

Office of the Auditor General
Performance Audit Report

Adult Education Program
Adult Education
Department of Labor and Economic Opportunity

September 2020

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



OAG

Office of the Auditor General

Report Summary

Performance Audit

Adult Education Program (AEP)

Adult Education (AE)

Department of Labor and Economic Opportunity

Report Number:
186-0720-18

Released:
September 2020

AEP provides an opportunity for adults to improve or achieve education levels equivalent to those of high school graduates. Instruction is tailored to meet the individual needs of adult students. Standardized tests identify existing skill levels, appropriate instruction, and academic gains. Approximately 30,000 students were enrolled in AEP as of June 30, 2018. Federal expenditures totaled \$13.2 million and State expenditures totaled \$27.0 million during fiscal year 2018.

Audit Objective			Conclusion
Objective #1: To assess the appropriateness of AE's funding to eligible fiscal agents and providers.			Appropriate
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.		Not applicable.	

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of AE's efforts to monitor AEP.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
We identified AEP expenditures of \$1.9 million that were not separately accounted for, not supported, or unallowable and \$230,000 that we could not verify because the provider refused access to its records (<u>Finding #1</u>).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
We identified 9 providers that did not maintain documentation to support participant success and eligibility; 2 providers that may have used uncertified teachers; and 1 provider, with 130 participants, that refused access to its records (<u>Finding #2</u>).		X	Agrees
Fiscal agents did not provide documentation to support the competitive bidding process, allocation of funding, and sufficient oversight of its providers (<u>Finding #3</u>).		X	Agrees

Audit Objective		Conclusion	
Objective #3: To assess AE's compliance with selected laws and regulations.		Complied	
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		

Obtain Audit Reports

Online: audgen.michigan.gov

Phone: (517) 334-8050

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

September 4, 2020

Mr. Jeff Donofrio, Director
Department of Labor and Economic Opportunity
300 North Washington Square
Lansing, Michigan

Dear Mr. Donofrio:

This is our performance audit report on the Adult Education Program, Adult Education, Department of Labor and Economic Opportunity.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler
Auditor General

TABLE OF CONTENTS

ADULT EDUCATION PROGRAM

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Funding Eligible Fiscal Agents and Providers	8
Monitoring AEP	10
Findings:	
1. Improved monitoring of providers' financial information needed.	12
2. Monitoring of providers' student records not sufficient.	16
3. Identification of eligible providers and fiscal agent monitoring not sufficient.	19
Compliance With Selected Laws and Regulations	22
Supplemental Information	
Exhibit #1 - State of Michigan's Prosperity Regions	24
Exhibit #2 - Overview of Providers' Allocations and Participants Served	25
Exhibit #3 - Comparison of State and Federal Funding Requirements	27
Exhibit #4 - On-Site Visit Summary of Financial Monitoring Exceptions by Prosperity Region and Provider	30
Exhibit #5 - On-Site Visit Summary of Participant Monitoring Exceptions by Prosperity Region and Provider	31
Program Description	32
Audit Scope, Methodology, and Other Information	33
Glossary of Abbreviations and Terms	38

AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

FUNDING ELIGIBLE FISCAL AGENTS AND PROVIDERS

BACKGROUND

The Adult Education Program (AEP) receives funding through Section 107* of the State School Aid Act and the federal Workforce Innovation and Opportunity Act* (WIOA).

Section 107

Section 107(4) of the State School Aid Act states that Adult Education* (AE) must approve or disapprove the fiscal agent selected by intermediate school districts* (ISDs) within each prosperity region* (see Exhibit #1). AE allocates all of the adult education funds allotted in Section 107(1) to the fiscal agent, using:

- 67% of the allocation provided to each fiscal agent based on the total funding formerly received by the providers in that prosperity region in fiscal year 2014.
- 33% of the allocation, using data reported by the most recent 5-year estimates from the United States Census Bureau, based on the following factors:
 - 60% of this portion of the funding shall be distributed based on the proportion of the State population of individuals between the ages of 18 and 24 who are not high school graduates that reside in each of the prosperity regions or subregions.
 - 35% of this portion of the funding shall be distributed based on the proportion of the State population of individuals age 25 or older who are not high school graduates that reside in each of the prosperity regions or subregions.
 - 5% of this portion of the funding shall be distributed based on the proportion of the State population of individuals age 18 or older who lack basic English language proficiency that reside in each of the prosperity regions or subregions.

AE allocated \$24.5 million for program year 2016 and \$24.5 million for both program years 2017 and 2018 of Section 107 funds for its 10 prosperity regions.

* See glossary at end of report for definition.

Workforce Innovation and Opportunity Act (WIOA)

AE awarded grants totaling \$12.2 million and \$10.6 million for program years 2016 and 2017, respectively, based on providers who had received funds in previous program years. AE reviewed budget narratives, considered the amount of federal funds requested, and determined whether the amount requested was reasonable based on the costs or activities the provider included in the budget.

In accordance with new federal regulations, in program year 2018, AE allocated WIOA federal funds of \$12.3 million to eligible providers selected on a competitive basis. Applicants submit budget narratives that include a description of their anticipated expenditures, expected number of participants to serve, local or Section 107 funds available, and the amount of federal funds requested. AE reviews the budgets for unallowable costs or activities and reduces the amount requested if unallowable items are identified. AE compares the estimated number of participants to be served with the actual number served from the previous year and ensures that the estimated cost per participant does not exceed \$700 and adjusts the numbers or amount requested as necessary. AE ensures that it does not exceed the amount available for allocation through WIOA.

See Exhibit #2 for an overview of the amount allocated and number of participants served by region and Exhibit #3 for a side-by-side overview of the Section 107 and WIOA AEP grants.

AUDIT OBJECTIVE

To assess the appropriateness of AE's funding to eligible fiscal agents and providers.

CONCLUSION

Appropriate.

**FACTORS
IMPACTING
CONCLUSION**

- AE ensured that the 10 fiscal agents were appropriately approved and funds were accurately allocated in accordance with Section 107 for program years 2016, 2017, and 2018.
- AE calculated the allocations to its WIOA providers accurately for program year 2018.
- AE ensured that Section 107 and WIOA approved budgets included only allowable activities and that amounts were reasonable.

MONITORING AEP

BACKGROUND

AE awarded \$12.3 million in federal WIOA funds to 92 providers and \$24.5 million in State Section 107 funds to 10 regional fiscal agents serving each prosperity region for AEP for the July 1, 2017 through June 30, 2018 program year. Additional amounts and program years awarded included in our review were:

- \$12.2 million in WIOA and \$24.8 million in Section 107 funds for the July 1, 2015 through June 30, 2016 program year.
- \$10.6 million in WIOA and \$24.5 million in Section 107 funds for the July 1, 2016 through June 30, 2017 program year.

AE uses the Michigan Electronic Grants System Plus* (MEGS+) to approve fiscal agent and provider applications, budgets, and final expenditure reports to help ensure proper use of funds and the Michigan Adult Education Reporting System (MAERS) to review student educational gains.

MEGS+ flags final expenditures that either exceed or are less than 10% of the budget for a specific category. AE follows up variances and also tracks allocation, budget, and expenditure information on spreadsheets to allow for desk monitoring of its fiscal agents and providers utilizing both federal and State funds.

Providers record participant information, such as name, reason for attending, employment status, classes enrolled, attendance, and pre-test and post-test results in MAERS, which is used to calculate student measurable skills gains (MSGs) and other provider performance measures. AE reviews data within MAERS to monitor its providers for the number of participants enrolled and participant performance. MAERS contains certain controls, such as allowing a participant to be enrolled in only eligible classes based on information the provider has entered and preventing students who obtained their General Educational Development (GED) or high school diploma from registering in a related class the following year. Using MAERS, AE also performs data matches with a vendor to obtain GED scores and with the Unemployment Insurance Agency to obtain employment status.

AUDIT OBJECTIVE

To assess the effectiveness* of AE's efforts to monitor AEP.

CONCLUSION

Moderately effective.

* See glossary at end of report for definition.

**FACTORS
IMPACTING
CONCLUSION**

- For 100% of sampled MAERS active users:
 - AE ensured that the users had a signed user agreement.
 - AE assigned access based on the principle of least privilege*.
- MAERS controls appropriately prevented 2017 program year participants who obtained their diploma in AEP from registering in program year 2018.
- AE approved the Section 107 application, budget, and budget variances for program years 2017 and 2018 for the fiscal agents sampled.
- AE approved the application and budget for 100% of the providers awarded WIOA funds in program years 2016, 2017, and 2018.
- Reportable conditions* related to improving monitoring of providers' financial records (Finding #1), improving monitoring of providers' student records (Finding #2), and accurately identifying eligible providers and monitoring fiscal agents (Finding #3).

* See glossary at end of report for definition.

FINDING #1

Monitoring of providers' financial information should be enhanced to comply with State and federal requirements.

One of 15 providers sampled refused our access to records.

AE should enhance its monitoring of providers' financial information to help ensure that providers spend funds in accordance with their approved budgets and that expenditures comply with State and federal requirements.

Section 107(14) of the State School Aid Act requires a funding recipient to furnish all information needed to administer AEP and meet federal reporting requirements and to allow the department or the department's designee to review all records related to AEP. One (7%) of 15 providers sampled refused to allow us and AE access to financial records because it said that it no longer had paid staff and, as a result, could not provide the records. Therefore, we and AE could not validate the following 2016 and 2017 program year expenditures reported by the provider for services provided to its 130 registered students:

Description	Expenditures
Salaries	\$ 14,035
Benefits	2,832
Purchased services, including computer-assisted instruction, academic student assessment, and central communication services	137,001
Supplies and materials	76,132
Total	<u>\$230,000</u>

For the other 14 providers, we reviewed the 2016, 2017, and 2018 program year general ledgers for unusual or questionable transactions, compared them with approved budgets and final expenditure reports, and judgmentally sampled transactions to review during our on-site visits. Our review identified (see Exhibit #4):

- a. Two (14%) providers that did not separately account for State, deferred State, and federal expenditures totaling \$1.8 million.

Workforce Development (WD) guidance states that providers must maintain financial management systems that provide accurate, complete, and current disclosure of the expenditures supporting AEP. Providers are responsible for managing the day-to-day operations of grant supported activities to ensure that all funding requirements of these awards comply with applicable federal regulations. Funds made available for adult education activities shall supplement and not supplant other State or local public funds expended for adult education activities.

Section 107(12) of the State School Aid Act states that a provider shall not commingle money received for AEP with any other funds and shall establish a separate general ledger account for funds received. AE further informs its providers that all deferred State funds must be tracked separately and must be used to support a Section 107 instructional AEP.

- b. Five (36%) providers recorded \$61,655 of expenditures on their final expenditure reports that were not supported by the general ledgers. We noted:

- (1) Expenditures totaling \$37,213 were not recorded in the proper budget category as originally approved by AE. This practice limits AE's ability to monitor the providers' approved budget and could result in providers exceeding budget categories without it being detected and approved by AE.

WD's policy requires providers to request application amendments for any new activity or any change in a category that exceeds 10% of the approved budget.

- (2) Expenditures reported on the final expenditure reports exceeded the general ledgers by \$27,442. One provider entered the remaining budget amount rather than the amount expended and another provider reported expenditures for 75 computers and 2 carts that were not used for AEP. The provider later corrected the transactions in its general ledger; however, the provider did not submit a revised final expenditure report to AE identifying the reduction in eligible expenditures.

AE requires each provider to complete a final expenditure report certifying and reporting actual expenditures.

- c. Six (43%) providers used \$24,166 for purchases that were unallowable based on AEP requirements. We identified 16 (4%) of 389 transactions selected from the respective general ledgers with one or more of the following:

- (1) Expenditures totaling \$3,690 were not reasonable and necessary. One provider purchased \$1,650 of bus tickets within nine days. The provider's average ticket purchase for the time period August 12, 2017 through May 1, 2018 was \$277. The provider informed us that this purchase was completed without determining the number of tickets needed. Another provider was unable to locate 3 of 5 computers purchased in June 2017 during our on-site visit in December 2018. The

provider subsequently located the 3 computers that had never been used in a supply closet.

- (2) Expenditures totaling \$17,316 were not for allowable costs or activities. We noted five providers that expended AEP funds for GED tests; indirect costs for janitorial salaries and wages included in rent payments; food purchases; promotional items such as totes, keychains, and stress balls; and referral fees. WD guidance identifies items such as food, beverages, and promotional items as unallowable and informs providers that federal adult education funds cannot be used to support the costs of a high school equivalency test and indirect costs should be included with administrative costs and not included as direct expenditures of AEP.
- (3) Expenditures were not supported with documentation to ensure that items and services purchased were allowable and reasonable for AEP. We noted one provider that did not retain documentation to support \$3,160 for rent payments.

Section 107(1) of the State School Aid Act states that funds are restricted for AEP and a provider is prohibited from using these funds for any other purpose. Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance*)* states that a cost must be necessary and reasonable, be authorized and not prohibited under state laws or regulations, be allocable to the program, and be adequately documented.

Also, we analyzed budgeted salaries and benefits information for 150 providers for program years 2016, 2017, and 2018 and identified 27 (18%) providers that submitted budgets, subsequently approved by AE, in which benefit costs exceeded salaries by \$277,753. The Bureau of Labor Statistics reports that the average employer costs for teachers is approximately 33% of the teacher's total compensation. Federal regulation 2 *CFR* 200.431(c) requires that benefits be allocated to federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such federal awards and other activities; however, one provider informed us that it charged all benefits to the State grant but split the salaries between the State and federal grants. AE informed us that the desk reviews of provider budgets do not include comparing the

* See glossary at end of report for definition.

benefits with the salaries; however, completing this analysis would help to identify expenditures that may not be allowable for AEP.

AE informed us that because of limited resources, it discontinued on-site monitoring beginning with the 2016 program year to concentrate its efforts on implementing the updated WIOA regulations, which were effective on July 1, 2015, and completing MAERS enhancements needed for the new WIOA reporting requirements. AE does review provider budgets and application narratives to ensure that only allowable activities and costs are approved and to ensure that providers do not exceed their budgets. AE requires providers to submit final expenditure reports certifying the expenditures and performs various analysis, such as reviewing the trend of participants in relation to the requested budget. However, review of provider general ledgers, supporting documentation for high-risk transactions, and an analysis of wages and benefits could be added to enhance AE's processes.

RECOMMENDATION

We recommend that AE enhance its monitoring of providers' financial information.

**AGENCY
PRELIMINARY
RESPONSE**

The Department of Labor and Economic Opportunity (LEO) provided us with the following response:

We agree. The Office of Adult Education will enhance its provider monitoring by conducting on-site and/or virtual monitoring of providers; utilizing a risk assessment tool to determine which providers to monitor; and increasing the amount of documentation requested during desk reviews. In addition, the Office will update policies and procedures to ensure compliance with 2 CFR 200.431(c) related to the allocation of salaries and benefits. Specifically, we will take the following actions to address cited deficiencies:

Planned Corrective Action for part a: During on-site and virtual compliance and monitoring visits, the monitoring team will review the general ledgers for each funding source received to ensure funds are tracked separately.

Planned Corrective Action for part b: During on-site and virtual compliance and monitoring visits, the general ledgers will be compared to the final expenditure reports to ensure the accuracy of the expenditure reports submitted.

Planned Corrective Action for part c: During on-site and virtual compliance and monitoring visits, the monitoring team will review a selected sample of transactions and compare to source documents and the approved budget to ensure only reasonable, necessary, and allowable expenditures are charged to the program.

FINDING #2

Monitoring of providers' student records should be performed to help ensure students' success.

AE did not perform sufficient monitoring of its providers' student records to help ensure students' success in AEP.

Section 107(14) of the State School Aid Act requires a funding recipient to furnish all information needed to administer AEP and meet federal reporting requirements and to allow the department or the department's designee to review all records related to AEP.

We selected 15 providers for on-site visits. As indicated in Finding #1, one provider refused our access to records, including student and instructor records. Therefore, we could not validate attendance and student achievement for 130 students enrolled in one or more of the 3 classes offered or confirm that 13 (93%) of 14 of the providers' instructors were appropriately certified. For the remaining 14 providers, we reviewed AEP records for the 2017 and 2018 program years and noted (see Exhibit #5):

- a. Nine (64%) providers did not always maintain documentation to support the data recorded in MAERS. The related 50 (13%) of 392 student records had one or more of the following items:
 - (1) Pre-testing was not always completed before the start of class. The State of Michigan's Assessment Policy states that all participants enrolled in AEP must be pre-tested prior to any instruction received. Without pre-testing students prior to class assignment, AE cannot ensure that students are placed in the appropriate class.
 - (2) Pre-testing and post-testing results and MSG documentation were not maintained or did not support the data recorded in MAERS. Federal regulations 34 *CFR* 462.41 and 34 *CFR* 462.42 state that a local eligible provider must measure the educational gains of students using approved tests. The provider must use the results of the pre-test to initially place students at the appropriate educational functioning level and must use the results of the post-test to determine whether students have completed one or more educational functioning levels or are progressing at the same level. Without documentation supporting test scores and MSGs, AE is unable to validate the effectiveness of the providers' instructional activities.
 - (3) Attendance records were not maintained or did not support the data recorded in MAERS. The National Reporting System for Adult Education* (NRS), U.S. Department of Education (USDOE), states that instructors must report student

* See glossary at end of report for definition.

attendance. Attendance hours determine when testing should be performed to measure the student's educational progress, which is also a tool that can be used to measure the effectiveness of the provider in administering the program.

- (4) Documentation was not maintained to support the student's age. Federal regulation 34 *CFR* 462.3(b) states that students must be at least 16 years of age. The provider may not be eligible for reimbursement if it is not providing classes to eligible students.
- b. Two (14%) providers could not provide documentation that 3 instructors received certification from the Michigan Department of Education. Section 107(2) of the State School Aid Act requires an eligible adult education provider to employ certificated teachers and qualified administrative staff to be eligible for funding under this section.

Also, we noted that MAERS did not properly compute the MSG for all students, resulting in 2 providers for program years 2017 and 2018 who may not have been eligible to receive future funds because of students receiving an unearned gain. The NRS Technical Assistance Guide for Performance Accountability identifies a gain when a student starts the program year with less than 50% of the credits required to graduate and ends the program year with greater than 50%. MAERS recorded an achievement for any student who ended the program year with greater than 50% of the credits to graduate, regardless of the student's beginning status. AE informed us that it corrected the MAERS computation.

We acknowledge that the type and number of student record errors by provider presented above and in Exhibit #5 may not be individually significant to each provider; however, the number of errors in total indicates that shortcomings exist which present opportunities for AE to improve its provider oversight.

AE informed us that because of limited resources, it discontinued on-site monitoring beginning with the 2016 program year to concentrate its efforts on implementing the updated WIOA regulations, which were effective on July 1, 2015, and completing MAERS enhancements needed for the new WIOA reporting requirements.

RECOMMENDATION

We recommend that AE perform sufficient monitoring of its providers' student records to help ensure students' success in AEP.

**AGENCY
PRELIMINARY
RESPONSE**

LEO provided us with the following response:

We agree. The Office of Adult Education will review local policies and source documentation during on-site and virtual monitoring of local providers to validate the data entered by the local provider in the Michigan Adult Education Reporting System (MAERS), including but not limited to:

- *Teacher certification records*
- *Local assessment policies*
- *Participant intake forms*
- *Assessment tests (pre and post-tests)*
- *Attendance hour records*
- *Student's age*

Specifically, we will take the following actions to address cited deficiencies:

Planned Corrective Action for part a: Continue and expand training for local program staff on adult education policies, including assessment testing and MAERS data entry. During on-site and virtual compliance and monitoring visits, the monitoring team will review the source documents, such as attendance records and assessment tests, to validate the data entered in MAERS.

Planned Corrective Action for part b: The Office of Adult Education will continue to work with the Michigan Department of Education, Professional Educator Certification and Services unit, which oversees teacher certification requirements and permits and notifies our office if an individual is not certified or working under a valid permit. For adult education providers that are not school districts, the monitoring team will review teacher certification records during on-site and virtual monitoring and compliance visits.

FINDING #3

Identifying eligible providers and monitoring fiscal agents should be improved.

AE did not properly identify all eligible adult education providers. In addition, AE did not provide sufficient monitoring of its fiscal agents. As a result, AE could not ensure that eligible providers applied for and received funding, properly utilized resources, and accurately reported participant data.

AE approved ISDs to serve as regional fiscal agents for each of the 10 regions in the State. Section 107(5) of the State School Aid Act states that, to be an eligible fiscal agent, the ISD must agree to identify, allocate funds to, and provide oversight to eligible adult education providers in a form and manner approved by the department. AE annually provided its fiscal agents with requirements and developed an allocation template to help ensure compliance.

We reviewed 9 of the 10 fiscal agents' processes and documentation for eligible provider selection, funding allocation, and oversight. We noted:

- a. When fiscal agents solicited and selected providers for the July 1, 2018 through June 30, 2019 program year:
 - (1) All 9 fiscal agents reviewed did not include charter schools in their requests for proposal. AE misinformed fiscal agents that charter schools were not eligible adult education providers because Section 107(22)(c) of the *Michigan Compiled Laws* does not specifically identify charter schools as eligible entities. However, the Revised School Code (Section 380.501 (1) of the *Michigan Compiled Laws*) identifies a charter school as a school district, thereby including charter schools in the definition of an eligible adult education provider.
 - (2) AE did not verify that 1 (11%) fiscal agent conducted a competitive bidding process. The fiscal agent did not retain its bidding and selection process documentation.
 - (3) AE did not verify that 2 (25%) of the remaining 8 fiscal agents that conducted a competitive bidding process included all required school districts. The fiscal agents did not retain documentation of who was sent the request for proposal.
 - (4) AE did not verify for 1 (13%) of the remaining 8 fiscal agents that conducted a competitive bidding process that the required criteria were considered during the selection process. The fiscal agent did not utilize AE's template when evaluating and selecting providers.
- b. AE did not validate that 2 (22%) of 9 fiscal agents allocated funding in accordance with AE's allocation methodology.

AE provided fiscal agents with a template identifying each criterion and highlighted the criteria to be weighted. However, one fiscal agent did not calculate the allocations utilizing AE's allocation methodology for the July 1, 2017 through June 30, 2018 program year and one fiscal agent did not retain its allocation process documentation for the July 1, 2016 through June 30, 2017 and July 1, 2017 through June 30, 2018 program years.

- c. AE did not ensure that 4 (44%) of 9 fiscal agents sufficiently monitored providers for the 3 program years covering July 1, 2015 through June 30, 2018. We noted:
 - (1) Three (33%) fiscal agents with 10,547 (33%) of 31,618 total participants in the State for the July 1, 2016 through June 30, 2017 program year did not review participant data recorded in MAERS.
 - (2) One (11%) fiscal agent, responsible for 2 providers with allocations totaling \$281,000 for the July 1, 2016 through June 30, 2017 program year, did not review AEP expenditures.

AE instructed fiscal agents to provide oversight of its providers; however, AE allowed the fiscal agents to determine the extent of that oversight. If the fiscal agents provided sufficient monitoring, this could help decrease the provider oversight needed by AE.

RECOMMENDATIONS

We recommend that AE accurately identify eligible adult education providers.

We also recommend that AE improve its monitoring of fiscal agents.

AGENCY PRELIMINARY RESPONSE

LEO provided us with the following response:

We agree with both recommendations. The Office of Adult Education will update its policies and procedures to ensure that the process of identifying eligible providers is accurate and complete. The Office will continue to work with the Michigan Department of Education to timely identify updates to the Michigan Compiled Laws that impact adult education providers and services.

The Office of Adult Education will conduct on-site and/or virtual monitoring of the Section 107 fiscal agents on a three-year cycle. The on-site and/or virtual reviews will consist of the provider solicitation and selection process, determination of provider funding allocations, and the fiscal agent's general oversight of the regional providers.

The Office will take the following specific actions to address cited deficiencies:

Planned Corrective Action for part a: During the on-site and/or virtual compliance and monitoring visits, the monitoring team will review the fiscal agent's procurement process including, but not limited to: the request for proposal (RFP), the RFP announcement, the solicitation list of local educational agencies notified, and the selection criteria and scoring weights.

Planned Corrective Action for part b: During the on-site and/or virtual compliance and monitoring visits, the monitoring team will review documentation on the process used to distribute funding to the selected regional providers to ensure compliance with the approved allocation methodology.

Planned Corrective Action for part c: During the on-site and/or virtual compliance and monitoring visits, the monitoring team will review the process and documentation related to the fiscal agent's oversight and monitoring of the regional providers.

COMPLIANCE WITH SELECTED LAWS AND REGULATIONS

BACKGROUND

Earmarking

Title 29, section 3302 of the *United States Code (USC)* requires that each eligible agency receiving an AEP grant shall:

- Not use less than 82.5% of the grant funds to award grants and contracts of which not more than 20% shall be available to carry out section 3305.
- Use not more than 12.5% of the grant funds to carry out State leadership activities under section 3303.
- Use not more than 5% of the grant funds, or \$85,000, whichever is greater, for the administrative expenses of the eligible agency.

USDOE grant award terms state that the award includes funds which may be used only for integrated English literacy and civics education services to immigrants and other limited English proficient populations.

AE prepared spending plans for each fiscal year to determine the amounts necessary for the earmarking requirements. AE uses specific coding in the State's accounting system to identify each requirement and reviews the grant balances and expenditures regularly to identify any charges that may have been miscoded.

Matching

Federal law 29 USC 3302(b) requires that each state eligible agency providing adult education and literacy services shall provide a non-federal contribution of at least 25% of the total amount of funds expended for adult education and literacy activities in the state. An eligible agency's non-federal contribution shall include only non-federal funds that are used for adult education and literacy activities in a manner that is consistent with the purpose of WIOA.

AE uses funds from Section 107 AEP activities, community colleges, and the Michigan Department of Corrections to meet the matching requirement; however, the amount provided from Section 107 AEP provides a sufficient amount of match. AE obtains the total amount reported in MEGS+ from the providers and eliminates funds related to GED tests as those are unallowable for the federal AEP.

Grants and contracts

Federal law 29 USC 3321 requires each eligible agency to award multi-year grants or contracts, on a competitive basis, to eligible providers within the state for developing, implementing, and improving adult education and literacy activities. AE must ensure that all eligible providers have direct and equitable access to apply and compete for grants or contracts and the

same grant or contract announcement process and application process are used for all eligible providers in the State. USDOE required states to award new grants under the WIOA selection criteria no later than July 1, 2017. Federal law 20 USC 3321(e) requires AE to consider criteria such as the providers' regional needs, ability to serve individuals with disabilities, and past effectiveness of the provider.

AE announced its request for proposal in February 2017 on its Web site to literacy councils, various educational associations, and previously funded AEPs and notified applicants of acceptance or denial in June 2017. AE provided a bidders' workshop and instructions for eligibility criteria, requirements and expectations, allowable activities, and application submission information on its Web site for all applicants to view.

AE tracks all applications received, and three separate reviewers complete a rubric that includes the required provider eligibility criteria. The average score is calculated and, generally, those providers with a score of 80 or higher are approved for funding. If AE recommends funding for providers with a score of less than 80, approval from WD is required and these providers are flagged for further technical assistance and monitoring.

AUDIT OBJECTIVE

To assess AE's compliance with selected laws and regulations.

CONCLUSION

Complied.

**FACTORS
IMPACTING
CONCLUSION**

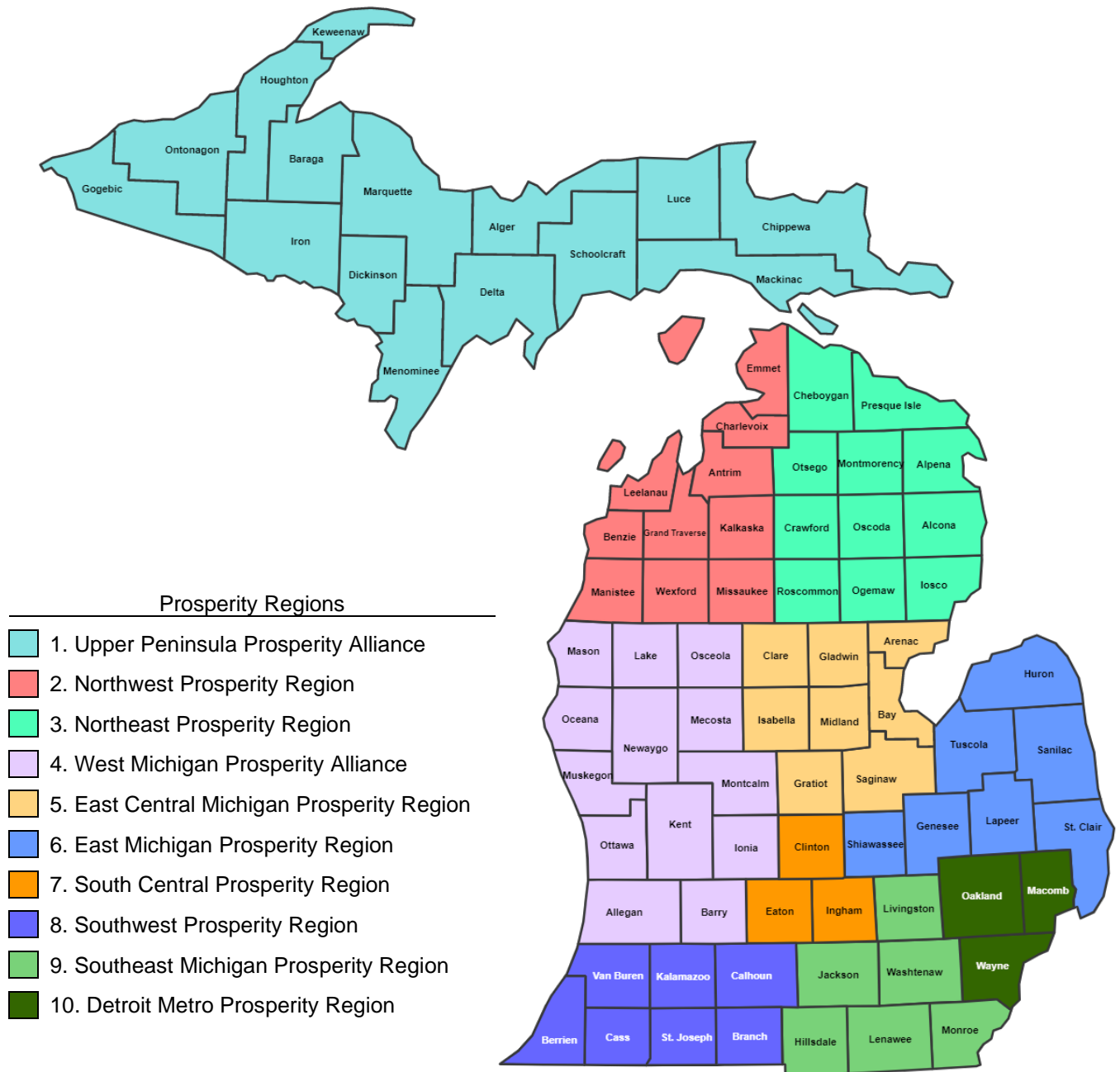
- AE prepared grant spending plans for program years 2016, 2017, and 2018 that complied with federal earmarking requirements and ensured that final earmarking requirements were met for program years 2016 and 2017.
- AE ensured that it provided the required 25% of non-federal matching funds using eligible State adult education and literacy activities for 2016, 2017, and 2018 federal awards.
- AE utilized rubrics when scoring applicants that align with Section 3321(e) of WIOA.
- AE approved eligible providers and ensured that applications were complete.
- AE reasonably scored the applications and consistently applied the scoring criteria when awarding funds.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

ADULT EDUCATION PROGRAM Department of Labor and Economic Opportunity

State of Michigan Prosperity Regions For Program Years 2016 Through 2018



Source: The OAG recreated this map based on the prosperity region map located on AE's Web site.

ADULT EDUCATION PROGRAM
Department of Labor and Economic Opportunity

Overview of Providers' Allocations and Participants Served by Region for Section 107 and WIOA Title II
July 1, 2015 Through June 30, 2018

Exhibit #2a - Section 107 State Provider Regional Data for Program Year 2016

<u>Prosperity Region</u>	<u>Number of Providers in Region</u>	<u>Fiscal Agent Administration Amount</u>	<u>Total Amount Allocated to Providers by Fiscal Agent</u>	<u>Total Allocated to Region¹</u>	<u>Participants Served in Region</u>	<u>Amount Allocated Per Participant Served²</u>
1	6	\$ 26,491	\$ 526,057	\$ 552,548	310	\$1,782
2	2	22,680	481,284	503,964	262	\$1,924
3	2	15,099	286,122	301,221	226	\$1,333
4	19	51,511	4,508,210	4,559,721	2,732	\$1,669
5	8	68,444	1,430,605	1,499,049	874	\$1,715
6	11	74,478	1,607,104	1,681,582	817	\$2,058
7	4	23,560	682,541	706,101	429	\$1,646
8	17	96,079	1,875,778	1,971,857	1,157	\$1,704
9	9	50,756	1,223,803	1,274,559	932	\$1,368
10	27	158,085	11,572,462	11,730,548	8,641	\$1,358
Total	105	\$587,183	\$24,193,967	\$24,781,150	16,380	

Total WIOA Title II Allocation¹ \$12,157,860

Exhibit #2b - Section 107 State Provider Regional Data for Program Year 2017

<u>Prosperity Region</u>	<u>Number of Providers in Region</u>	<u>Fiscal Agent Administration Amount</u>	<u>Total Amount Allocated to Providers by Fiscal Agent</u>	<u>Total Allocated to Region¹</u>	<u>Participants Served in Region</u>	<u>Amount Allocated Per Participant Served²</u>
1	6	\$ 26,491	\$ 516,332	\$ 542,823	257	\$2,112
2	2	22,680	430,927	453,607	240	\$1,890
3	2	15,099	286,889	301,988	187	\$1,615
4	19	93,077	4,341,271	4,434,348	2,744	\$1,616
5	8	54,535	1,314,349	1,368,884	838	\$1,634
6	11	74,478	1,415,088	1,489,566	953	\$1,563
7	4	42,074	885,563	927,637	513	\$1,808
8	17	96,957	1,849,781	1,946,738	1,099	\$1,771
9	9	46,810	1,230,428	1,277,238	1,048	\$1,219
10	27	352,726	11,404,445	11,757,171	8,704	\$1,351
Total	105	\$824,927	\$23,675,073	\$24,500,000	16,583	

Total WIOA Title II Allocation¹ \$10,637,618

This exhibit continued on next page.

ADULT EDUCATION PROGRAM
Department of Labor and Economic Opportunity

Overview of Providers' Allocations and Participants Served by Region for Section 107 and WIOA Title II
July 1, 2015 Through June 30, 2018

Exhibit #2c - Section 107 State Provider Regional Data for Program Year 2018

Section 107 Program Year 2018						
Prosperity Region	Number of Providers in Region	Fiscal Agent Administration Amount	Total Amount Allocated to Providers by Fiscal Agent	Total Allocated to Region	Participants Served in Region	Amount Allocated Per Participant Served ²
1	6	\$ 28,252	\$ 536,805	\$ 565,057	248	\$2,278
2	1	22,542	428,317	450,859	264	\$1,708
3	2	14,768	280,594	295,362	224	\$1,319
4	17	81,284	4,340,586	4,421,870	2,843	\$1,555
5	8	54,535	1,314,993	1,369,528	802	\$1,708
6	11	74,601	1,417,448	1,492,049	981	\$1,521
7	3	42,074	879,112	921,186	357	\$2,580
8	16	96,517	1,834,114	1,930,631	1,037	\$1,862
9	9	45,634	1,228,336	1,273,970	1,089	\$1,170
10	26	451,672	11,327,814	11,779,486	8,351	\$1,411
Total	99	\$911,879	\$23,588,119	\$24,499,999	16,196	

Exhibit #2d - WIOA Title II Federal Provider Regional Data for Program Year 2018

WIOA, Title II Program Year 2018					
Prosperity Region	Number of Providers in Region	Provider Total	Total Allocated to Region	Participants Served in Region	Amount Allocated Per Participant Served ²
1	3	\$ 187,368	\$ 187,368	200	\$ 937
2	1	175,000	175,000	283	\$ 618
3	2	172,233	172,233	229	\$ 752
4	16	2,414,145	2,414,145	3,381	\$ 714
5	7	803,359	803,359	895	\$ 898
6	9	660,141	660,141	656	\$1,006
7	2	311,317	311,317	89	\$3,498
8	10	973,947	973,947	925	\$1,053
9	8	1,007,808	1,007,808	1,296	\$ 778
10	33	5,272,656	5,272,656	9,499	\$ 555
MDOC ³	1	330,000	330,000	6,611	\$ 50
Total	92	\$12,307,974	\$12,307,974	24,064	

¹ In Exhibits #2a and #2b, regional data is not available for WIOA Title II. Section 107 is allocated to regions using fiscal agents and WIOA Title II is allocated to providers for all program years; however, Adult Education was able to provide WIOA Title II data by region for program year 2018.

² Amount per participant served is calculated using the total allocated divided by participants served.

³ Michigan Department of Corrections instructional allocation for WIOA Title II.

Source: MAERS Reports, Internal Monitoring Spreadsheets, and Allocation Amounts as posted on LEO Web site, Adult Education.

ADULT EDUCATION PROGRAM
Department of Labor and Economic Opportunity

Comparison of State and Federal Funding Requirements
Updated December 2019

	State School Aid Act, Section 107	Workforce Innovation and Opportunity Act, Title II, Adult Education and Family Literacy Act (AEFLA)
Legislation and Funding	Public Act 58 of 2019, State School Aid Act, Section 107 <ul style="list-style-type: none"> Regional Funding (Subsections 1-13; 19) Special Programs (Subsections 15-18) Supplemental (Subsection 14) 	Public Law 113-128 Workforce Innovation and Opportunity Act (WIOA) Title II, Adult Education and Family Literacy Act (AEFLA) <ul style="list-style-type: none"> General Instruction (Section 231) Institutional (Section 225) Integrated English Literacy and Civics Education (Section 243) <i>Catalog of Federal Domestic Assistance/Subprogram No: 84.002A</i>
Administrative Guidelines	<ul style="list-style-type: none"> <i>Michigan Compiled Laws</i> Revised School Code Adult Education Participant Accounting and Auditing Manuals (<i>to be updated</i>) Section 107 Requirements Application Assurances and Certifications National Reporting System (NRS) Implementation Guidelines 	<ul style="list-style-type: none"> 34 <i>Code of Federal Regulations (CFR)</i> Part 463 Education Department General Administrative Regulations as applicable 2 <i>CFR</i> as applicable Unified State Plan Application Guidance and Instructions Application Assurances and Certifications NRS Implementation Guidelines
Provider Eligibility	Eligible adult education providers include: <ul style="list-style-type: none"> A local school district An ISD A consortium of local school districts A consortium of ISDs A consortium of local school districts and ISDs that are identified as part of the local process and approved by LEO-WD, Office of Adult Education. 	An organization that has demonstrated effectiveness in providing adult education and literacy activities is eligible under AEFLA. These organizations may include: <ul style="list-style-type: none"> A local educational agency A community-based organization or faith-based organization A volunteer literacy organization An institution of higher education A public or private nonprofit agency A library A public housing authority A nonprofit institution that is not described in any of these subparagraphs and has the ability to provide literacy services to eligible individuals A consortium or coalition of the agencies, organizations, institutions, libraries, or authorities described in any of the entities listed above A partnership between an employer and an entity listed above.
Instructional Areas and Programs of Enrollment	An individual must be enrolled in at least one of the following instructional programs: <ul style="list-style-type: none"> Adult Basic Education Adult Secondary Education English as a Second Language High School Equivalency Preparation 	Eligible providers must provide at least one of the following instructional activities: <ul style="list-style-type: none"> Adult Basic Education Adult Secondary Education English as a Second Language High School Equivalency Preparation

This exhibit continued on next page.

	State School Aid Act, Section 107	Workforce Innovation and Opportunity Act, Title II, Adult Education and Family Literacy Act (AEFLA)
Instructional Areas and Programs of Enrollment (Continued)	<ul style="list-style-type: none"> High School Completion 	<ul style="list-style-type: none"> High School Completion Family Literacy Workplace Literacy Integrated Education and Training Integrated English Literacy and Civics Education
Participant Eligibility	<p>An individual must be:</p> <ul style="list-style-type: none"> Enrolled in an approved Section 107 funded program for which instruction is provided At least 18 years of age and the individual's graduating class must have graduated 	<p>AEFLA funds may be used for the provision of instruction below the post-secondary level for individuals:</p> <ul style="list-style-type: none"> Who have attained 16 years of age Who are not enrolled or required to be enrolled in a secondary school under State law Who: <ul style="list-style-type: none"> Are basic skills deficient Do not have a secondary school diploma or its recognized equivalent and have not achieved an equivalent level of education Are English language learners
Performance Measures	<p>Criteria for all measures:</p> <ul style="list-style-type: none"> Individual must have a pre-test prior to instruction 12 or more attendance hours during registration <p>MSGs, WIOA, and Section 107:</p> <ul style="list-style-type: none"> Pre- to Post-Test Assessment (English as a First Language (EFL) gain) High School Diploma (HSD) HSD EFL Gain Postsecondary Enrollment High School Equivalency <p>In addition to the WIOA performance measures, Section 107 funded programs may also demonstrate performance in the following:</p> <ul style="list-style-type: none"> Pass one or more high school equivalency subject area tests. Receive one or more high school completion credits. Proficient in the English language. Enroll in post-secondary education or training. 	<p>Criteria for all measures:</p> <ul style="list-style-type: none"> Individual must have a pre-test prior to instruction 12 or more attendance hours during registration <p>MSGs, WIOA, and Section 107:</p> <ul style="list-style-type: none"> Pre- to Post-Test Assessment (EFL gain) HSD HSD EFL Gain Postsecondary Enrollment High School Equivalency
Participant Data Reporting	All state and federal funded AEPs are required to enter participant data monthly into MAERS, at a minimum, for participants receiving at least one hour of instruction.	
Allocation of Funding	<p>REGIONAL FUNDING Allocations are provided to each ISD serving as a fiscal agent on a formula basis.</p> <p>ISD fiscal agents may not use more than 5% of the funds allocated to the region for administration costs for serving as the fiscal agent.</p>	<p>PROVIDER FUNDING AEFLA grants are formula-based grants distributed according to the number of participants served and need for services in the local area. LEO-WD awards multi-year grants on a competitive basis to eligible providers to develop, implement, and improve adult education and literacy in Michigan. Funding is contingent upon the availability of funds from the USDOE.</p>

This exhibit continued on next page.

	State School Aid Act, Section 107	Workforce Innovation and Opportunity Act, Title II, Adult Education and Family Literacy Act (AEFLA)
Allocation of Funding (Continued)	Fiscal agents distribute funds to adult education providers in a prosperity region based upon location, demand for services, past performance, quality indicators as identified by LEO-WD, and cost to provide instructional services. At a minimum, fiscal agents are required to conduct an open request for proposal after every three years (2018-19, 2021-22, etc.).	The fiscal agent is required to be a provider of services and cannot be a flow-through entity only.
Application Process	<ul style="list-style-type: none"> • Program Year: July 1 – June 30 • Budget completed annually. • Once State funds are available, amendments are required for any new activity or any deviation from the original approved budget of 10% or more per line item category. • Amendments must be submitted and approved before funds can be expended for new projects or activities. 	<ul style="list-style-type: none"> • Program Year: July 1 – June 30 • Budget completed annually. • Once grant funds are available, amendments are required for any new activity or any deviation from the original approved budget of 10% or more per line item category. • Amendments must be submitted and approved before funds can be expended for new projects or activities.
Allowable Costs	<p>All costs must be allowable, allocable, reasonable and necessary, and legal under federal and State laws and regulations.</p> <p>All funded activities and associated costs must be within the program year (July 1 – June 30).</p>	<p>All costs must be allowable, allocable, reasonable and necessary, and legal under federal and state laws and regulations.</p> <p>All funded activities and associated costs must be within the program year (July 1 – June 30).</p>
Funding Disbursement	<p>Fiscal agents will receive 1/11th payments disbursed from the Michigan Department of Education, State School Aid Office, on the 20th of each month based upon the total regional allocation (October – August).</p> <p>The regional fiscal agent is responsible for distributing funds to AEPs in a prosperity region as described in Section 107 of the State School Aid Act. Providers complete final expenditure reports in MEGS+ to detail how much expenditures were for each budget item.</p> <p>Agencies must maintain separate ledger accounts for federal and State adult education funds for both revenue and expenditures.</p> <p>Payments may be withheld by LEO-WD, AE for failure to meet administrative or reporting requirements.</p>	<p>Subrecipients must request federal funds on an accrual basis at least quarterly in the Cash Management System (CMS) and may not request funds that exceed their needs for three days cash on hand. They must retain supporting documentation of fund requests.</p> <p>Agencies must maintain separate ledger accounts for federal and state adult education funds for both revenue and expenditures.</p>

Source: The OAG created this exhibit by condensing information from a document located on the Michigan Department of Labor and Economic Opportunity-Workforce Development (LEO-WD), AE Web site.

ADULT EDUCATION PROGRAM
Department of Labor and Economic Opportunity

On-Site Visit Summary of Financial Monitoring Exceptions by Prosperity Region and Provider
For Program Years 2016, 2017, and 2018

Review of the General Ledger to the Final Expenditure Report

Prosperity Region	Provider Name	Expended and Reimbursed to Provider	Transactions Tested	Number of Transactions Sampled	Commingled Federal and State Funds ¹	Reported Expenditure Budget Category Differed from the General Ledger Expenditure Account ²	Reimbursed Expenditures Not Included in the General Ledger ³	Error	Review of Transactions Sampled From the Providers' General Ledgers			
									Unreasonable or Unnecessary ⁴	Unallowable Cost or Activity ⁵	Did Not Maintain Documentation ⁶	Error
2	Provider 1	\$ 1,301,858	\$140,024	27	0	1	0	\$11,200	0	0	0	\$ 0
3	Provider 2	875,957	61,754	25	1	0	0		0	3	2	3,468
4	Provider 3	1,158,107	173,011	32	1	0	1	6,114	0	0	0	0
4	Provider 4	1,949,340	102,653	34	0	1	0	9,999	0	0	0	0
5	Provider 5	286,149	6,421	25	0	0	0		2	0	0	1,590
5	Provider 6	1,490,154	50,456	28	0	1	0	16,014	1	3	0	4,704
6	Provider 7	409,867	30,914	25	0	0	0		0	0	0	0
6	Provider 8	1,142,688	18,515	25	0	0	0		0	0	0	0
7	Provider 9	843,195	27,536	25	0	0	0		0	2	0	4,244
8	Provider 10	1,539,533	127,171	37	0	0	0		0	0	0	0
9	Provider 11	223,763	53,806	26	0	0	0		0	2	0	10,000
10	Provider 12	230,000					Provider refused to allow OAG or AE access to its financial records.					
10	Provider 13	1,639,481	33,628	25	0	0	0		0	1	0	160
10	Provider 14	1,455,109	82,557	30	0	0	1	18,328	0	0	0	0
10	Provider 15	1,094,656	65,330	25	0	0	0		0	0	0	0
Total		\$15,639,857	\$973,776	389	2	3	2	\$61,655	3	11	2	\$24,166

¹ Finding #1, part a.
² Finding #1, part b. (1)
³ Finding #1, part b. (2)
⁴ Finding #1, part c. (1)
⁵ Finding #1, part c. (2)
⁶ Finding #1, part c. (3)

Source: The OAG prepared this summary from information recorded in MEGS+, a comparison between the financial expenditure reports and the general ledgers, and samples selected from the providers' general ledgers.

ADULT EDUCATION PROGRAM
Department of Labor and Economic Opportunity

On-Site Visit Summary of Participant Monitoring Exceptions by Prosperity Region and Provider
For Program Years 2017 and 2018

Prosperity Region	Provider Name	Number of Student Records Selected for Review by Program Year		Class Instruction Occurred Prior to Pre-test ¹	Documentation of Pre-Test and Post-Test Not Maintained ²	Do Not Support Data Recorded in MAERS		No Documentation of Attending ³	Age Not Documented ⁴	Total Errors	Total Unique Records	Number of Uncertified Instructors ⁵
		2016-17	2017-18			Test Scores and Measurable Skills Gain ²	Attendance Records ³					
2	Provider 1	14	14	0	0	0	0	0	0	0	0	0
3	Provider 2	13	15	1	0	1	1	3	1	7	7	0
4	Provider 3	13	15	0	0	0	0	0	0	0	0	0
4	Provider 4	28	0	0	0	0	6	5	0	11	11	0
5	Provider 5 ⁶	0	28	3	1	0	0	0	0	4	3	0
5	Provider 6	15	13	0	0	0	6	0	0	6	6	0
6	Provider 7	18	10	0	0	0	0	0	0	0	0	0
6	Provider 8	15	13	0	0	0	0	0	0	0	0	0
7	Provider 9 ⁶	13	15	0	0	1	0	0	2	3	2	1
8	Provider 10	16	12	0	0	0	0	0	0	0	0	0
9	Provider 11	14	14	0	0	1	0	0	0	1	1	0
10	Provider 12	28	0	Provider refused to allow OAG or AE access to records.								
10	Provider 13	13	15	0	10	0	0	2	1	13	13	0
10	Provider 14	16	12	0	0	5	0	0	0	5	5	0
10	Provider 15	9	19	0	1	1	0	0	0	2	2	2
Total		225	195	4	12	9	13	10	4	52	50	3

¹ Finding #2, part a. (1)

² Finding #2, part a. (2)

³ Finding #2, part a. (3)

⁴ Finding #2, part a. (4)

⁵ Finding #2, part b.

⁶ These providers had some records with multiple errors.

Source: The OAG prepared this exhibit based on transactions selected and tested on-site.

PROGRAM DESCRIPTION

AE provides an opportunity for adults to improve or achieve education levels equivalent to those of high school graduates. Instruction is tailored to meet the individual needs of adult students, and standardized tests identify existing skill levels, appropriate instruction, and academic gains resulting from instruction.

AEP is a program of adult academic instruction including, but not limited to, basic courses in reading, writing, and mathematics; English as a Second Language; high school completion; high school equivalency; and workforce preparation. While playing a critical role in the attainment of secondary school diplomas and equivalency credentials, AEP also aims to assist in the transition to post-secondary education and training through the use of career pathways.

There were approximately 120 AEPs located throughout Michigan, with about 20% of Michigan's local public school districts operating an AEP in program year 2018. In addition, some ISDs, community colleges, community and faith-based organizations, and literacy councils offered adult education services. Approximately 30,000 students were enrolled in AEPs across the State as of June 30, 2018. WIOA expenditures totaled \$13.2 million and Section 107 expenditures totaled \$27.0 million for fiscal year 2018.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the program and other records of AE. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered July 1, 2015 through September 30, 2018.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of AE's operations and activities in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed AE management and staff regarding their job functions and responsibilities.
- Reviewed selected LEO policies and procedures and State and federal laws.
- Obtained an understanding of AEP, including its mission, goals, objectives, functions and procedures, outputs, outcomes, measurement criteria, and measurement data.
- Analyzed the providers' funding allocations, budgeted expenditures, participant data, and performance metrics for program years 2016, 2017, and 2018.
- Conducted an on-site visit to an adult education provider to gain a better understanding of AEP.
- Analyzed Statewide Integrated Governmental Management Applications* (SIGMA) data to determine whether AE reported federal grant funds within the period of performance for program year 2016.
- Performed a trend analysis of the number of participants and allocation amounts for program years 2016, 2017, and 2018 to identify unusual activity and review the trend of allocation per participant.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the appropriateness of AE's funding to eligible fiscal agents and providers.

To accomplish this objective, we:

- Matched approved budget amounts in MEGS+ to amounts AE approved for allocation for 120 WIOA providers for program years 2016, 2017, and 2018 to determine whether AE budgeted for only the approved allocation amount.
- Randomly sampled 20 Section 107 providers' budgets and 25 WIOA providers' budgets of 313 submitted Section 107 and WIOA budgets to determine whether AE reviewed each budget for allowable activities and reasonable amounts budgeted as compared with estimated participants to be served.
- Reviewed and recalculated AE's Section 107 allocation spreadsheet for all 10 fiscal agents for program years 2016, 2017, and 2018 to determine if the formulas complied with Section 107(4), data used in the calculation was supported and accurate, and AE allocated the proper amount to its fiscal agents.
- Recalculated AE's WIOA allocation spreadsheet and traced calculated allocations to approved final allocations as published on the AE Web site for the 90 approved providers for program year 2018 to determine whether AE calculated the allocations to its providers accurately and allocated the calculated amounts.
- Obtained the approved final amount of funds available and the estimated participants to be served for the 90 approved providers for program year 2018 to determine whether AE allocated no more than \$700 per participant.
- Reviewed AE's tracking sheet documenting approval for an ISD to serve as the fiscal agent in each of the 10 regions for fiscal years 2016, 2017, and 2018 to ensure that AE obtained all necessary approvals.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective populations.

OBJECTIVE #2

To assess the effectiveness of AE's efforts to monitor AEP.

To accomplish this objective, we:

- Judgmentally and randomly sampled 15 of the 153 providers who received AEP funding between July 2015 and June 2018. We conducted on-site reviews at 14 of the 15 providers to review hard-copy financial support,

participant files, and user agreements. We examined the documentation and:

- Assessed whether all 44 active MAERS users as of November 2018 had signed user agreements and were assigned access based on the principle of least privilege.
- Reconciled the providers' general ledgers with the final expenditure reports to ensure proper separation of funds, amounts, and budget category.
- Identified 163 instructors receiving salaries and wages on the general ledgers and verified if they were certified to teach AEP classes.
- Reviewed all salary employees and a random sample of 9 pay periods for hourly employees identified on the general ledgers to determine whether the amounts were properly documented, approved, and paid.
- Determined the Section 107 providers' fiscal agents to ensure that the 9 fiscal agents reviewed published the request for proposal for grant funds to all potential providers and conducted a competitive selection process for program year 2019, considered the required census and performance data to determine allocation amounts, and performed sufficient oversight activities.
- Judgmentally sampled 389 provider expenditure transactions recorded in the general ledgers to ensure that transactions were adequately documented, appropriately recorded, and properly approved and the costs and activities were allowable, reasonable, and necessary.
- Randomly and judgmentally sampled 420 unique participants registered for AEP classes from 8,595 registered participants for program years 2017 and 2018 to determine whether test scores, MSGs, and attendance records documented in the participants' records were recorded properly in MAERS. Also, we verified the participants' eligibility and accuracy of placement in AEP.
- Randomly sampled 9 providers and verified that 682 participants who were registered in program years 2017 and 2018 did not receive a secondary school diploma or its equivalent in program year 2017.

- Analyzed \$63.7 million of salaries and \$29.5 million of related benefits for 150 providers' budgets with over 14,500 line items approved by AE in MEGS+ for program years 2016, 2017, and 2018 to determine whether benefits exceeded salaries for each budget line item submitted and whether AE subsequently inquired with the provider to ensure proper allocation of benefits to salaries between State and federal funding sources.
- Analyzed the High School Diploma and English as a First Language (HSD EFL) MSG data in MAERS for program years 2017 and 2018 for the 41 providers who had the HSD EFL gain as their only gain to determine the providers' eligibility for funds.
- Randomly sampled 5 of 10 fiscal agents for program years 2017 and 2018 to determine whether AE approved the Section 107 application, budget, and budget variances.
- Reviewed the 101, 102, and 92 WIOA providers on AE's allocation lists for program years 2016, 2017, and 2018, respectively, to determine whether AE approved the providers' application and budget.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective populations. For our judgmental samples, we could not project the results to the respective population.

OBJECTIVE #3

To assess AE's compliance with selected laws and regulations.

To accomplish this objective, we:

- Reviewed the program year 2016, 2017, and 2018 WIOA grant spending plans to determine whether they were properly calculated, complied with federal earmarking requirements, and tied to expenditures as recorded in the State's accounting records.
- Recalculated the required non-federal match amount of \$9.5 million, \$9.1 million, and \$10.0 million for federal awards from 2016, 2017, and 2018, respectively, and reviewed the related expenditures to ensure that the match amount was spent on adult education and literacy activities.
- Reviewed the three rubrics that AE used for scoring providers to determine whether AE considered the required criteria when identifying eligible providers.
- Randomly sampled 15 of 182 approved WIOA applications for program years 2016 and 2017 to determine whether AE approved only eligible providers

for funding and the applications included all necessary criteria and randomly sampled 10 of 131 approved WIOA applications for program year 2018 to determine if AE reasonably scored the applications, if AE consistently applied the criteria, and if the providers were eligible.

- Reviewed the 23 providers denied WIOA funding to ensure that AE did not approve the applications in MEGS+ and did not allocate funds to the providers for program year 2018.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective populations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 3 findings and 4 corresponding recommendations. LEO's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits #1 through #5. Our audit was not directed toward expressing a conclusion on the information in Exhibits #1 through #3. The information presented in Exhibits #4 and #5 was used to support our findings and conclusion on Objective #2.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

Adult Education (AE)	An office within LEO, also known as the Office of Adult Education.
AEP	Adult Education Program.
<i>CFR</i>	<i>Code of Federal Regulations.</i>
effectiveness	Success in achieving mission and goals.
EFL	English as a First Language.
GED	General Educational Development.
HSD	High School Diploma.
ISD	intermediate school district.
LEO	Department of Labor and Economic Opportunity.
MAERS	Michigan Adult Education Reporting System.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
MEGS+	Michigan Electronic Grants System Plus.
MSG	measurable skills gain.
National Reporting System for Adult Education (NRS)	The accountability system for the federally funded adult education program authorized by Section 212 of WIOA. The NRS includes the WIOA primary indicators of performance measures that describe adult education students and their program participation, methodologies for collecting performance data, and program reporting procedures.

performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
principle of least privilege	The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access rights that they can have and still do their jobs. The principle is also applied to things other than people, including programs and processes.
prosperity region	Regions within the State of Michigan that allow local areas to devote their resources in their area to create more relevant and demand-driven education and training programs.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
Section 107	Section of the State School Aid Act that governs the State funded Adult Education Program.
Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.
Uniform Guidance	Title 2 U.S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> . The Uniform Guidance, which was officially implemented in December 2014 by the Council on Financial Assistance Reform, establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Uniform Guidance supersedes guidance from earlier OMB circulars.

<i>USC</i>	<i>United States Code.</i>
USDOE	U.S. Department of Education.
WD	Workforce Development.
Workforce Innovation and Opportunity Act (WIOA)	U.S. Public Law sections 113-128 that is the primary federal workforce development legislation to bring about increased coordination among federal workforce development and related programs.



Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud

Hotline: (517) 334-8060, Ext. 1650