

## EXECUTIVE DIGEST

# DEPARTMENT OF EDUCATION

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### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Department of Education for the period October 1, 1997 through September 30, 1999.

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### AUDIT PURPOSE

This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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### BACKGROUND

The Department is responsible for managing numerous State and federally funded educational programs. During fiscal years 1998-99 and 1997-98, the Department had 16 major federal financial assistance programs and 2 major federal nonfinancial assistance (food commodities) programs. Of all the State departments, the Department of Education has the largest number of major federal programs.

Individual offices have the responsibility for establishing and implementing grant and services program policies. The Bureau of Administrative and Support Services is

responsible for accounting and financial reporting, including the preparation and submission of most federal program cost reports.

The Department's major funding sources were the State General Fund and the U.S. Departments of Education and Agriculture. Department General Fund expenditures and operating transfers out for fiscal years 1998-99 and 1997-98 were approximately \$1.2 billion and \$1.1 billion, respectively. In addition, the Department received and distributed approximately \$44.7 million and \$45.3 million in federal nonfinancial assistance (food commodities) for fiscal years 1998-99 and 1997-98, respectively.

As of September 18, 1999, the Department had 469 employees.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

**Conclusion:** We expressed an unqualified opinion\* on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

**Audit Objective:** To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the

financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\*.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified a reportable condition\* related to internal auditor functions (Finding 1).

**Audit Objective:** To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion:** Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These related to cash management, Commodity Supplemental Food Program dual participation, Migrant Education grant payments, Migrant Education program documentation, federal Adult Basic Education and English as a Second Language program participation, and Vocational Education

maintenance of effort (Findings 2 through 5, 7, and 8). **However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to internal auditor functions, cash management, Commodity Supplemental Food Program dual participation, Migrant Education grant payments, Migrant Education program documentation, Child and Adult Care Food Program advance payments, federal Adult Basic Education and English as a Second Language program participation, Vocational Education maintenance of effort, Tech-Prep Education articulation agreements, and federal program performance reports (Findings 1 through 10).

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AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Education for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Department operations also include the School Aid Fund, a special revenue fund, which is audited and reported on separately.

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ORGANIZATIONAL  
CHANGE

On October 18, 1999, the Governor issued Executive Order 1999-12, which transferred the State's adult education, vocational education, and vocational-technical education programs from the Department of Education to the Michigan Department of Career Development (MDCD).

As a result, effective January 1, 2000, MDCD became responsible for the following major federal programs included in the scope of this audit: Adult Education - State Grant Program (CFDA #84.002), Vocational Education - Basic Grants to States (CFDA #84.048), and Tech-Prep Education (CFDA #84.243). Also, 60 related program staff transferred from the Department of Education to MDCD. To provide a report that is complete, accurate, and objective in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have addressed our findings and corresponding recommendations for these programs to the Department of Education, which administered these programs during our audit period. However, MDCD has prepared the corrective action plan for these findings (Findings 7 through 10) and will be responsible for compliance.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report contains 10 findings and 10 corresponding recommendations. The Department of Education's corrective action plan indicates that, for the 6 recommendations it will be responsible for, it agrees with 5 and disagrees with the other 1. Also, the Department's plan indicates that it has complied with 2 recommendations and will comply with the other 4. MDCD's corrective action plan indicates that it agrees with the 4 recommendations it will be responsible for, has complied with 1, and will comply with the other 3.

As disclosed in the Department of Education's summary schedule of prior audit findings, the Department had fully corrected 11 of the 17 prior Single Audit\* findings and had not corrected or had partially corrected the other 6 findings.