cash and cash in transit, which are accounted for centrally by the State.

DEPARTMENT OF EDUCATION
Schedule of General Fund Liabilities
As of September 30

	1997	1996
LIABILITIES		
Accounts payable under grants and awards:		
National School Lunch Grants	$ 20,110,382	$ 21,696,442
Drivers Education Grants	7,150,923	7,405,382
Title I Program	1,132,241	1,132,241
Temporary Emergency Food Assistance Program	817,485	600,318
Other	2,036,757	2,921,960
Total Accounts Payable Under Grants and Awards	$ 31,247,788	$ 33,756,343
Unearned receipts payable:		
Adult Basic Education	$ 11,379,098	$ 1,496,367
Title I Program	669,858	678,769
Title I Migrant Education		1,935,161
Title VI Innovative Strategies		1,866,653
Goals 2000		1,137,296
Safe and Drug Free Schools and Communities		261,305
Other	392,254	618,063
Total Unearned Receipts Payable	$ 12,441,210	$ 7,993,614
Other liabilities:		
Deferred revenue	$ 265,420	$ 19,281
Amounts due to other agencies	29,862	41,865
Total Other Liabilities	$ 295,282	$ 61,146

This schedule of General Fund liabilities is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include only those liabilities for which the Department is directly responsible. The schedule excludes other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

DEPARTMENT OF EDUCATION

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1997

Grantor Agency/ Federal Assistance Program Title	CFDA * Program Number		Amounts Transferred and Expended: Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
Financial Assistance						
U.S. Department of Agriculture						
School Breakfast Program	10.553	**	$ 564,194	$ 55,080	$ 27,130,019	$ 27,749,293
National School Lunch Program	10.555	**	917,806	25,912	123,032,993	123,976,710
Special Milk Program for Children	10.556				987,357	987,357
Child and Adult Care Food Program	10.558	**		29,038	50,927,195	50,956,233
State Administrative Expenses for Child Nutrition	10.560			2,388,140	(14,914)	2,373,226
Nutrition Education and Training Program	10.564			87,777	154,700	242,477
Commodity Supplemental Food Program	10.565	**		41,642	4,036,774	4,078,416
Emergency Food Assistance Program (Administrative Costs)	10.568			43,732	1,130,909	1,174,640
Total U.S. Department of Agriculture			**$ 1,482,000**	**$ 2,671,321**	**$ 207,385,033**	**$ 211,538,353**
U.S. Department of Labor						
Job Training Partnership Act	17.250		$	$ 351,946	$ 1,837,727	$ 2,189,673
Total U.S. Department of Labor			**$ 0**	**$ 351,946**	**$ 1,837,727**	**$ 2,189,673**
National Science Foundation						
Mathematical and Physical Sciences	47.049		$	$ 118,181	$ 2,031,812	$ 2,149,993
Total National Science Foundation			**$ 0**	**$ 118,181**	**$ 2,031,812**	**$ 2,149,993**
Veterans Administration						
Veterans Information and Assistance	64.115		$	$ 250,798	$	$ 250,798
Total Veterans Administration			**$ 0**	**$ 250,798**	**$ 0**	**$ 250,798**
U.S. Department of Education						
Adult Education - State Grant Program	84.002	**	$ 1,665,440	$ 740,596	$ 5,730,374	$ 8,136,409
Civil Rights Training and Advisory Services	84.004			5,812		5,812
Education of Children with Disabilities in State Operated or Supported Schools	84.009				28,425	28,425
Title I Grants to Local Educational Agencies	84.010	**		1,931,848	291,398,678	293,330,527
Migrant Education - Basic State Grant Program	84.011	**		669,088	10,138,519	10,807,608
Educationally Deprived Children - State Administration	84.012			(4,595)	15,791	11,197
Title I Program for Neglected and Delinquent Children	84.013		1,590,841		(17,648)	1,573,193
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015				(832)	(832)
Services for Children with Deaf - Blindness	84.025			115,775		115,775
Media and Captioning Services for Individuals with Disabilities	84.026			12,721		12,721
Special Education - Grants to States	84.027	**	303,963	4,008,108	72,198,713	76,510,784
Special Education - Personnel Development and Parent Training	84.029				203,724	203,724
Vocational Education - Basic Grants to States	84.048	**	404,780	2,282,099	33,702,609	36,389,488
Vocational Education - Consumer and Homemaking Education	84.049		(1,279)	(26,558)	110,774	82,938
Vocational Education - State Councils	84.053			17,749		17,749
State Student Incentive Grants	84.069		1,318,983			1,318,983
National Diffusion Network	84.073			23,884		23,884

This schedule continued on next page.

DEPARTMENT OF EDUCATION
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1997
Continued

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amounts Transferred and Expended: Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
Rehabilitation Services - Vocational Rehabilitiation Grants to States	84.126			280,524		280,524
Chapter 2 - State Block Grants	84.151			4,140	1,127,362	1,131,501
Immigrant Education	84.162			4,406	403,843	408,249
Eisenhower Mathematics and Science Education - State Grants	84.164				335,895	335,895
Eisenhower Professional Development - National Activities	84.168			13	136,612	136,625
Special Education - Preschool Grants	84.173	**	7,652	242,898	11,544,654	11,795,204
Vocational Education - Community Based Organizations	84.174		1,279	34,636		35,914
Douglas Teacher Scholarships	84.176				(226)	(226)
Special Education - Grants for Infants and Families with Disabilities	84.181	**	358,218	522,522	8,389,498	9,270,237
Byrd Honors Scholarships	84.185		1,082,886			1,082,886
Safe and Drug-Free Schools and Communities - State Grants	84.186	**	1,670,939	(38)	14,449,023	16,119,924
Christa McAuliffe Fellowships	84.190				3,565	3,565
Bilingual Education Support Services	84.194			65,102		65,102
Education for Homeless Children and Youth	84.196			219,121	904,315	1,123,436
Even Start - State Educational Agencies	84.213	**		163,149	3,937,432	4,100,581
Even Start - Migrant Education	84.214				113,748	113,748
Fund for the Improvement of Education	84.215			12,857	466,843	479,700
Capital Expenses	84.216				1,053,700	1,053,700
State School Improvement Grants	84.218				1,217,283	1,217,283
Tech-Prep Education	84.243	**		57,517	3,669,962	3,727,480
Foreign Languages Assistance	84.249			2	43,546	43,548
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	**		903,386	8,661,294	9,564,681
Goals 2000 - Assessment Development and Evaluation Grants	84.279			342,363		342,363
Eisenhower Professional Development State Grants	84.281	**	843	371,250	8,602,304	8,974,397
Charter Schools	84.282			2,012	376,702	378,714
Innovative Education Program Strategies	84.298	**	16,166	2,129,483	8,874,874	11,020,523
Technology Literacy Challenge Fund Grants	84.318			13,493		13,493
Other Federal Financial Assistance:						
***	None			5,695		5,695
Total U.S. Department of Education			**$ 8,420,710**	**$ 15,151,060**	**$ 487,821,359**	**$ 511,393,128**
U.S. Department of Health and Human Services						
Child Care and Development Block Grant	93.575		$	$ 18,166	$ 725,337	$ 743,503
Grants to States for Planning and Development of Dependent Care Programs	93.673			1	1,718	1,719
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		87,886	574,927	187,895	850,709
Total U.S. Department of Health and Human Services			**$ 87,886**	**$ 593,095**	**$ 914,950**	**$ 1,595,931**
Corporation for National and Community Service						
Learn and Serve America - School and Community Based Programs	94.004		$	$ 93,637	$ 791,881	$ 885,519
Total Corporation for National and Community Service			**$**	**$ 93,637**	**$ 791,881**	**$ 885,519**
Total Federal Financial Assistance			$ 9,990,596	$ 19,230,037	$ 700,782,762	$ 730,003,395

This schedule continued on next page.

DEPARTMENT OF EDUCATION

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1997

Continued

Grantor Agency/ Federal Assistance Program Title	*CFDA* * Program Number	Amounts Transferred and Expended: Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
Nonfinancial Federal Assistance					
U.S. Department of Agriculture					
Food Distribution	10.550 **	$	$	$ 22,073,920	$ 22,073,920
Commodity Supplemental Food Program	10.565 **			16,142,276	16,142,276
Total U.S. Department of Agriculture		**$ 0**	**$ 0**	**$ 38,216,196**	**$ 38,216,196**
Total Nonfinancial Federal Assistance		$ 0	$ 0	$ 38,216,196	$ 38,216,196
Total Federal Assistance		$ 9,990,596	$ 19,230,037	$ 738,998,958	$ 768,219,591

* *CFDA* is defined as *Catalog of Federal Domestic Assistance* .

** Major program, as defined by the Single Audit Act.

*** Not a grant. Program provided reimbursement for services.

See accompanying notes.

DEPARTMENT OF EDUCATION

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1996

Grantor Agency/ Federal Assistance Program Title	*CFDA* Program Number	*	Amounts Transferred and Expended: Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
Financial Assistance:						
U.S. Department of Agriculture						
School Breakfast Program	10.553	**	$ 484,209	$	$ 26,560,547	$ 27,044,757
National School Lunch Program	10.555	**	777,356	161	118,052,768	118,830,285
Special Milk Program for Children	10.556				950,543	950,543
Child and Adult Care Food Program	10.558	**		5,971	54,713,611	54,719,582
State Administrative Expenses for Child Nutrition	10.560			2,397,244		2,397,244
Nutrition Education and Training Program	10.564			162,873	10,985	173,859
Commodity Supplemental Food Program	10.565	**		55,239	4,634,888	4,690,127
Emergency Food Assistance Program (Administrative Costs)	10.568			52,648	781,664	834,312
Total U.S. Department of Agriculture			**$ 1,261,565**	**$ 2,674,137**	**$ 205,705,008**	**$ 209,640,710**
U.S. Department of Labor						
Job Training Partnership Act	17.250	**	$	$ 440,594	$ 3,410,337	$ 3,850,931
Total U.S. Department of Labor			**$ 0**	**$ 440,594**	**$ 3,410,337**	**$ 3,850,931**
National Science Foundation						
Mathematical and Physical Sciences	47.049		$	$ 144,451	$ 2,063,276	$ 2,207,727
Total National Science Foundation			**$ 0**	**$ 144,451**	**$ 2,063,276**	**$ 2,207,727**
Veterans Administration						
Veterans Information and Assistance	64.115		$	$ 345,741	$	$ 345,741
Total Veterans Administration			**$ 0**	**$ 345,741**	**$ 0**	**$ 345,741**
U.S. Department of Education						
Adult Education - State Grant Program	84.002	**	$ 547,477	$ 632,118	$ 11,325,069	$ 12,504,664
Civil Rights Training and Advisory Services	84.004			378,376	9,804	388,179
Education of Children with Disabilities in State Operated or Supported School	84.009		223,822	11,982	1,630,954	1,866,758
Title I Grants to Local Educational Agencies	84.010	**		179,481	280,682,676	280,862,157
Migrant Education - Basic State Grant Program	84.011	**	0	641,840	10,074,503	10,716,343
Educationally Deprived Children - State Administration	84.012		0	1,676,368	10,076	1,686,444
Title I Program for Neglected and Delinquent Children	84.013		1,675,189			1,675,189
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015			6,786	11,088	17,874
Services for Children with Deaf - Blindness	84.025			50,458		50,458
Media and Captioning Services for Individuals with Disabilities	84.026			9,904		9,904
Special Education - Grants to States	84.027	**	273,862	4,066,638	71,635,678	75,976,178
Special Education - Personnel Development and Parent Training	84.029				225,150	225,150
Vocational Education - Basic Grants to States	84.048	**	388,013	1,860,142	32,322,326	34,570,482
Vocational Education - Consumer and Homemaking Education	84.049			5,320	71,734	77,054
Vocational Education - State Councils	84.053		1,453	136,576		138,028
State Student Incentive Grants	84.069		2,626,554			2,626,554
National Diffusion Network	84.073			123,354		123,354

This schedule continued on next page.

DEPARTMENT OF EDUCATION
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996
Continued

Grantor Agency/ Federal Assistance Program Title	*CFDA* Program Number	*	Amounts Transferred and Expended: Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
Chapter 2 - State Block Grants	84.151	**	30,889	1,761,997	3,000,198	4,793,083
Immigrant Education	84.162			980	276,491	277,471
Eisenhower Mathematics and Science Education - State Grants	84.164	**	5,628	191,437	4,640,045	4,837,110
Eisenhower Professional Development - National Activities	84.168			108,643	93,768	202,410
Special Education - Preschool Grants	84.173	**		187,877	11,574,012	11,761,890
Vocational Education - Community Based Organizations	84.174				28,657	28,657
Douglas Teacher Scholarships	84.176		62,016			62,016
Special Education - Grants for Infants and Families with Disabilities	84.181	**	453,193	465,001	6,651,475	7,569,669
Byrd Honors Scholarships	84.185		1,084,500			1,084,500
Safe and Drug-Free Schools and Communities - State Grants	84.186	**	315,461	15,072	9,279,042	9,609,575
Christa McAuliffe Fellowships	84.190			11	(20,570)	(20,559)
Bilingual Education Support Services	84.194			83,985		83,985
Education for Homeless Children and Youth	84.196			88,610	1,025,579	1,114,189
Even Start - State Educational Agencies	84.213	**		181,331	3,732,578	3,913,908
Even Start - Migrant Education	84.214				175,987	175,987
Fund for the Improvement of Education	84.215			66,242	964,288	1,030,531
Capital Expenses	84.216				372,400	372,400
State School Improvement Grants	84.218				626,677	626,677
Tech-Prep Education	84.243	**		395,660	4,016,106	4,411,766
Foreign Languages Assistance	84.249			474	462,632	463,106
State Postsecondary Review	84.267			8,228		8,228
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	**		665,295	2,627,378	3,292,673
Goals 2000 - Assessment Development and Evaluation Grants	84.279			69,077		69,077
Eisenhower Professional Development State Grants	84.281	**		341,843	4,575,573	4,917,415
Charter Schools	84.282				361,047	361,047
Innovative Education Program Strategies	84.298	**	6,035	379,746	6,450,372	6,836,153
Other Federal Financial Assistance:						
***	None			21,545		21,545
Total U.S. Department of Education			$ 7,694,093	$ 14,812,396	$ 468,912,792	$ 491,419,281
U.S. Department of Health and Human Services						
Child Care and Development Block Grant	93.575			7,424	667,894	675,318
Grants to States for Planning and Development of Dependent Care Programs	93.673		183,442	23,926	215,956	423,324
Medical Assistance Program	93.778			8,193		8,193
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		35,610	383,846	146,522	565,978
Total U.S. Department of Health and Human Services			**$ 219,052**	**$ 423,390**	**$ 1,030,371**	**$ 1,672,813**
Corporation for National and Community Service						
Learn and Serve America - School and Community Based Programs	94.004		$	$ 35,357	$ 721,543	$ 756,900
Total Corporation for National and Community Service			**$ 0**	**$ 35,357**	**$ 721,543**	**$ 756,900**
Total Federal Financial Assistance			$ 9,174,710	$ 18,876,065	$ 681,843,328	$ 709,894,102

This schedule continued on next page.

DEPARTMENT OF EDUCATION

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1996

Continued

Grantor Agency/ Federal Assistance Program Title	*CFDA* Program Number	*	Amounts Transferred and Expended: Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
Nonfinancial Federal Assistance:						
U.S. Department of Agriculture						
Food Distribution	10.550	**	$	$	$ 21,787,000	$ 21,787,000
Commodity Supplemental Food Program	10.565	**			16,029,444	16,029,444
Total U.S. Department of Agriculture			**$ 0**	**$ 0**	**$ 37,816,444**	**$ 37,816,444**
Total Nonfinancial Federal Assistance			$ 0	$ 0	$ 37,816,444	$ 37,816,444
Total Federal Assistance			$ 9,174,710	$ 18,876,065	$ 719,659,772	$ 747,710,546

* *CFDA* is defined as *Catalog of Federal Domestic Assistance*.

** Major program, as defined by the Single Audit Act.

*** Not a grant. Program provided reimbursement for services.

See accompanying notes.

Notes to Schedules of Federal Financial Assistance

Note 1 Significant Accounting Policies

The financial schedules of the Department are presented on the modified accrual basis of accounting. The schedules include federal financial assistance received by the Department and recorded in the State's General Fund and various special revenue funds.

Note 2 Federal Grant Awards and Related Program Expenditures

The Department had numerous active grant awards for multiple years for most of its federal programs. Therefore, presenting summary award amounts would not be meaningful.

Reported expenditures exceed individual grant awards for some programs. However, it is anticipated that additional awards will be obtained for all programs.

Note 3 Value of Commodities in Storage

The expenditures reported in the Department of Education's schedules of federal financial assistance for Food Distribution (*CFDA* #10.550) and the Commodity Supplemental Food Program (*CFDA* #10.565) represent the value of commodities distributed during each fiscal year. The expenditures do not include the value of commodities received and in storage at September 30, 1997 and September 30, 1996.

The value of the commodities in storage was approximately $3.4 million and $2.2 million as of September 30, 1997 and September 30, 1996, respectively.

The value was estimated by multiplying the quantity of the commodities in storage by their current value as designated by the U.S. Department of Agriculture.

SUPPLEMENTAL INFORMATION

DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996

Program	Grant Number	Finding	Questioned Costs (A)
U. S. Department of Agriculture			
1. State Administrative Expenses for Child Nutrition *CFDA* #10.560	97974N2533	The Department did not ensure that employees whose personnel-payroll costs were charged 100% to a single federal award or cost objective prepared at least semiannual certifications (Finding 9.c).	Not Determinable (B)
2. State Administrative Expenses for Child Nutrition *CFDA* #10.560		Personnel-payroll costs were not allocated to the proper program (Finding 9.d.(1)).	Not Determinable (B)
	97974N2533	MAIN grant number 001917, fiscal year 1996-97, position number 31-22-03-02-00-00-003 position number 31-22-03-02-00-00-004 position number 31-22-03-02-00-00-007 position number 31-22-03-02-00-00-008	
3. Commodity Supplemental Food Program *CFDA* #10.565		Personnel-payroll cost allocation documentation was not adequate (Finding 9.b.).	Not Determinable (B)
	97974Y8005	MAIN grant number 000947, fiscal year 1996-97, position number 31-22-03-01-00-00-004	
		Personnel-payroll costs were not allocated to the proper program (Finding 9.d.(1)).	
	97974Y8005	MAIN grant number 001917, June 1997 through September 1997, position number 31-22-03-02-00-00-003 position number 31-22-03-02-00-00-004 position number 31-22-03-02-00-00-007 position number 31-22-03-02-00-00-008	Not Determinable (B)
4. Commodity Supplemental Food Program *CFDA* #10.565	97974Y8005	The Department did not retain documentation to support payments of CSFP funds to subrecipients (Finding 6).	$ 114,111 (119,460)
5. Commodity Supplemental Food Program *CFDA* #10.565	97974Y8005	The Department did not ensure that procedures for the detection and prevention of dual participation in federal assistance programs were being completed as required by federal regulations (Finding 7).	Not Determinable (B)
6. Emergency Food Assistance Program (Administrative Costs) *CFDA* #10.568		Personnel-payroll cost allocation documentation was not adequate.	
	97974Y8106	MAIN grant number 000947, fiscal year 1996-97, position number 31-22-03-01-00-00-004 (Finding 9.b.)	Not Determinable (B)

This schedule continued on next page.

DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding	Questioned Costs (A)
U. S. Department of Labor			
7. Job Training Partnership Act *CFDA* #17.250		Personnel-payroll cost allocation documentation was not adequate.	
	199697JTPA	MAIN grant number 003827, pay period ended 05/17/97, position number 31-39-01-00-00-00-003 (Finding 9.a.)	Not Determinable (B)
	199596JTPA	MAIN grant number 003826, pay period ended 11/04/95, position number 31-35-04-02-00-00-002 (Findings 9.b. and 9.d.(2)) position number 31-54-00-02-00-00-002 (Finding 9.b.) position number 31-35-04-04-00-00-012 (Findings 9.b. and 9.d.(2)) position number 31-35-04-02-00-00-008 (Findings 9.a. and 9.c.) position number 31-35-04-02-00-00-003 (Finding 9.c.)	Not Determinable (B)
	199495JTPA	MAIN grant number 003825, pay period ended 11/04/95, position number 31-35-04-00-00-00-005 (Finding 9.b.)	Not Determinable (B)
U.S. Department of Veterans Affairs			
8. Veterans Information and Assistance *CFDA* #64.115		Personnel-payroll cost allocation documentation was not adequate.	
	9669060001	MAIN grant number 003716, pay period ended 11/04/95, position number 31-35-04-00-00-00-005 (Finding 9.b.) position number 31-35-04-04-00-00-012 (Finding 9.b.)	Not Determinable (B)
U.S. Department of Education			
9. Adult Education - State Grant Program *CFDA* #84.002		ABE participants were reimbursed based on inaccurate participation data (Finding 2).	
	V002A60023	Projects 97003 and 97020	4,886
	V002A50023	Projects 96050 and 96110	46,565
10. Adult Education - State Grant Program *CFDA* #84.002		Personnel-payroll cost allocation documentation was not adequate.	
	V002A60023	MAIN grant numbers 001117 and 001177, pay periods ended 12/28/96, 02/08/97, 03/08/97, 04/05/97, and 05/03/97, position number 31-35-01-00-00-00-001 (Finding 9.b.)	Not Determinable (B)
	V002A60023	MAIN grant numbers 001117 and 001177, pay period ended 12/28/96, position number 31-35-01-00-00-00-005 (Finding 9.b.)	Not Determinable (B)
	V002A60023	MAIN grant number 001177, pay periods ended 12/28/96 and 05/17/97, position number 31-38-00-00-00-00-002 (Finding 9.b.)	Not Determinable (B)

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DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding	Questioned Costs (A)
	V002A60023 V002A50023	MAIN grant number 001117, fiscal years 1996-97 and 1995-96, position number 31-35-01-00-00-00-002 (Findings 9.c. and 9.d.(3))	Not Determinable (B)
	V002A50023	MAIN grant number 001116, fiscal year 1995-96, position number 31-35-02-00-00-00-002 (Findings 9.c. and 9.d.(3))	Not Determinable (B)
	V002A50023	MAIN grant numbers 001116 and 001176, pay periods ended 04/20/96, 06/01/96, 07/27/96, and 09/21/96, position number 31-35-01-00-00-00-001 (Findings 9.a. and 9.b.)	Not Determinable (B)
	V002A50023	MAIN grant numbers 001116 and 001176, pay period ended 02/24/96, position number 31-35-02-00-00-00-001 (Finding 9.a.)	Not Determinable (B)
	V002A50023	MAIN grant numbers 001116 and 001176, pay periods ended 04/20/96, 06/01/96, 07/27/96 and 09/21/96, position number 31-35-01-00-00-00-004 (Finding 9.b.)	Not Determinable (B)
11. Title I Grants to Local Educational Agencies *CFDA* #84.010	S010A60022	The Department did not ensure that quarterly comparisons of budgeted payroll costs to actual payroll costs were completed for the Title I program (Finding 9.e.).	Not Determinable (B)
12. Title I Grants to Local Educational Agencies *CFDA* #84.010	S010A60022 S010A50022	Personnel-payroll cost allocation documentation was not adequate. MAIN grant numbers 001516/001517, pay periods ended 12/28/96 and 05/17/97 position number 31-35-02-00-00-00-001 (Findings 9.a. and 9.b.) position number 31-11-02-00-00-00-003 (Finding 9.b.) position number 31-35-02-00-00-00-004 (Finding 9.b.) position number 31-35-02-00-00-00-005 (Finding 9.b.) position number 31-35-02-00-00-00-006 (Finding 9.b.) position number 31-35-02-00-00-00-007 (Finding 9.b.)	Not Determinable (B)
13. Migrant Education - Basic State Grant Program *CFDA* #84.011	S011A50022	The Department did not allocate funds to LEAs in accordance with the approved State Plan (Finding 3.a.).	Not Determinable (B)
14. Migrant Education - Basic State Grant Program *CFDA* #84.011	S011A60022	The Department overallocated funds to 2 LEAs for the 1996-97 regular school year allocation (Finding 3.c.(1)).	137,348
15. Migrant Education - Basic State Grant Program *CFDA* #84.011	S011A50022	The Department overallocated funds to 1 LEA for the 1995-96 school year allocation (Finding 3.c.(1)).	221,339

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DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding	Questioned Costs (A)
16. Migrant Education - Basic State Grant Program *CFDA* #84.011	S011A50022	The Department did not maintain documentation to support the FTE basis for one 1996 summer allocation (Finding 3.c.(2)).	180,456
17. Migrant Education - Basic State Grant Program *CFDA* #84.011	S011A50022	The Department incorrectly calculated the 1996 summer allocation to one LEA (Finding 3.c.(3)).	41,821
18. Migrant Education - Basic State Grant Program *CFDA* #84.011		Personnel-payroll cost allocation documentation was not adequate.	
	S011A60022	MAIN grant number 001617, pay periods ended 12/28/96 and 05/17/97 position number 31-35-02-00-00-00-001 (Findings 9.a and 9.b.) position number 31-38-00-00-00-00-002 (Finding 9.b.) position number 31-35-02-00-00-00-004 (Finding 9.b.) position number 31-35-02-00-00-00-005 (Finding 9.b.) position number 31-35-02-00-00-00-006 (Finding 9.b.) position number 31-35-02-00-00-00-007 (Finding 9.b.) position number 31-35-02-00-00-00-002 (Finding 9.c.) position number 31-35-02-00-00-00-008 (Finding 9.c.) position number 31-35-02-00-00-00-900 (Finding 9.c.)	Not Determinable (B)
	S011A60022	MAIN grant number 001617, pay period ended 05/17/97, position number 31-39-01-00-00-00-003 (Finding 9.a.)	Not Determinable (B)
19. Special Education - Grants to States *CFDA* #84.027		Personnel-payroll cost allocation documentation was not adequate.	
	H027A60110	MAIN grant number 000417, pay period ended 05/17/97, position number 31-11-00-00-00-00-910 (Finding 9.b.)	Not Determinable (B)
20. Vocational Education - Basic Grants to States *CFDA* #84.048	V253A20022	The Department made an error in the calculation of indirect cost billings during fiscal year 1995-96.	(65,380)
21. Special Education - Preschool Grants *CFDA* #84.173		Personnel-payroll cost allocation documentation was not adequate.	
	H173A60117	MAIN grant number 000427, pay periods ended 12/14/96, 01/11/97, and 04/05/97 position number 31-32-03-00-00-00-002 (Finding 9.b.)	Not Determinable (B)
	H173A60117	MAIN grant number 000427, pay period ended 02/22/97, position number 31-32-03-00-00-00-006 (Finding 9.a.) position number 31-32-03-00-00-00-025 (Finding 9.b.)	Not Determinable (B)

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DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding	Questioned Costs (A)
	H173A50117	MAIN grant numbers 000426 and 000427, pay period ended 08/24/96, position number 31-29-01-00-00-00-006 (Finding 9.a.) position number 31-32-03-00-00-00-908 (Finding 9.b.)	Not Determinable (B)
	H173A50117	MAIN grant number 000426, pay periods ended 05/04/96 and 08/24/96, position number 31-32-03-00-00-00-002 (Findings 9.a. and 9.b.)	Not Determinable (B)
	H173A50117	MAIN grant number 000426, pay period ended 12/02/95, position number 31-32-06-00-00-00-002 (Finding 9.b.)	Not Determinable (B)
22. Special Education - Grants for Infants and Families with Disabilities *CFDA* #84.181		Personnel-payroll cost allocation documentation was not adequate.	
	H181A60026	MAIN grant number 001316, pay periods ended 12/14/96, 01/11/97, and 04/05/97, position number 31-32-03-00-00-00-002 (Finding 9.b.)	Not Determinable (B)
	H181A60026	MAIN grant number 001316, pay period ended 02/22/97, position number 31-32-03-00-00-00-006 (Finding 9.a.) position number 31-32-03-00-00-00-010 (Findings 9.b. and 9.c.) position number 31-32-03-00-00-00-025 (Finding 9.b.)	Not Determinable (B)
	H181A50069	MAIN grant number 001315, pay period ended 08/24/96, position number 31-32-03-00-00-00-002 (Finding 9.a.) position number 31-29-01-00-00-00-006 (Findings 9.a. and 9.c.) position number 31-32-03-00-00-00-815 (Finding 9.b.)	Not Determinable (B)
	H181A50069	MAIN grant number 001315, pay period ended 12/02/95, position number 31-32-06-00-00-00-002 (Finding 9.b.)	Not Determinable (B)
23. Safe and Drug-Free Schools and Communities - State Grants *CFDA* #84.186	S186A60023 S186A40023	The Department did not determine whether LEAs were in compliance with federal maintenance of effort requirements (Finding 5).	Not Determinable (B)
24. Safe and Drug-Free Schools and Communities - State Grants *CFDA* #84.186		Personnel-payroll cost allocation documentation was not adequate.	
	S186A60023	Position number 07-17-02-00-00-00-003 (Finding 9.c.) Position number 07-17-02-00-00-00-002 (Finding 9.c.) Position number 07-17-02-00-00-00-005 (Finding 9.c.)	Not Determinable (B)
	S186A50023	Position number 07-17-02-00-00-00-003 (Finding 9.c.) Position number 07-17-02-00-00-00-002 (Finding 9.c.) Position number 07-17-02-00-00-00-005 (Finding 9.c.)	Not Determinable (B)

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DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding	Questioned Costs (A)
25. Bilingual Education Support Services		Personnel-payroll cost allocation documentation was not adequate.	
CFDA #84.194	T194O50001	MAIN grant number 001717, pay period ended 05/17/97, position number 31-39-01-00-00-00-003 (Finding 9.a.)	Not Determinable (B)
26. Even Start - State Educational Agencies		Personnel-payroll cost allocation documentation was not adequate.	
CFDA #84.213	S213C60023	MAIN grant numbers 000386 and 000387, pay periods ended 12/14/96, 01/11/97, and 04/05/97, position number 31-32-03-00-00-00-002 (Finding 9.b.) position number 31-32-03-00-00-00-013 (Finding 9.b.)	Not Determinable (B)
	S213C60023	MAIN grant number 000386, pay periods ended 12/14/96 and 01/11/97, position number 31-32-03-00-00-00-008 (Finding 9.a.)	Not Determinable (B)
	S213C50023	MAIN grant numbers 000385 and 000386, pay periods ended 12/02/95, 05/04/96, and 08/24/96, position number 31-32-03-00-00-00-008 (Finding 9.a.) position number 31-32-06-00-00-00-015 (Finding 9.a.) position number 31-32-03-00-00-00-013 (Finding 9.c.) position number 31-32-03-00-00-00-002 (Finding 9.a.) position number 31-32-06-00-00-00-002 (Finding 9.b.) position number 31-32-06-00-00-00-815 (Finding 9.b.) position number 31-32-03-00-00-00-908 (Finding 9.b.)	Not Determinable (B)
27. Goals 2000 - State and Local Education Systemic Improvement Grants		Personnel-payroll cost allocation documentation was not adequate.	
CFDA #84.276	S276A50022	MAIN grant numbers 004206 and 004216, pay period ended 05/17/97, position number 31-16-00-00-00-00-010 (Finding 9.b.) position number 31-11-00-00-00-00-910 (Finding 9.b.) position number 31-11-00-00-00-00-911 (Finding 9.b.) position number 31-24-05-01-00-00-005 (Finding 9.c.) position number 31-11-00-00-00-00-012 (Finding 9.c.)	Not Determinable (B)
	S276A50022	MAIN grant numbers 004215 and 004235, pay period ended 02/24/96, position number 31-16-00-00-00-00-801 (Finding 9.b.) position number 31-16-00-00-00-00-005 (Finding 9.c.) position number 31-14-00-00-00-00-900 (Finding 9.c.)	Not Determinable (B)
28. Innovative Education Program Strategies		Personnel-payroll cost allocation documentation was not adequate.	
CFDA #84.298	S298A50022	MAIN grant number 000226, pay period ended 05/17/97, position number 31-16-00-00-00-00-010 (Finding 9.b.)	Not Determinable (B)

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DEPARTMENT OF EDUCATION
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding	Questioned Costs (A)
29. Various	Various	The Department did not monitor all federal grant subrecipients as required by federal regulations (Finding 15).	Not Determinable (B)
30. Various	Various	In accordance with the provisions of the Cash Management Improvement Act of 1990, the federal government has incurred an interest liability to the State because of delays between State expenditures for federal programs and the receipt of federal reimbursements (Finding 8.a.).	
		Fiscal Year 1995-96	(5,309)
		Fiscal Year 1996-97	(69,691)
31. Various	Various	The Department charged terminal leave payments as direct costs to federal financial assistance programs.	
		Fiscal Year 1996-97	58,386
		Fiscal Year 1995-96	(26,387)
32. Various	Various	The Department did not recover overpayments to grant subrecipients on a timely basis.	181,432
U.S. Department of Health and Human Services			
33. Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems *CFDA* #93.938	CCU5090170	A billing error resulted in the overcharge of indirect costs in fiscal year 1995-96.	234
Questioned Costs			$ 986,578
Negative Questioned Costs			$ (286,227)

CFDA is defined as *Catalog of Federal Domestic Assistance*.

(A) Questioned Costs are defined as amounts potentially due to the federal government because of reimbursements for unallowable, undocumented, unapproved, or unreasonable costs or amounts potentially due from the federal government for reimbursements that were not claimed or were claimed for less than the eligible amount. Amounts potentially due from the federal government are presented as (negative) questioned costs.

(B) The total amount reported is conservative because of the various items for which the amount of questioned costs is not determinable.

DEPARTMENT OF EDUCATION
Schedule of Immaterial Noncompliance
Fiscal Years Ended September 30, 1997 and 1996

Program	Grant Number	Finding/Noncompliance
Department of Education		
Food Distribution *CFDA* #10.550	None	The Department did not submit 2 of 24 required monthly inventory reports (FNS-155) on a timely basis.
Food Distribution *CFDA* #10.550	None	The Department did not conduct reviews of 3 of 323 charitable institutions and 6 of 196 summer camps within the required four-year time period.
School Breakfast Program *CFDA* #10.553	97974N1030 9669160005	Two of 17 files for School Food Authority coordinated reviews were missing civil rights certifications.
School Breakfast Program *CFDA* #10.553	9669160005	The Department submitted the final financial status report (standard form 269) for fiscal year 1995-96 one day late.
National School Lunch Program *CFDA* #10.555	97974N1005	Two of 17 files for School Food Authority coordinated reviews were missing civil rights certifications.
National School Lunch Program *CFDA* #10.555	9669160002	The Department submitted the final financial status report (standard form 269) for fiscal year 1995-96 one day late.
Child and Adult Care Food Program *CFDA* #10.558	9669160021	The Department submitted the final financial status report (standard form 269) for fiscal year 1995-96 one day late.
Adult Education - State Grant Program *CFDA* #84.002	V002A60023 V002A50023	During fiscal years 1996-97 and 1995-96, 2 of 38 grant application files were missing assurances pertaining to debarment, lobbying/political activity, and civil rights.
Adult Education - State Grant Program *CFDA* #84.002	V002A60023 V002A50023	The Department submitted the annual financial status report (standard form 269) 45 days late for fiscal year 1996-97 and 110 days late for fiscal year 1995-96. The Department submitted the final financial status report 119 days late for fiscal year 1995-96.
Migrant Education - Basic State Grant Program *CFDA* #84.011	S011A60022 S011A50022	During fiscal years 1996-97 and 1995-96, 2 of 20 grant application files were missing assurances pertaining to debarment, lobbying/political activity, and civil rights.
Special Education - Grants to States *CFDA* #84.027	H027A60110 H027A50110	During fiscal years 1996-97 and 1995-96, 2 of 25 grant application files were missing assurances pertaining to debarment, lobbying/political activity, and civil rights.
Special Education - Grants to States *CFDA* #84.027	H027A60110 H027A50110	The Department did not ensure that application review forms were completed for 2 of 18 grant applications for fiscal years 1996-97 and 1995-96.

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DEPARTMENT OF EDUCATION
Schedule of Immaterial Noncompliance
Fiscal Years Ended September 30, 1997 and 1996
Continued

Program	Grant Number	Finding/Noncompliance
Special Education - Preschool Grants *CFDA* #84.173	H173A60117 H173A50117	During fiscal years 1996-97 and 1995-96, 2 of 25 grant application files were missing assurances pertaining to debarment, lobbying/political activity, and civil rights.
Special Education - Preschool Grants *CFDA* #84.173	H173A60117 H173A50117	The Department did not ensure that application review forms were completed for 2 of 18 grant applications for fiscal years 1996-97 and 1995-96.
Even Start - State Educational Agencies *CFDA* #84.213	S213C50023	During fiscal year 1995-96, 3 of 16 grant application review forms were not signed by the individual responsible for performing the review.

Note: This schedule reports instances of immaterial noncompliance with laws and regulations which have no associated questioned costs and are not included in the body of our report. Material instances of noncompliance with laws and regulations are reported in our comments and findings. All instances of noncompliance that have an associated questioned cost are presented on the schedule of questioned costs.

Glossary of Acronyms and Terms

ABE	Adult Basic Education.
CFDA	*Catalog of Federal Domestic Assistance.*
CFR	*Code of Federal Regulations.*
CMIA	Cash Management Improvement Act.
CSFP	Commodity Supplemental Food Program (*CFDA* #10.565).
DCH	Department of Community Health.
DMB	Department of Management and Budget.
FCS	Food and Consumer Services, U.S. Department of Agriculture.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
FMAS	Financial Management and Administrative Services.
FNS-153 report	monthly participation and food distribution report.
FTE	full-time equivalent.
GFAAM	General Fixed Assets Accounting Manual.
HIV	human immunodeficiency virus.

IFD	Infants and Families with Disabilities Program (*CFDA* #84.181).
ISDs	intermediate school districts.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
JTPA	Job Training Partnership Act.
LEAs	local educational agencies.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal assistance programs or on financial schedule amounts.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial schedules or in the administration of a major federal assistance program, may occur and not be prevented or detected within a timely period by employees in the normal course of performing their assigned functions.
MSRTS	Migrant Student Record Transfer System.
negative questioned costs	Amounts that are potentially due to the State from the federal government.

ODCP	Office of Drug Control Policy.
OHR	Office of Human Resources.
OMB	federal Office of Management and Budget.
PE-110 report	biweekly transaction report.
PPRISM	Personnel-Payroll Information System for Michigan.
PR-180 report	biweekly hours entered report.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
SAECN	State Administrative Expenses for Child Nutrition (*CFDA* #10.560).
SDFSC	Safe and Drug-Free Schools and Communities - State Grants (*CFDA* #84.186).
SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*
SOP	Standard Operating Procedure.
subrecipient	A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.

USC	*United States Code.*
USDOE	U.S. Department of Education.
WIC	Women, Infants, and Children Program, Department of Community Health.