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MICHIGAN DEPARTMENT OF EDUCATION

Corrective Action Plan

As of March 24, 2009

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Finding Number: 3130801
Finding Title: Security and Application Controls

Management Views: MDE and DIT acknowledge the findings, although MDE and DIT disagree that the findings are material to the financial schedules and financial statements.

a. Security policies and procedures

The MDE does not believe the general and application control weaknesses could have a material impact on the financial schedules and statements.

b. MDE's internal controls over the implementation of CMS.

MDE implemented a new Cash Management System (CMS) on October 1, 2006, consisting of one major program divided into four grants: Special Ed Flow-through, Preschool, Education Opportunities for Students with Disabilities (EOSD), and Transition Services. These grants totaled \$351,042,482. Throughout the year 21 other major programs were converted from the old system to the new CMS. At the end of the conversion process 63,079 payment records had been converted and processed totaling \$2.8 billion. The 189 duplicate payments totaling \$9.3 were all corrected and collected through the overpayment functionality edit checks in CMS. The percentage of error due to conversion omissions and program bugs totaled three tenths of a percent (003). MDE does not believe that the control deficiencies are a material weakness. During the conversion process, a program bug doubled the expenditures for 46

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recipients. MDE staff corrected these expenditures instead of having the recipients do it since they were oblivious to the conversion error. MDE did not erroneously record expenditures transactions as disallowed costs. It was a calculated and controlled internal fix for a data conversion error. After the data was fixed the Final Expenditure Report (FER) total equaled the subrecipient's FER total.

Corrective Action:

- a. MDE's security policies and procedures over critical systems.
 - (1) MDE has reviewed developer access for all of its systems. Immediate changes were made to reduce the type of access and the number of developers with system access in all systems. The goal will be to limit system developer access in accordance with industry standards. With the exception of a system that does not handle any Federal transactions, there was no direct access by developers to any production databases. The exception is a legacy system that is being rewritten. Monitoring processes have been developed to track all transactions in that system. MDE, in coordination with DIT, will develop a centralized approach to controlling access for all IT systems.
 - (2) MDE, in conjunction with DIT, will review the change control process for all of its IT systems. MDE will develop procedures to ensure that all program modifications are properly authorized and tested.
 - (3) MDE will review the procedures for granting and monitoring access to all of its IT systems. MDE will take a centralized approach to monitoring access to our systems. Several changes have already been planned. User accounts that remain inactive for a period of time will automatically be inactivated. MDE will require authorization forms for all State of Michigan employees. Periodic monitoring of user accounts will be MDE policy.

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The security system to log-in to MDE systems is being updated and will have additional features that will help improve access control.

- b. MDE's internal controls over the implementation of CMS

Since the data is already converted to the new system, MDE will monitor existing reports to ensure that all converted data is accounted for and accurately reported.

Anticipated Completion Date: May 2009

Responsible Individual: Lois Burgess, Scott Thompson, Craig Thurman

Finding Number: 3130802
Finding Title: Monitoring of Internal Control Over Financial Reporting

Management Views: MDE disputes this finding. MDE believes that it has internal reviews and oversight in place. MDE has established documented internal control processes in place for reporting all financial transactions. See the attached. Internal controls exist through defined employee position descriptions, segregation of duties, section reviews and supervisor's approval. The general practice is for the transaction to be approved first at the program level. The transaction is then reviewed, entered/approved in Accounting. The transaction is further reviewed and approved in Accounting. There is complete separation of duties. Collusion would be required for an erroneous transaction to be processed.

The Department also wants to note that its internal auditor reviewed controls reported in the biennial assessment on a sample basis and determined that controls were sufficient.

Corrective Action: Although MDE believes that its current oversight process is adequate, it will consider adding additional

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oversight and monitoring if resources become available.

Anticipated Completion Date: n/a

Responsible Individual: Kathleen Weller

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 3130803

Finding Title: Title I Grants to Local Educational Agencies, CFDA 84.010 - Cash Management

Management Views: The Department disagrees with the finding. MDE did not draw Federal funds before distributing to subrecipients. MDE applies the reimbursement method of payment to recipients. MDE drew federal funds at the end of an award period and then applied the FIFO method of accounting to "link" eligible expenditures to those funds. MDE did not make the linkage before the Tydings period expired which is not required under Federal regulations, nor did we notify the Treasury Department because it was not an advance. These end of award period transactions are record keeping in nature and have no negative impact on the Federal Award Program.

Corrective Action: MDE will monitor Cash Management practices more closely and try to make record keeping transactions before the Tydings period expires.

Anticipated Completion Date: Ongoing

Responsible Individual: Craig Thurman

Finding Number: 3130804

Finding Title: Title I Grants to Local Educational Agencies,

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CFDA 84.010

Management Views:

- a. (1) The Department agrees with the finding. The Field Services Unit (FSU) is aggressively reviewing detailed analysis of the formula as disseminated for 2007/08. MDE has contacted the USED for advice on the most expeditious way to address this finding.

(2) The Department agrees with the fact that a duplicate payment was made to an LEA as a result of a system conversion error; however, MDE disagrees with the write-up of the finding. The auditors give the impression that the recipient reported costs that were questionable, when, in fact, MDE inadvertently paid an LEA without any action on the LEA's part.
- b. The Department disagrees with this finding. MDE did not violate Federal regulations concerning earmarkings. MDE did not record reconciling journal entries in its internal accounting records before the Tydings period ended and before the audit period started.
- c. The Department agrees with the finding.

Corrective Action:

- a. (1)
 - Review detailed audit and allocation work papers
 - Run 2007/08 allocations based on the audit check of detailed formula procedures
 - Assess impact on districts identified in the audit sample and review impact on all districts in the State
 - Proceed to ensure that actual allocated corrections are made to increase or decrease funds to districts impacted by the allocation procedure
 - Correct simultaneous with the release of the 2008/09 allocations

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(2) MDE has identified the problem and recovery is in process.

- b. The reconciling entry was subsequently recorded during the audit period. At no time were the actual detailed expenditures in the accounting records in excess of the earmarkings stipulated by the grant award thus violating Federal regulations.
- c. The Field Services Unit (FSU) has been approved to fill all vacant consultant positions. In response to the Federal audit, a plan exists to contract with individual consultants that will be trained to conduct random audits on required components of Title I legislation. Initially, this contracted auditing will include Title I Schoolwide Plans or Targeted Assistance Plans, the LEA and School Report Cards and will assist in review of Deviation Reports. All of these reviews are currently underway. The FSU plans to implement a 10% penalty for any district that fails to submit its Compliance Plan within 60 days of the On-Site Review Report. The 10% of the current year allocation will be placed on hold until an approvable plan is received.

Anticipated Completion Date: August 1, 2008

Responsible Individual: Craig Thurman, Betty Underwood

Finding Number: 3130805

Finding Title: Special Education Cluster, CFDA 84.027 and 84.173

Management Views: The Department agrees with this finding.

Corrective Action: a. Reporting - The MDE Office of Special Education and Early Intervention Services (OSE/EIS) implemented a data system change based upon a similar finding in the prior single audit covering the period October 1, 2003 to September 30, 2005. The data system change impacted only the

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second year data in the current single audit covering the period of October 1, 2006 to September 30, 2007. The duplicates reported in the current single audit are identified only in the first year data. No duplicates were identified in the second year data demonstrating that this finding has now been resolved.

- b. Subrecipient Monitoring - The OSE/EIS did reconcile all subrecipient final expenditure reports to approved budgets. All budgets are linked directly to approved program components. The process for OSE/EIS review of all final narrative progress reports has been going through a system change that ensures a more complete and thorough review. The process is now in place for all final narrative progress reports to be reviewed in a timely manner.

Anticipated Completion Date: a. Reporting -- Completed
b. Subrecipient Monitoring -- Completed

Responsible Individual: Jacque Thompson

Finding Number: 3130806
Finding Title: Safe and Drug-Free Schools and Communities (SDFSC) State Grants, CFDA 84.186

Management Views: a. Matching, Level of Effort, and Earmarking. The Department agrees in part with the exception noted. As noted in the report, the administrative funds in two different years were over-charged. Award S186A030023A was overspent in the amount \$89,672.61 and this amount will be returned to the Federal government. The difference in the amount is a result of an administrative recode completed on December 17, 2007, that charged some of the administrative expenses to a different index. For the award Q186A050023 (end date September 30, 2007) it

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was noted that an Incorrect Index was used to charge the funds. The funds have been properly charged to the correct Index, with the result that MDE properly charged 3% of the grant award to administrative funds.

- b. Subrecipient Monitoring. MDE and the Department of Community Health's (DCH) Office of Drug Control Policy (ODCP) acknowledge this finding. The report lists three specific areas that are in need of improvement. The management of the Title IV, Safe and Drug Free Schools and Communities program is done by ODCP, with MDE bearing all of the responsibilities of the State Education Agency. The cooperative relationship between ODCP and MDE is governed by a memorandum of agreement that specifies the duties for each of the departments. The two offices have met and reviewed the findings of the audit and the responsibilities outlined in the MOU.
- c. Special Tests and Provisions. MDE and DCH agree with this finding.

Corrective Action:

- a. MDE has initiated a procedure of checking on the administrative expenses for this grant on a regular basis. As specified in a new Memorandum of Agreement, MDE will work closely with DCH to monitor all expenses related to this grant program. An MDE analyst will review the grant spending plan on a monthly basis. He will coordinate directly with ODCP on any issues that arise with spending plan issues. The Grants Administration and Coordination supervisor will coordinate directly with ODCP on any issues requiring higher level action.
- b. The responsibilities for subrecipient monitoring of program and fiscal areas related to this grant have been assigned to ODCP per the signed MOU. MDE will work with ODCP to ensure that they have sufficient training and support to handle all subrecipient monitoring tasks. MDE's Cash

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Management System has several tools that will allow staff to review all Final Expenditure Reports, as well as reviewing all cash draws. ODCP will continue to monitor the involvement of private schools; in addition, the review of the Final Expenditure Reports will include looking for expenditures related to private school involvement.

- c. ODCP will follow the same procedures that MDE's Office of School Improvement uses when determining the allocations for all districts. They will work with the Charter School Office to determine estimated enrollments of any new charter schools planning to open. Based on the estimated enrollments, ODCP will ensure that funds are set aside to cover the allocations. These set-aside funds will then be allocated to new charter schools when the Fall enrollment counts are finalized. This process will be part of the ongoing procedures for ODCP.

Anticipated Completion Date: May 22, 2008

Responsible Individual: Mark Steinberg, Louis Burgess

Finding Number: 3130807
Finding Title: Charter Schools, CFDA 84.282

Management Views: The Department agrees with the findings but disagrees with the question cost. These errors were caused by the conversion process from GCMRS to CMS and had nothing to do with eligibility. Plymouth Educational was paid monies that should have gone to Northpointe in the amount of \$204,045. Vista Charter was paid monies that should have gone to Vista Meadows in the amount of \$150,000. Chandler Woods was paid monies that should have gone to Taylor in the amount of \$14,992. The payments were processed as a result of the State of Michigan's Vendor Registration File

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mail codes not matching those in the CMS.

Corrective Action: MDE has corrected the conversion error and updated the Mail Code in the CMS. MDE has recovered the incorrect payments and forwarded them to the correct payees.

Anticipated Completion Date: June 30, 2008

Responsible Individual: Craig Thurman

Finding Number: 3130808
Finding Title: State Grants for Innovative Programs, CFDA 84.298

Management Views: The Department agrees with the finding. The Field Services Unit (FSU) has been understaffed by at least seven consultants during the audit period. MDE has approved recruitment and hiring for the vacant positions. The monitoring responsibilities for this program are considered an essential part of Consultant responsibilities.

Corrective Action:

- Consultant positions will be filled by September 2008
- On Site Reviews conducted during 2006/07 will have 100% follow-up during 2007/08
- The FSU will hold 10% of the 2008/09 allocation for any district reviewed in 2006/07 that is not in compliance by July 1, 2008

Anticipated Completion Date: Ongoing

Responsible Individual: Betty Underwood

Finding Number: 3130809

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Finding Title: Educallon Technology State Grants, CFDA 84.318

Management Views: The Department agrees with part of this finding and disagrees with part of it.

- a. Eligibility. The Department disagrees with the eligibility finding. The grants in question were competitive grants awarded as part of the State's Freedom to Learn grant program. This innovative program was part of a statewide initiative to provide laptops to sixth grade students to use technology in order to improve student achievement and engagement by changing the manner in which students learn and teachers teach. The program was started in 2003 and continued through 2007. In four of the five cases cited in the audit, the fiscal agent had properly been awarded an earlier grant to start the laptop program within their district. In the fifth case, the district was one of the seven demonstration sites from the first year of the State's Learning without Limits laptop program. In subsequent years, districts that were earlier winners were encouraged to continue to expand their one-to-one teaching and learning wireless computer solutions by either adding new classes or expanding the program within their district. These subsequent grant awards were treated as continuation grants. The intent of the awards was to provide continuity and to sustain successful implementations of educational technology programs. In two districts, schools that had failed to meet Adequate Yearly Progress were able to achieve AYP status, and participation in the FTL program was cited as one of the prime causes of increasing student achievement.
- b. Subrecipient Monitoring. One of the Final Expenditure Reports that was reviewed was for a competitive grant that was awarded to a charter school under the Freedom to Learn program. This subrecipient did not properly report its 25% professional development expenditures. Once we

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notified the district of the issue, they corrected, resubmitted and then certified their Final Expenditure Report. This action was completed on May 23, 2008.

Corrective Action:

- a. Since 2006, MDE has published a list of high-need local educational agency districts that meet the State's definition of the Title II Part D Enhancing Education Through Technology grant eligibility criteria. Only schools that are on the approved list are eligible to apply for the grant. Other districts may apply for the Ed Tech competitive grant if they form an eligible local partnership with at least one high-need local education agency as a member.
- b. MDE has a policy to review all Final Expenditure Reports for subrecipients. The Cash Management System has a screen that records consultant review of all FERs.

Anticipated Completion Date:

- a. March 1, 2008
- b. October 10, 2007

Responsible Individual:

Louis Burgess, Bruce Umpstead

Finding Number:

3130810

Finding Title:

Reading First State Grants, CFDA 84.357

Management Views:

The Department agrees with the two audit findings and disagrees with the questioned costs.

Matching, Level of Effort, and Earmarking

A recode was to be completed during the Tydings amendment period. A staff member left the Department of Education and the recode was not completed during the Tydings time. The questioned costs of \$525,878 were allowable costs.

Subrecipient Monitoring

The Reading First program agrees with this finding.

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The program office has monitored a sample of the final expenditure reports from Local Education Agencies' (LEAs).

Corrective Action:

Matching, Level of Effort, and Earmarking

The Reading First program completed a financial recode on January 10, 2008, to bring the program into compliance with the Matching, Level of Effort, and Earmarking.

The Reading First program hired a financial analyst (Ms. Shelbi Hughes) to budget, execute, and monitor Reading First expenditures. Ms. Hughes was hired January 14, 2008. Ms. Hughes will file a spending plan with the office director. In this spending plan Reading First will ensure that the expenditures do not exceed the twenty percent threshold and earmarking as outlined. Once the spending plan is approved, Ms. Hughes, along with the program supervisor, will carry out the budget. Ms. Hughes will monitor budget expenditures and make certain that the program is in compliance.

The Office of School Improvement hired a financial manager, Robert Rock, on February 25, 2008. His responsibilities include monitoring expenditures for the Reading First program.

Subrecipient Monitoring

MDE's process for monitoring subrecipients' expenditures for authorized purposes include approving subrecipients' proposed budgets and requiring LEAs to submit a budget transfer request when actual expenditures deviate from approved budgets.

In the past, the program staff reviewed a sample of Financial Expenditure Reports (FERs). We now will review all FERs. The program office hired a financial analyst January 14, 2008, and she will be responsible for reviewing all FERs. She will document this review and report any findings to the program staff and the

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office director. The program staff will follow-up with Local Education Agencies (LEAs) to ensure that expenditures are authorized. The Reading First staff will document the follow up with LEAs.

Anticipated Completion Date: June 1, 2008

Responsible Individual: Craig Thurman, Betty Underwood

Finding Number: 3130811

Finding Title: English Language Acquisition (ELA) Grants, CFDA 84.365

Management Views: The Department agrees with the findings.

- Corrective Action:**
- a. **Subrecipient Monitoring:** The Department will assure that all on-site reviews contemplated by MDE staff for ELL programs are built into the review plan which is based on risk elements and that each of those reviewed has appropriate follow up based on monthly meetings with all staff concerned. The charting process will allow MDE to assure that the appropriate schools/programs have been selected for review, that there is adequate follow up when necessary, and that any issues requiring a follow up visit to assure completeness of implementation will take place in a timely manner.
 - b. **FER Monitoring** – with the addition of an analyst and a full time consultant with responsibilities for ELL programs, the FER monitoring will be built into the chart mentioned above with appropriate follow up noted.

Special tests and provisions

The Annual Measurable Achievement Objective (AMAQ) status of every program has been calculated

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and the letters are being vetted as of 6/19/08. Following completion of the vetting process, letters will be mailed to all programs in the state (electronically) It is anticipated that the AMAO status for the 2007 - 2008 school year will have been calculated by August/September of 2008 and schools notified by October. Training and technical assistance plans for those schools negatively affected by AMAO status are planned throughout the 2008 - 2009 school year and beyond.

Anticipated Completion Date: June 2009

Responsible Individual: Betty Underwood

Finding Number: 3130812
Finding Title: Mathematics and Science Partnerships (MSP),
CFDA 84.366

Management Views: The Department agrees with these findings.

Corrective Action:

- a. A discussion with the subrecipient revealed this budget item was indeed a direct cost. In the future, they will better describe the budget item so that it more clearly reflects the nature of the job.
- b. In the new MSP applications in MEGS (applications due June 19, 2008), applicants are required to submit documentation that private schools were invited to participate in the professional development opportunities proposed.

Anticipated Completion Date: Completed

Responsible Individual: Betty Underwood and Ruth Ann Hodges

Finding Number: 3130813

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Finding Title: Improving Teacher Quality State Grants, CFDA 84.367

Management Views:

- a. The Department acknowledges the finding that \$40,656 in duplicate payments were made to two LEAs; however, these overpayments were not created as a result of the LEAs' reporting questionable costs. MDE has experienced some difficulty in converting all expenditure data from the old accounting system to the new Cash Management System (CMS) and, as a result, MDE overpaid two LEAs.
- b. The Department agrees with this finding.
- c. The Field Services Unit (FSU) has been understaffed by at least seven consultants during the audit period. MDE has approved recruitment and hiring for the vacant positions. The monitoring responsibilities for this program are considered an essential part of Consultant responsibilities.

Corrective Action:

- a. MDE has recovered the overpayment and corrected the error.
- b. MDE will improve internal controls over improving Teacher Quality State Grants by closely monitoring spending plans and internal accounting records in order to fully comply with Federal laws and regulations. Administrative cost of \$52,396 is being returned to Title II, Improving Teacher Quality State Grants Program.
- c.
 - Consultant positions will be filled by September 2008
 - On Site Reviews conducted during 2006/07 will have 100% follow-up during 2007/08
 - The FSU will hold 10% of the 2008/09 allocation for any district reviewed in 2006/07 that is not in compliance by July 1, 2008

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Anticipated Completion Date: Ongoing

Responsible Individual: Craig Thurman (a and b), Betty Underwood (c)
