

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

DEPARTMENT OF EDUCATION

October 1, 1999 through September 30, 2001



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

*Including the Provisions of the Single Audit Act
October 1, 1999 through September 30, 2001*

Department of Education

Report Number:
31-100-02

Released:
June 2002

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the Department's financial schedules.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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**Noncompliance Material to
the Financial Schedules**

We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 12 programs as major programs and issued 12 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any material weaknesses in internal control over major programs. However, we did identify reportable conditions (Findings 1 through 3).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 1 through 5).

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Systems of Accounting and Internal Control:

We determined that the Department was in substantial compliance with Sections

18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.558	Child and Adult Care Food Program	Unqualified
10.560	State Administrative Expenses for Child Nutrition	Unqualified
10.565	Commodity Supplemental Food Program	Unqualified
10.568 and 10.569	Emergency Food Assistance Cluster	Unqualified
84.010	Title I Grants to Local Educational Agencies	Unqualified
84.011	Migrant Education - Basic State Grant Program	Unqualified
84.213	Even Start - State Educational Agencies	Unqualified
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	Unqualified
84.282	Charter Schools	Unqualified
84.332	Comprehensive School Reform Demonstration	Unqualified
84.340	Class Size Reduction	Unqualified
93.575	Child Care and Development Block Grant	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 27, 2002

Mr. Thomas D. Watkins, Jr., Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Watkins:

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, 1999 through September 30, 2001.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Department of Education financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains the Department's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. 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.

AUDITOR GENERAL

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

April 10, 2002

Mr. Thomas D. Watkins, Jr., Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Watkins:

We have audited the accompanying schedule of General Fund revenue and transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Education for the fiscal years ended September 30, 2001 and September 30, 2000. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 transfers and the sources and disposition of authorizations for the Department of Education'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 accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and transfers and the sources and disposition of authorizations of the Department of Education for the fiscal years ended September 30, 2001 and September 30, 2000, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of certain General Fund assets and the schedule of certain General Fund liabilities, 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. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated in all material respects in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

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

	2001	2000
REVENUE		
Federal agencies	\$ 769,860,223	\$ 791,248,625
Local agencies	51,900	55,100
Licenses and permits	11,882,489	12,336,934
Miscellaneous	9,975,836	10,685,838
Total Revenue	\$ 791,770,449	\$ 814,326,498
 TRANSFERS		
From School Aid Fund	\$ 2,889,010	\$ 2,998,939
From Gifts, Bequests, and Deposits Investment Fund	203,202	185,176
Total Transfers	\$ 3,092,212	\$ 3,184,115
 Total Revenue and Transfers	\$ 794,862,661	\$ 817,510,613

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

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

	<u>2001</u>	<u>2000</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 420,768,800	\$ 463,207,385
Budgetary transfers in (out)		(1,257,381)
Balances carried forward	6,246,327	5,941,230
Restricted financing sources (net of intrafund expenditure reimbursements):		
Federal revenue	769,250,160	790,729,064
Other	<u>24,916,872</u>	<u>25,779,310</u>
 Total	 <u>\$ 1,221,182,159</u>	 <u>\$ 1,284,399,608</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures and transfers (net of intrafund expenditure reimbursements)	<u>\$ 1,214,335,768</u>	<u>\$ 1,277,473,014</u>
Balances carried forward:		
Multi-year projects	\$ 452,491	\$ 65,443
Encumbrances	1,174,944	2,120,037
Restricted revenue - not authorized	<u>4,194,667</u>	<u>4,383,170</u>
Total balances carried forward	<u>\$ 5,822,101</u>	<u>\$ 6,568,649</u>
Balances lapsed	<u>\$ 1,024,290</u>	<u>\$ 1,081,205</u>
Overexpenditures	<u>\$ 0</u>	<u>\$ (723,259)</u>
 Total	 <u>\$ 1,221,182,159</u>	 <u>\$ 1,284,399,608</u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the governmental operations of the Department of Education for the fiscal years ended September 30, 2001 and September 30, 2000. The governmental operations 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)*. Department operations also include the School Aid Fund, a special revenue fund that is audited and reported on separately.

The notes 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, Budgetary Control, and Legal Compliance; Pension Benefits and Other Postemployment Benefits; and Compensated Absences.

Financial transactions for selected federal programs (Adult Education - State Grant Program, Vocational Education - Basic Grants to States, and Tech-Prep Education) are accounted for in the Department of Education financial schedules for fiscal year 1999-2000, in accordance with Executive Order No. 1999-12, which transferred these programs to the Michigan Department of Career Development. Related federal expenditures for these programs for fiscal year 1999-2000 are included in the Michigan Department of Career Development's schedule of expenditures of federal awards.

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 accounting principles generally accepted in the United States of America 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 transfers and the sources and disposition of authorizations for the Department of Education'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 accounting principles generally accepted in the United States of America.

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 revenue are recognized only to the extent of billings received by fiscal year-end. This treatment understates assets and liabilities and expenditures and revenue; however, there is no impact on the fund balance of the State's General Fund.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget. In fiscal year 1999-2000, budgetary transfers totaling \$1,257,381 were related to Executive Order No. 1999-12, which transferred several programs from the Department of Education to the Michigan Department of Career Development.

- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized. Balances carried forward in fiscal year 2000-01 were \$322,321 less than the balances carried forward from fiscal year 1999-2000. This difference was a result of Executive Order No. 1999-12, which transferred several programs to the Michigan Department of Career Development.
- d. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. 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.
- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Significant fiscal year 2000-01 carry-forwards of this type are Innovative Program Demonstration (\$202,491) and an exchange program in Michigan's sister state of Shiga in Japan (\$250,000).
- f. Encumbrances: 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.
- g. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, the Department had not received legislative authorization to expend the revenue. Significant fiscal year 2000-01 carry-forwards of this type are certification fees

(\$1,873,601), motorcycle license fees (\$854,322), settlement revenues (\$419,575), and safety education (\$370,439).

- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended: The total overexpenditure of line-item authorizations. The Department is required to seek a supplemental appropriation to authorize the expenditure (see Note 3).

Note 3 Budgetary Overexpenditure

The Department overexpended its legislative authorizations for the fiscal year ended September 30, 2000 by \$723,259, as reported on the schedule of sources and disposition of General Fund authorizations. Article IX, Section 17 of the State Constitution prohibits expenditures except in pursuance of appropriations made by law.

Note 4 Contingencies and Commitments

The State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the event that a significant, probable, and reasonably estimable loss is not settled prior to the preparation of these schedules, the obligation is recorded as a general long-term liability and reported in the *SOMCAFR*.

The Department is a party to various legal proceedings seeking damages, injunctive, or other relief. Certain of these proceedings could, if unfavorably resolved from the point of view of the Department, substantially affect Department programs and finances. The ultimate dispositions and consequences of the following proceedings are not presently determinable and have not been recorded in the Department financial schedules.

Durant et al v State of Michigan et al (Durant III): On November 15, 2000, more than 365 Michigan school districts and individuals filed two suits in the Michigan Court of Appeals. The first suit, *Durant et al v State of Michigan et al*, asserts that the current State School Aid Act, Act 297, P.A. 2000, violates Article IX, Sections 25 - 34 of the State Constitution (the "Headlee

Amendment") because it allegedly transfers per pupil revenue guaranteed to school districts under Article IX, Section 11 of the State Constitution, for unrestricted school operating purposes, in order to satisfy the State's independent funding obligation to those school districts under Article IX, Section 29. The plaintiffs in Durant III are seeking a monetary remedy, including approximately \$1.7 billion for school years 1999-2000 through 2002-03 for the State's alleged underfunding of special education programs and services, inclusive of special education transportation services. The Durant III plaintiffs are also requesting a declaratory judgment that the State, through Act 297, P.A. 2000, is violating Article IX, Section 11 and Article IX, Section 29 of the State Constitution. The Durant III plaintiffs further seek orders declaring that the State has failed, through Act 297, P.A. 2000, to meet its constitutional duty to fund services and activities provided by the plaintiff school districts during school years 1999-2000 through 2002-03 in the same proportion by which they were funded when the Headlee Amendment became effective, and that the State has reduced the State-financed proportion of necessary costs incurred by the plaintiff school districts for special education services for school years 1999-2000 through 2002-03 below that provided by the State when the Headlee Amendment became effective. The Durant III plaintiffs also seek an injunction permanently enjoining the State from making any future reductions below the levels of funding provided when the Headlee Amendment became effective to pay for the cost of the activities and services required of them by State law. They also seek attorneys' fees and costs of litigation.

The second suit, *Adair et al v State of Michigan et al* (Adair), asserts that the State has, by operation of law, increased the level of various specified activities and services beyond that which was required by State law as of December 23, 1978 and, subsequent to December 23, 1978, added various specified new activities or services by State law, including mandatory increases in student instruction time, without providing funding for these new activities and services, all in violation of the Headlee Amendment. In the original complaint, the Adair plaintiffs sought an unspecified money judgment equal to the reduction in the State-financed proportion of necessary costs incurred by the plaintiff school districts for each school year from 1997-98 through the date of any judgment and for attorneys' fees and litigation costs. The Adair plaintiffs also sought a declaratory judgment that the State has

failed to meet its funding responsibility under the Headlee Amendment to provide the plaintiff school districts with revenues sufficient to pay for the necessary increased costs for activities and services first required by State law after December 23, 1978, and to pay for increases in the level of required activities and services beyond that which was required by State law as of December 23, 1978.

On January 2, 2001, plaintiffs filed a first amended complaint in both Durant III and Adair increasing the number of school district plaintiffs to 443. On February 22, 2001, plaintiffs filed a second amended complaint in Durant III increasing the number of school district plaintiffs to 457. On April 16, 2001, plaintiffs filed a second amended complaint in Adair increasing the number of school district plaintiffs to 463. The second amended complaint includes a request for declaratory relief, attorneys' fees, and litigation costs but does not include a request for money judgment.

SUPPLEMENTAL
FINANCIAL SCHEDULES

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

	2001	2000
ASSETS		
Due From Federal Agencies for:		
National School Lunch Program	\$ 23,107,055	\$ 31,558,557
Title I Grants to Local Educational Agencies	4,043,626	2,868,531
Other miscellaneous accounts and activities	3,626,747	4,346,724
Transfers to other State agencies	1,825,053	2,859,905
Total Due From Federal Agencies	\$ 32,602,481	\$ 41,633,716
Due from local units	\$ 80,045	\$ 23,037
Other Current Assets:		
Travel advances	\$ 5,444	\$ 7,238
Not sufficient funds checks receivable	950	1,686
Prepaid expenditures	13,945	20,529
Other miscellaneous accounts receivable	124,156	292,269
Total Other Current Assets	\$ 144,494	\$ 321,723

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets that are the responsibility of the Department of Education. The schedule does not include assets that are accounted for centrally by the State, such as equity in Common Cash and cash in transit.

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

	<u>2001</u>	<u>2000</u>
LIABILITIES		
Accounts Payable by Source:		
National School Lunch Program	\$ 22,815,468	\$ 30,770,316
Title I Grants to Local Educational Agencies	4,433,773	3,160,016
Drivers education grants	7,555,606	7,601,157
State General Fund/general purpose	7,016,659	6,043,269
Other State and Federal	<u>6,630,066</u>	<u>7,135,670</u>
Total Accounts Payable	\$ 48,451,572	\$ 54,710,428
Deferred revenue	\$ 210,150	\$ 58,085

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund liabilities that are the responsibility of the Department of Education. The schedule does not include liabilities that are accounted for centrally by the State, such as warrants outstanding.

DEPARTMENT OF EDUCATION
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 1999 through September 30, 2001

Federal Agency/Program	CFDA * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Financial Assistance					
U.S. Department of Agriculture					
Child Nutrition Cluster:					
Direct Programs:					
School Breakfast Program	10.553		\$	\$ 31,324,991	\$ 31,324,991
National School Lunch Program	10.555			142,498,962	142,498,962
Special Milk Program for Children	10.556			881,206	881,206
Total Child Nutrition Cluster			\$ 0	\$ 174,705,159	\$ 174,705,159
Emergency Food Assistance Cluster:					
Direct Program:					
Emergency Food Assistance Program (Administrative Costs)	10.568		\$ 356,170	\$ 898,324	\$ 1,254,494
Total Emergency Food Assistance Cluster (Note 2)			\$ 356,170	\$ 898,324	\$ 1,254,494
Direct Programs:					
Child and Adult Care Food Program	10.558		\$ 43,641	\$ 45,906,646	\$ 45,950,287
State Administrative Expenses for Child Nutrition	10.560		3,038,180		3,038,180
Nutrition Education and Training Program	10.564		2,963	15,179	18,142
Commodity Supplemental Food Program	10.565		65,153	4,071,439	4,136,592
Team Nutrition Grants	10.574				0
Total U.S. Department of Agriculture			\$ 3,506,107	\$ 225,596,747	\$ 229,102,854
U.S. Department of Defense					
Direct Program:					
Defense Activity for Non-Traditional Education	12.000		\$	\$	\$ 0
Total U.S. Department of Defense			\$ 0	\$ 0	\$ 0
U.S. Department of Labor					
Pass-Through Program:					
Michigan Department of Career Development Job Training Partnership Act	17.250	A7369908750	\$ 121,791	\$ 1,888,241	\$ 2,010,032
Total U.S. Department of Labor			\$ 121,791	\$ 1,888,241	\$ 2,010,032
National Science Foundation					
Direct Program:					
Mathematical and Physical Sciences	47.049		\$ 1	\$ 39,752	\$ 39,753
Total National Science Foundation			\$ 1	\$ 39,752	\$ 39,753
U.S. Department of Veterans Affairs					
Direct Program:					
Veterans Information and Assistance	64.115		\$ 295,910	\$	\$ 295,910
Total U.S. Department of Veterans Affairs			\$ 295,910	\$ 0	\$ 295,910
U.S. Department of Education					
Special Education Cluster:					
Direct Programs:					
Special Education - Grants to States	84.027		\$ 6,299,665	\$ 132,013,179	\$ 138,312,844
Special Education - Preschool Grants	84.173		148,321	12,111,083	12,259,404
Total Special Education Cluster			\$ 6,447,986	\$ 144,124,262	\$ 150,572,248
Direct Programs:					
Contract with National Center for Education Statistics	84.RN94136023	**	\$ 77,887	\$	\$ 77,887
Adult Education - State Grant Program	84.002				0
Education of Children with Disabilities in State Operated or Supported Schools	84.009			(1,923)	(1,923)
Title I Grants to Local Educational Agencies	84.010		2,354,376	323,609,440	325,963,816

This schedule continued on next page.

<u>For the Fiscal Year Ended September 30, 2001</u>			Total Expended and Distributed
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>for the Two-Year Period</u>
\$	\$ 34,400,264	\$ 34,400,264	\$ 65,725,255
	141,435,957	141,435,957	283,934,919
	896,559	896,559	1,777,765
<u>\$ 0</u>	<u>\$ 176,732,780</u>	<u>\$ 176,732,780</u>	<u>\$ 351,437,939</u>
\$ 608,493	\$ 1,221,260	\$ 1,829,753	\$ 3,084,247
<u>\$ 608,493</u>	<u>\$ 1,221,260</u>	<u>\$ 1,829,753</u>	<u>\$ 3,084,247</u>
\$ 9,922	\$ 44,305,782	\$ 44,315,704	\$ 90,265,991
3,392,384		3,392,384	6,430,564
		0	18,142
74,824	4,475,945	4,550,769	8,687,361
	213,698	213,698	213,698
<u>\$ 4,085,623</u>	<u>\$ 226,949,465</u>	<u>\$ 231,035,088</u>	<u>\$ 460,137,942</u>
\$ 625	\$	\$ 625	\$ 625
<u>\$ 625</u>	<u>\$ 0</u>	<u>\$ 625</u>	<u>\$ 625</u>
\$ 4,602	\$	\$ 4,602	\$ 2,014,634
<u>\$ 4,602</u>	<u>\$ 0</u>	<u>\$ 4,602</u>	<u>\$ 2,014,634</u>
\$	\$	\$ 0	\$ 39,753
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,753</u>
\$ 67	\$	\$ 67	\$ 295,977
<u>\$ 67</u>	<u>\$ 0</u>	<u>\$ 67</u>	<u>\$ 295,977</u>
\$ 6,270,120	\$ 162,427,409	\$ 168,697,529	\$ 307,010,373
236,027	13,321,502	13,557,529	25,816,933
<u>\$ 6,506,147</u>	<u>\$ 175,748,911</u>	<u>\$ 182,255,058</u>	<u>\$ 332,827,306</u>
\$ 61,473	\$	\$ 61,473	\$ 139,360
18,996		18,996	18,996
		0	(1,923)
2,725,413	321,917,935	324,643,348	650,607,164

DEPARTMENT OF EDUCATION
 Schedule of Expenditures of Federal Awards (Note 1)
 For the Period October 1, 1999 through September 30, 2001

Continued

Federal Agency/Program	CFDA *	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Migrant Education - Basic State Grant Program	84.011		324,451	10,769,416	11,093,867
Educationally Deprived Children - State Administration	84.012			(350)	(350)
Title I Program for Neglected and Delinquent Children	84.013			745,781	745,781
Services for Children with Deaf-Blindness	84.025		\$ 50	\$	\$ 50
Media and Captioning Services for Individuals with Disabilities	84.026		4,460		4,460
Vocational Education - Basic Grants to States	84.048				0
Chapter 2 - State Block Grants	84.151			(60,280)	(60,280)
Immigrant Education	84.162		6,731	1,306,296	1,313,027
Special Education - Grants for Infants and Families with Disabilities	84.181		604,433	13,670,473	14,274,906
Safe and Drug-Free Schools and Communities - State Grants	84.186		66,835	14,818,894	14,885,729
Bilingual Education Support Services	84.194		68,777		68,777
Education for Homeless Children and Youth	84.196		156,016	1,169,359	1,325,375
Even Start - State Educational Agencies	84.213		200,254	5,036,391	5,236,645
Fund for the Improvement of Education	84.215				0
Capital Expenses	84.216			475,624	475,624
State School Improvement Grants	84.218			(85,915)	(85,915)
Tech-Prep Education	84.243				0
Foreign Languages Assistance	84.249			(10,699)	(10,699)
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276		1,340,821	16,818,086	18,158,907
Eisenhower Professional Development State Grants	84.281		566,144	12,323,933	12,890,077
Charter Schools	84.282		75,620	5,612,818	5,688,438
Foreign Language Assistance	84.293		51,142		51,142
Innovative Education Program Strategies	84.298		1,455,771	11,239,749	12,695,520
Even Start - Statewide Family Literacy Program	84.314				0
Technology Literacy Challenge Fund Grants	84.318		674,027	17,617,022	18,291,049
Special Education-State Program Improvement Grants for Children with Disabilities	84.323			1,222,644	1,222,644
Advance Placement Incentive Program	84.330		94,827		94,827
Comprehensive School Reform Demonstration	84.332		86,059	3,748,571	3,834,630
Class Size Reduction	84.340			24,560,527	24,560,527
Title I Accountability Grants	84.348				0
Total U.S. Department of Education			\$ 14,656,667	\$ 608,710,119	\$ 623,366,786
U.S. Department of Health and Human Services					
Direct Programs:					
Refugee and Entrant Assistance - Discretionary Grants	93.576		\$	\$ 316,122	\$ 316,122
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		488,293	246,009	734,302
Total Direct Programs			\$ 488,293	\$ 562,131	\$ 1,050,424
Pass-Through Program:					
Family Independence Agency Child Care and Development Block Grant	93.575	93.575	55,109	1,345,667	1,400,776
Total U.S. Department of Health and Human Services			\$ 543,402	\$ 1,907,798	\$ 2,451,200
Corporation for National and Community Service					
Direct Program:					
Learn and Serve America - School and Community Based Programs	94.004		\$ 85,655	\$ 771,337	\$ 856,992
Total Corporation for National and Community Service			\$ 85,655	\$ 771,337	\$ 856,992
Total Financial Assistance			\$ 19,209,533	\$ 838,913,994	\$ 858,123,527

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2001			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
275,244	9,178,963	9,454,207	20,548,074
		0	(350)
	766,826	766,826	1,512,607
\$ 7,764	\$	\$ 0	\$ 50
954		7,764	12,224
		954	954
		0	(60,280)
	1,510,609	1,510,609	2,823,636
306,866	11,803,661	12,110,527	26,385,433
98,419	13,384,895	13,483,314	28,369,043
97,047		97,047	165,824
168,333	1,131,327	1,299,660	2,625,035
233,195	5,719,911	5,953,106	11,189,751
46,431	140,385	186,816	186,816
	127,360	127,360	602,984
		0	(85,915)
14		14	14
		0	(10,699)
1,049,097	16,558,411	17,607,508	35,766,415
578,608	11,309,762	11,888,370	24,778,447
185,574	12,038,026	12,223,600	17,912,038
86,669		86,669	137,811
1,777,849	10,570,010	12,347,859	25,043,379
83,004		83,004	83,004
628,571	16,165,155	16,793,726	35,084,775
	1,857,466	1,857,466	3,080,110
97,366		97,366	192,193
222,053	6,558,974	6,781,027	10,615,657
	55,982,872	55,982,872	80,543,399
	383,937	383,937	383,937
\$ 15,255,087	\$ 672,855,396	\$ 688,110,483	\$ 1,311,477,269
\$ 18,775	\$ 914,434	\$ 933,209	\$ 1,249,331
416,583	209,844	626,427	1,360,729
\$ 435,358	\$ 1,124,278	\$ 1,559,636	\$ 2,610,060
71,564	1,463,193	1,534,757	2,935,533
\$ 506,922	\$ 2,587,471	\$ 3,094,393	\$ 5,545,593
\$ 169,358	\$ 533,831	\$ 703,189	\$ 1,560,181
\$ 169,358	\$ 533,831	\$ 703,189	\$ 1,560,181
\$ 20,022,284	\$ 902,926,163	\$ 922,948,447	\$ 1,781,071,974

DEPARTMENT OF EDUCATION
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	CFDA *	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Nonfinancial Assistance					
U.S. Department of Agriculture					
Emergency Food Assistance Cluster:					
Direct Program:					
Emergency Food Assistance Program (Food Commodities)	10.569		\$	\$ 5,836,001	\$ 5,836,001
Total Emergency Food Assistance Cluster (Note 2)			\$	\$ 5,836,001	\$ 5,836,001
Direct Programs:					
Food Distribution (Note 3)	10.550		\$	\$ 20,319,914	\$ 20,319,914
Commodity Supplemental Food Program (Note 3)	10.565			15,633,649	15,633,649
Total U.S. Department of Agriculture			\$	\$ 41,789,564	\$ 41,789,564
Total Nonfinancial Assistance			\$	\$ 41,789,564	\$ 41,789,564
Total Expenditures of Federal Awards			\$	\$ 19,209,533	\$ 880,703,558

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

** CFDA number not available. Number derived from federal agency number and contract number.

The accompanying notes are an integral part of this supplemental financial schedule.

<u>For the Fiscal Year Ended September 30, 2001</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$	\$ 10,140,996	\$ 10,140,996	\$ 15,976,997
<u>\$ 0</u>	<u>\$ 10,140,996</u>	<u>\$ 10,140,996</u>	<u>\$ 15,976,997</u>
\$	\$ 24,745,868	\$ 24,745,868	\$ 45,065,782
	14,307,719	14,307,719	29,941,368
<u>\$ 0</u>	<u>\$ 49,194,583</u>	<u>\$ 49,194,583</u>	<u>\$ 90,984,147</u>
<u>\$ 0</u>	<u>\$ 49,194,583</u>	<u>\$ 49,194,583</u>	<u>\$ 90,984,147</u>
<u>\$ 20,022,284</u>	<u>\$ 952,120,746</u>	<u>\$ 972,143,030</u>	<u>\$ 1,872,056,121</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule includes the federal grant activity of the Department of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. In certain programs, financed entirely by the federal government, expenditures and related revenue are recognized only to the extent of billings received by fiscal year-end. This treatment understates assets and liabilities and expenditures and revenues; however, there is no impact on the fund balance of the State's General Fund.

Note 2 Emergency Food Assistance Cluster

The Emergency Food Assistance Cluster is made up of financial assistance (CFDA Number 10.568) totaling \$1.3 million and \$1.8 million and nonfinancial assistance (CFDA Number 10.569) valued at \$5.8 million and \$10.1 million as of September 30, 2000 and September 30, 2001, respectively.

Note 3 Value of Commodities in Storage

The amounts reported as distributed to subrecipients for nonfinancial assistance for Food Distribution (CFDA Number 10.550) and the Commodity Supplemental Food Program (CFDA Number 10.565) represent the value of commodities distributed during each fiscal year and do not include the value of commodities received and in storage at September 30, 2000 and September 30, 2001. The value of commodities in storage was approximately \$3.5 million and \$3.9 million as of September 30, 2000 and September 30, 2001, 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.

Note 4 Reporting Entity

As described in Note 1a. to the financial schedules, this schedule does not include federal expenditures and related awards for the U.S. Department of Education's Adult Education - State Grant Program, Vocational Education -

Basic Grants to States, and Tech-Prep Education, which are audited and included in the Michigan Department of Career Development Single Audit report. Also, federal expenditures and related awards for the U.S. Department of Education's Special Education - Grants to States are reported in the School Aid Fund, a special revenue fund.

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL



STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

April 10, 2002

Mr. Thomas D. Watkins, Jr., Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Watkins:

We have audited the General Fund financial schedules of the Department of Education for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated April 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State Board of Education, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL



STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

April 10, 2002

Mr. Thomas D. Watkins, Jr., Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Watkins:

Compliance

We have audited the compliance of the Department of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary

in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Education complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 1 through 5.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited 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 over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State Board of Education, the State's management, the Legislature, federal awarding agencies, and

pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
10.560	State Administrative Expenses for Child Nutrition
10.565	Commodity Supplemental Food Program
10.568 and 10.569	Emergency Food Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education - Basic State Grant Program
84.213	Even Start - State Educational Agencies
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants
84.282	Charter Schools
84.332	Comprehensive School Reform Demonstration
84.340	Class Size Reduction
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$5,616,168

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedules

We did not report any findings related to the financial schedules.

Section III: Findings and Questioned Costs Related to Federal Awards

DEPARTMENT OF EDUCATION
Summary of Questioned Costs Indexed by Federal Agency by Finding Number
For the Period October 1, 1999 through September 30, 2001

Finding Number	CFDA Number	Award Number	Award Period	Name of Federal Program	Questioned Costs
U.S. Department of Agriculture					
310201	10.553	99994N1030	10/01/98 - 09/30/99	School Breakfast Program	\$ 2,966
		2000IN1099	10/01/99 - 09/30/00	School Breakfast Program	\$ 685
	10.555	2000IN1099	10/01/99 - 09/30/00	National School Lunch Program	\$ 93
	10.558	2000IN1099	10/01/99 - 09/30/00	Child and Adult Care Food Program	\$ 80
		2000IN109942	10/01/00 - 09/30/01	Child and Adult Care Food Program	\$ 398
National Science Foundation					
310201	47.049	OSR9250061	10/01/92 - 09/30/93	Mathematical and Physical Sciences	\$ 541
U.S. Department of Education					
310201	84.010	S010A60022	07/01/96 - 09/30/97	Title I Grants to Local Educational Agencies	\$ 630
		S010A70022	10/01/97 - 09/30/98	Title I Grants to Local Educational Agencies	\$ 6,120
		S010A980022	07/01/98 - 09/30/99	Title I Grants to Local Educational Agencies	\$ 5,472
		S010A990022	07/01/99 - 09/30/00	Title I Grants to Local Educational Agencies	\$ 1,110
		S010A000022	07/01/00 - 09/30/01	Title I Grants to Local Educational Agencies	\$ 70
	84.011	S011A40022	07/01/94 - 09/30/95	Migrant Education - Basic State Grant Program	\$ 744
		S011A50022	07/01/95 - 09/30/96	Migrant Education - Basic State Grant Program	\$ 505
		S011A60022	07/01/96 - 09/30/97	Migrant Education - Basic State Grant Program	\$ 426
		S011A980022	07/01/98 - 09/30/99	Migrant Education - Basic State Grant Program	\$ 109
		S011A990022	07/01/99 - 09/30/00	Migrant Education - Basic State Grant Program	\$ 166
	84.027	H027A980110	07/01/98 - 09/30/99	Special Education - Grants to States	\$ 1,350
		H027A990110	07/01/99 - 09/30/00	Special Education - Grants to States	\$ 27,288
	84.151	S151Z40075	07/01/94 - 09/30/95	Chapter 2 - State Block Grants	\$ 791
	84.162	T162A50012	08/01/95 - 09/30/96	Immigrant Education	\$ 251
	84.173	H173A990117	07/01/99 - 09/30/00	Special Education - Preschool Grants	\$ 2,546
	84.181	H181A980017	07/01/97 - 09/30/98	Special Education - Grants for Infants and Families With Disabilities	\$ 826
		H181A980021	07/01/98 - 09/30/99	Special Education - Grants for Infants and Families With Disabilities	\$ 84
		H181A990012	07/01/99 - 09/30/00	Special Education - Grants for Infants and Families With Disabilities	\$ 1,217
		H181A000012	07/01/00 - 09/30/01	Special Education - Grants for Infants and Families With Disabilities	\$ 18
	84.186	S186A30023	07/01/93 - 09/30/94	Safe and Drug-Free Schools and Communities - State Grants	\$ 763
		S186A40023	07/14/94 - 09/30/95	Safe and Drug-Free Schools and Communities - State Grants	\$ 3,358
		S186A50023	07/01/95 - 09/30/96	Safe and Drug-Free Schools and Communities - State Grants	\$ 3,338
		S186A60023	07/01/96 - 09/30/97	Safe and Drug-Free Schools and Communities - State Grants	\$ 1,097
		S186A980023	07/01/98 - 09/30/99	Safe and Drug-Free Schools and Communities - State Grants	\$ 60
		S186A990023	07/01/99 - 09/30/00	Safe and Drug-Free Schools and Communities - State Grants	\$ 112
	84.196	S196A30023	07/01/93 - 09/30/94	Education for Homeless Children and Youth	\$ 365
		S196A50023	07/01/95 - 09/30/96	Education for Homeless Children and Youth	\$ 197
		S196A980023	07/01/98 - 09/30/99	Education for Homeless Children and Youth	\$ 27
		S196A990023	07/01/99 - 09/30/00	Education for Homeless Children and Youth	\$ 16
	84.213	S213C60023	07/01/96 - 09/30/97	Even Start - State Educational Agencies	\$ 474
		S213C980023	07/01/98 - 09/30/99	Even Start - State Educational Agencies	\$ 16
		S213C990023	07/01/99 - 09/30/00	Even Start - State Educational Agencies	\$ 43
	84.216	S216A50022	07/01/95 - 09/30/96	Capital Expenses	\$ 718
	84.218	S218A40022	07/01/94 - 09/30/95	State School Improvement Grants	\$ 1,127
	84.276	S276A40022	07/01/94 - 09/30/95	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 188
		S276A50022	07/01/95 - 09/30/96	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 595
		S276A60022	07/01/96 - 09/30/97	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 62
		S276A70022	07/01/97 - 09/30/98	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 52
		S276A980022	07/01/98 - 09/30/99	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 33
	84.281	S281A50022	07/01/95 - 09/30/96	Eisenhower Professional Development State Grants	\$ 5,141
		S281A980022	07/01/98 - 09/30/99	Eisenhower Professional Development State Grants	\$ 91
	84.298	S298A50022	07/01/95 - 09/30/96	Innovative Education Program Strategies	\$ 2,063
		S298A980022	07/01/98 - 09/30/99	Innovative Education Program Strategies	\$ 33
		S298A990022	07/01/99 - 09/30/00	Innovative Education Program Strategies	\$ 359
	84.318	S318X990022	10/01/98 - 09/30/99	Technology Literacy Challenge Fund Grants	\$ 237
	84.340	S340A990032	07/01/99 - 09/30/00	Class Size Reduction	\$ 517
310202	84.282	Various	10/01/99 - 09/30/01	Charter Schools	\$ 0
	84.340	Various	10/01/99 - 09/30/01	Class Size Reduction	\$ 0
310204	84.010	S010A000022A	10/01/00 - 09/30/01	Title I Grants to Local Educational Agencies	\$ 14,326
310205	84.011	S011A990022A	07/01/99 - 09/30/00	Migrant Education - Basic State Grant Program	\$ (36,967)
		S011A000022	07/01/00 - 09/30/01	Migrant Education - Basic State Grant Program	\$ (55,754)
U.S. Department of Health and Human Services					
310201	93.938	CCU5090170	12/01/00 - 11/30/01	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	\$ 84
310203	93.575	IA-00-013	10/01/99 - 10/30/00	Child Care and Development Block Grant	\$ 15,000
Corporation for National and Community Service					
310201	94.004	94LSSMIO22	10/01/94 - 12/31/95	Learn and Serve America - School and Community Based Programs	\$ 259

This summary is indexed by federal agency by finding number. The following summary is indexed by CFDA number.

DEPARTMENT OF EDUCATION
 Summary of Questioned Costs Indexed by CFDA Number
 For the Period October 1, 1999 through September 30, 2001

CFDA Number	Finding Number	Award Number	Award Period	Name of Federal Program	Questioned Costs
<u>U.S. Department of Agriculture</u>					
10.553	310201	99994N1030	10/01/98 - 09/30/99	School Breakfast Program	\$ 2,966
		2000IN1099	10/01/99 - 09/30/00	School Breakfast Program	\$ 685
10.555	310201	2000IN1099	10/01/99 - 09/30/00	National School Lunch Program	\$ 93
10.558	310201	2000IN1099	10/01/99 - 09/30/00	Child and Adult Care Food Program	\$ 80
		2000IN109942	10/01/00 - 09/30/01	Child and Adult Care Food Program	\$ 398
National Science Foundation					
47.049	310201	OSR9250061	10/01/92 - 09/30/93	Mathematical and Physical Sciences	\$ 541
<u>U.S. Department of Education</u>					
84.010	310201	S010A60022	07/01/96 - 09/30/97	Title I Grants to Local Educational Agencies	\$ 630
		S010A70022	10/01/97 - 09/30/98	Title I Grants to Local Educational Agencies	\$ 6,120
		S010A980022	07/01/98 - 09/30/99	Title I Grants to Local Educational Agencies	\$ 5,472
		S010A990022	07/01/99 - 09/30/00	Title I Grants to Local Educational Agencies	\$ 1,110
		S010A000022	07/01/00 - 09/30/01	Title I Grants to Local Educational Agencies	\$ 70
84.010	310204	S010A000022A	10/01/00 - 09/30/01	Title I Grants to Local Educational Agencies	\$ 14,326
84.011	310201	S011A40022	07/01/94 - 09/30/95	Migrant Education - Basic State Grant Program	\$ 744
		S011A50022	07/01/95 - 09/30/96	Migrant Education - Basic State Grant Program	\$ 505
		S011A60022	07/01/96 - 09/30/97	Migrant Education - Basic State Grant Program	\$ 426
		S011A980022	07/01/98 - 09/30/99	Migrant Education - Basic State Grant Program	\$ 109
		S011A990022	07/01/99 - 09/30/00	Migrant Education - Basic State Grant Program	\$ 166
84.011	310205	S011A990022A	07/01/99 - 09/30/00	Migrant Education - Basic State Grant Program	\$ (36,967)
		S011A000022	07/01/00 - 09/30/01	Migrant Education - Basic State Grant Program	\$ (55,754)
84.027	310201	H027A980110	07/01/98 - 09/30/99	Special Education - Grants to States	\$ 1,350
		H027A990110	07/01/99 - 09/30/00	Special Education - Grants to States	\$ 27,288
84.151	310201	S151Z40075	07/01/94 - 09/30/95	Chapter 2 - State Block Grants	\$ 791
84.162	310201	T162A50012	08/01/95 - 09/30/96	Immigrant Education	\$ 251
84.173	310201	H173A990117	07/01/99 - 09/30/00	Special Education - Preschool Grants	\$ 2,546
84.181	310201	H181A980017	07/01/97 - 09/30/98	Special Education - Grants for Infants and Families with Disabilities	\$ 826
		H181A980021	07/01/98 - 09/30/99	Special Education - Grants for Infants and Families with Disabilities	\$ 84
		H181A990012	07/01/99 - 09/30/00	Special Education - Grants for Infants and Families with Disabilities	\$ 1,217
		H181A000012	07/01/00 - 09/30/01	Special Education - Grants for Infants and Families with Disabilities	\$ 18
84.186	310201	S186A30023	07/01/93 - 09/30/94	Safe and Drug-Free Schools and Communities - State Grants	\$ 763
		S186A40023	07/14/94 - 09/30/95	Safe and Drug-Free Schools and Communities - State Grants	\$ 3,358
		S186A50023	07/01/95 - 09/30/96	Safe and Drug-Free Schools and Communities - State Grants	\$ 3,338
		S186A60023	07/01/96 - 09/30/97	Safe and Drug-Free Schools and Communities - State Grants	\$ 1,097
		S186A980023	07/01/98 - 09/30/99	Safe and Drug-Free Schools and Communities - State Grants	\$ 60
		S186A990023	07/01/99 - 09/30/00	Safe and Drug-Free Schools and Communities - State Grants	\$ 112
84.196	310201	S196A30023	07/01/93 - 09/30/94	Education for Homeless Children and Youth	\$ 365
		S196A50023	07/01/95 - 09/30/96	Education for Homeless Children and Youth	\$ 197
		S196A980023	07/01/98 - 09/30/99	Education for Homeless Children and Youth	\$ 27
		S196A990023	07/01/99 - 09/30/00	Education for Homeless Children and Youth	\$ 16
84.213	310201	S213C60023	07/01/96 - 09/30/97	Even Start - State Educational Agencies	\$ 474
		S213C980023	07/01/98 - 09/30/99	Even Start - State Educational Agencies	\$ 16
		S213C990023	07/01/99 - 09/30/00	Even Start - State Educational Agencies	\$ 43
84.216	310201	S216A50022	07/01/95 - 09/30/96	Capital Expenses	\$ 718
84.218	310201	S218A40022	07/01/94 - 09/30/95	State School Improvement Grants	\$ 1,127
84.276	310201	S276A40022	07/01/94 - 09/30/95	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 188
		S276A50022	07/01/95 - 09/30/96	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 595
		S276A60022	07/01/96 - 09/30/97	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 62
		S276A70022	07/01/97 - 09/30/98	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 52
		S276A980022	07/01/98 - 09/30/99	Goals 2000 - State and Local Education Systemic Improvement Grants	\$ 33
84.281	310201	S281A50022	07/01/95 - 09/30/96	Eisenhower Professional Development State Grants	\$ 5,141
		S281A980022	07/01/98 - 09/30/99	Eisenhower Professional Development State Grants	\$ 91
84.298	310201	S298A50022	07/01/95 - 09/30/96	Innovative Education Program Strategies	\$ 2,063
		S298A980022	07/01/98 - 09/30/99	Innovative Education Program Strategies	\$ 33
		S298A990022	07/01/99 - 09/30/00	Innovative Education Program Strategies	\$ 359
84.318	310201	S318X990022	10/01/98 - 09/30/99	Technology Literacy Challenge Fund Grants	\$ 237
84.340	310201	S340A990032	07/01/99 - 09/30/00	Class Size Reduction	\$ 517
U.S. Department of Health and Human Services					
93.938	310201	CCU5090170	12/01/00 - 11/30/01	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	\$ 84
93.575	310203	IA-00-013	10/01/99 - 10/30/00	Child Care and Development Block Grant	\$ 15,000
<u>Corporation for National and Community Service</u>					
94.004	310201	94LSSM1022	10/01/94 - 12/31/95	Learn and Serve America - School and Community Based Programs	\$ 259

This summary is indexed by CFDA number. The preceding summary is indexed by federal agency by finding number.

FINDING (310201)

1. Cash Management

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

The Department of Education's internal control did not ensure that interest amounts due to the federal government for repayments received from subrecipients* were calculated in accordance with the State/federal Cash Management Improvement Act (CMIA) agreement and did not report exceptions to the Michigan Department of Treasury.

The federal government reimburses the Department for funds it provides to subrecipients to carry out various federal programs. Subrecipients are required to repay the Department if, for example, they did not expend the funds or expenditures were for unallowable costs. When repaid, the Department must return the funds to the federal government. In fiscal years 1999-2000 and 2000-01, subrecipients repaid the Department approximately \$14.4 million and \$2.6 million, respectively, which the Department returned to the federal awarding agency.

Section 8.4.1 of the State/federal CMIA agreement states that the State is liable for interest on all refunds over \$10,000 with interest being calculated from the date the refund is credited to the State until the date returned to the federal awarding agency. Our review of subrecipient repayments disclosed that the Department did not calculate interest due to the federal government on refunds exceeding \$10,000 and did not report this information to the Michigan Department of Treasury. We estimate that the Department owes interest to the federal government of approximately \$58,000 and \$18,000 for fiscal years 1999-2000 and 2000-01, respectively.

RECOMMENDATION

We recommend that the Department enhance its internal control to help ensure that interest amounts due to the federal government for repayments received from subrecipients are calculated in accordance with the State/federal CMIA agreement and report exceptions to the Michigan Department of Treasury.

* See glossary at end of report for definition.

FINDING (310202)

2. Subrecipient Monitoring

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

The Department's internal control did not ensure that all Class Size Reduction Program (CSR) and Charter Schools Program (CSP) subrecipients were monitored as required.

OMB Circular A-133, section 400(d)(3), requires the Department to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved. The Department relies predominately on subrecipients' Single Audits to monitor their use of federal funds. The Department also utilizes an on-site review process to monitor subrecipients that are not required to obtain a Single Audit.

The Department initiated CSR grants in fiscal year 1999-2000 and distributed approximately \$24.6 million and \$56.0 million to 361 and 626 subrecipients in fiscal years 1999-2000 and 2000-01, respectively. After initiating CSR grants, the Department did not add CSR to its on-site monitoring activities. As a result, 126 (35%) and 260 (42%) CSR subrecipients that were not required to obtain Single Audits in fiscal years 1999-2000 and 2000-01, respectively, were not monitored in accordance with OMB Circular A-133. Distributions to these subrecipients totaled approximately \$1.9 million and \$5.5 million in fiscal years 1999-2000 and 2000-01, respectively.

The Department also distributed approximately \$5.6 million and \$12.0 million to 95 and 80 CSP subrecipients in fiscal years 1999-2000 and 2000-01, respectively. Again, the Department did not monitor subrecipients that were not required to obtain a Single Audit. As a result, in fiscal years 1999-2000 and 2000-01, 88 (93%) and 56 (70%) CSP subrecipients were not monitored in accordance with OMB Circular A-133. Distributions to these subrecipients totaled approximately \$5.3 million and \$7.9 million in fiscal years 1999-2000 and 2000-01, respectively.

RECOMMENDATION

We recommend that the Department enhance its internal control to help ensure that all CSR and CSP subrecipients are monitored as required.

FINDING (310203)

3. Child Care and Development Block Grant Eligibility

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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The Department's internal control did not ensure that School Age Child Care Program (SACC) and Low Income, Three-Year-Old Child at Risk of School Failure Program (LI3P) grant applicants and recipients complied with appropriate child care licensing regulations.

The Department's interagency agreement with the Family Independence Agency for SACC and LI3P requires grant applicants (and grantees) to comply with appropriate State and local child care licensing laws and regulations. To help ensure compliance, the Department requires grant applicants and grantees to submit child care licensing information when applying for a grant or when submitting required semi-annual and annual narrative reports, respectively.

Our review of 25 SACC and 14 LI3P grantee files disclosed that 9 SACC (36%) and 1 LI3P (7%) grantee files did not contain documentation that the grantee complied with appropriate child care licensing regulations. Also, the Department did not have a procedure to confirm licensure and could not document that it followed up with the licensing agency, when appropriate. In response to the noted exceptions, the Department determined that 1 SACC grantee was not in compliance with child care licensing requirements. Payments to the grantee totaled \$15,000 for fiscal year 1999-2000.

RECOMMENDATION

We recommend that the Department implement internal control to help ensure that SACC and LI3P grant applicants and recipients comply with appropriate child care licensing regulations.

FINDING (310204)

4. Title I Overalllocation

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

The Department did not recover Title I funds that were overallocated to a local educational agency (LEA).

Title 20, Section 8891 of the *Code of Laws of the United States* states that an LEA may receive funds under a covered program for any fiscal year only if the state educational agency finds that either the combined fiscal effort per student or the aggregate expenditures of such agency and the state with respect to the provision of free public education by such agency for the preceding fiscal year were not less than 90% of such combined fiscal effort or aggregate expenditures for the second preceding fiscal year (maintenance of effort). In the event an LEA fails to maintain effort, the state educational agency shall reduce the amount of the allocation of funds under a covered program in any fiscal year in the exact proportion to which an LEA fails to meet the requirement.

In fiscal year 2000-01, the Department made a clerical error in the allocation of Title I funds for 1 of 5 LEAs that failed to maintain effort in fiscal year 1998-99. Although the Department identified the error, it did not recover \$14,326 of Title I funds that were overallocated to the LEA.

RECOMMENDATION

We recommend that the Department recover Title I funds that were overallocated to an LEA.

FINDING (310205)

5. Migrant Education Students Served

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

The Department did not amend its annual Migrant Education Program performance report to report actual students served for school years 1997-98 and 1998-99.

As noted in the prior audit (Finding 310005), the Department reported estimated counts of students served that understated the number of regular school year and summer program students actually served in school years 1997-98 and 1998-99. As a result, U.S. Department of Education underallocated Migrant Education funds to Michigan for the 1999-2000 and 2000-01 grant years.

In its response dated April 11, 2001, the Department stated that it agreed with the prior audit recommendation and would comply. Subsequently, the Department established new procedures and reported the actual number of students served beginning in school year 1999-2000 but did not amend its prior Migrant Education Program performance report.

RECOMMENDATION

We recommend that the Department amend its annual Migrant Education Program performance report to report actual students served for school years 1997-98 and 1998-99.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF EDUCATION
Summary Schedule of Prior Audit Findings
As of September 30, 2001

Prior Audit Findings Related to the Financial Schedules

There were no findings related to the financial schedules in the prior Single Audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

- Audit Period:** October 1, 1997 through September 30, 1999
Finding Number: 310001
Finding Title: Internal Auditor Functions
Finding: The Department of Education should improve its internal control 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* .
Comments: Since the prior audit, the Department has performed more internal audit activities. The Office of Internal Audit assisted in completing a biennial internal control assessment, performed audit activities related to financial schedules, and helped ensure that federal program areas responded to audit findings timely and implemented corrective action.
- Audit Period:** October 1, 1997 through September 30, 1999
Finding Number: 310002
Finding Title: Cash Management
Finding: The Department did not monitor the date that federal funds were actually received to determine if funds were requested in compliance with the State/federal Cash Management Improvement Act (CMIA) agreement and did not report exceptions to the Michigan Department of Treasury.

Comments: The Department has implemented corrective actions by specifying due dates for weekly draws and monitoring grant payment issuance dates.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 310003

Finding Title: Commodity Supplemental Food Program Dual Participation

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

Comments: The Department worked with the subrecipient in question to ensure that it shares participant information with agencies operating the federal Women, Infants, and Children Farmers' Market Nutrition Program within the same geographic areas.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 310004

Finding Title: Migrant Education Grant Payments

Finding: The Department's internal control did not ensure that local educational agencies were reimbursed for only Migrant Education Program services provided.

Comments: The Department developed an internal protocol to follow whenever a local educational agency decides not to operate an approved program.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 310005

Finding Title: Migrant Education Program Documentation

Finding: The Department's internal control did not ensure that Migrant Education Program documentation supported the annual performance report figures submitted to the U.S. Department of Education (USDOE).

Comments: The Department reports actual counts of migrant children and migrant children served as reported via the Migrant Educational Database System to USDOE.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 310006
Finding Title: Child and Adult Care Food Program Advance Payments
Finding: The Department's internal control did not provide for the timely processing of adjustments to Child and Adult Care Food Program advance payments in accordance with federal regulations.
Comments: The Department has a new computer-based electronic system that reconciles claims with advances.

Audit Period: October 1, 1997 through September 30, 1999
Finding Numbers: 310007 - 310010
Comments: These findings and their follow-up were presented in the Single Audit of the Michigan Department of Career Development for the period October 1, 1998 through September 30, 2000.

DEPARTMENT OF EDUCATION

Corrective Action Plan

As of June 13, 2002

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 1999-2000 and 2000-01.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 310201

Finding Title: Cash Management

Management Views: The Department agrees.

Corrective Action: In the future, the Department's study of Cash Management Improvement Act (CMIA) liabilities and the report to the Michigan Department of Treasury will include an analysis of refunds and the timeliness of federal returns.

Anticipated Completion Date: April 29, 2002

Responsible Individual: Lori Schomisch (517) 335-0539

Finding Number: 310202

Finding Title: Subrecipient Monitoring (for Class Size Reduction Program)

Management Views: The Department agrees.

Corrective Action: The Department would include the Class Size Reduction Program in its monitoring plan next year;

however, because the Program has been eliminated, there is no need to monitor it.

Anticipated Completion Date: Not applicable.

Responsible Individual: Linda Brown (517) 373-3921

Finding Number: 310202

Finding Title: Subrecipient Monitoring (for Charter Schools Program)

Management Views: The Department agrees.

Corrective Action: The Department will develop a checklist that can be used to perform desk audits of the Charter Schools Program. The checklist will include assurances from the subrecipient, a mid-year progress report that includes any mid-year budget adjustments as well as a report on program activities, and a verification that final expenditures match approved budgets. Ten percent of each grant award will be set aside for final payment following the submission of a final report.

Anticipated Completion Date: October 1, 2002

Responsible Individual: Diane Smolen (517) 241-4783

Finding Number: 310203

Finding Title: Child Care and Development Block Grant Eligibility

Management Views: The Department agrees.

Corrective Action: The Department will immediately change its procedures to ensure that all grantees comply with the child care licensing rules, or grants will be de-obligated. The grantee that did not comply will be

required to return its \$15,000 grant award. The grantee indicated that it would protest this action.

Anticipated Completion Date: May 9, 2002

Responsible Individual: Lindy Buch (517) 373-9962

Finding Number: 310204

Finding Title: Title I Overallocation

Management Views: The Department agrees.

Corrective Action: The Office of Field Services will do staff training to reinforce the process for reducing Title I allocations for local educational agencies that fail to maintain effort. There will continue to be a step that will be a follow-up verification to ensure that the reduced allocation is reflected in the Department's grant report.

Anticipated Completion Date: June 30, 2002

Responsible Individual: Linda Brown (517) 373-3921

Finding Number: 310205

Finding Title: Migrant Education Students Served

Management Views: The Department agrees.

Corrective Action: The Department sent a March 1, 2002 letter to the director of the Office of Migrant Education, U.S. Department of Education (USDOE), requesting a letter to resolve this finding. The Department has been advised that the statute for Migrant Education does not allow increases in funding after allocations to the states have been announced and dispersed. The

Department needs that statement in writing from the USDOE.

Anticipated Completion Date: Unknown

Responsible Individual: Linda Brown (517) 373-3921

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
CMIA	Cash Management Improvement Act.
CSP	Charter Schools Program.
CSR	Class Size Reduction Program.
executive order	An official pronouncement of the Governor provided for in Article V, Section 2 of the State Constitution.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LEA	local educational agency.
LI3P	Low Income, Three-Year-Old Child at Risk of School Failure Program.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
OMB	U.S. Office of Management and Budget.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's

ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

SACC

School Age Child Care Program.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

subrecipient

A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

USDOE

U.S. Department of Education.