



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*  
*Office of Education Options*  
*Department of Education*

Report Number:  
 31-135-01

Released:  
 June 2002

The Office of Education Options (OEO) is responsible for various program areas, such as public school academies (PSAs), boarding schools, and schools of choice. Within the PSA program, the Department of Education may suspend the power of an authorizing body (authorizer) to issue new contracts to organize and operate PSAs if it finds that an authorizer is not engaging in appropriate continuing oversight of one or more of its PSAs operating under a contract issued by the authorizer.

***Audit Objectives:***

1. To assess the effectiveness of OEO's and the Department's oversight of PSA authorizing bodies.
2. To assess the effectiveness of OEO's evaluation of PSA contracts issued by authorizing bodies and associated applications.
3. To assess the effectiveness of OEO's administration of other selected operations.

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***Audit Conclusions:***

1. We concluded that OEO and the Department were not effective in their oversight of PSA authorizing bodies.
2. We concluded that OEO was somewhat effective in its evaluation of PSA contracts and the associated applications.
3. We concluded that OEO was, for the most part, effective in its administration of other selected operations.

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***Overview:***

In regard to our first objective, during our audit period, the Department had conducted limited activities to fulfill its oversight responsibilities prescribed in Part 6A of the Revised School Code (Sections 380.501 - 380.509 of the *Michigan Compiled Laws*). Therefore, we visited authorizers and PSAs to obtain information to assess the effectiveness of OEO's and the Department's PSA program operations. Such visits are a routine procedure for performance audits that we conduct of the Department.

Findings that include information obtained during these visits and corresponding recommendations pertain only to OEO and the Department. It was not within our audit scope to assess and report on the overall effectiveness of authorizers' or PSAs' operations.

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***Noteworthy Accomplishments:***

While conducting our on-site visits to authorizers to gather information, we noted

that the authorizers had developed and implemented varied techniques, many of which were effective and efficient, to oversee their PSAs. Also, the authorizers continue to enhance the scope of their PSA contracts to help provide more effective oversight, without impairing their PSA's creativity. We commend the authorizers for taking the initiative in developing these techniques with limited assistance and guidance from the Department. In addition, after completing our on-site visits, most authorizers and their PSAs immediately addressed many items that we brought to their attention, and authorizers often strengthened their internal controls.

Further, the Department took action in May 2001 to discontinue approving PSA facilities for occupancy under its "continuous use policy." This policy had allowed buildings that were last used as a school and unoccupied for one year or less to be reopened without an inspection by the Office of Fire Safety, Department of Consumer and Industry Services.

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**Material Conditions:**

The Department did not establish and implement necessary rules, policies, and procedures to monitor the operations of PSA authorizers (Finding 1).

The Department did not allocate all available resources to administer the State's PSA program and did not request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers (Finding 2).

The Department did not prepare and submit annual comprehensive PSA reports to the Legislature as required by statute (Finding 3).

The Department should establish a comprehensive process to evaluate and

improve the effectiveness of its PSA program operations (Finding 4).

The Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight. Also, the Department did not seek legislative changes to address potential conflicts of interest that have arisen with the advent of PSAs. (Finding 5)

The Department did not provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny (Finding 6).

The Department should improve its process for approving PSA buildings for occupancy (Finding 7).

The Department did not verify that PSA authorizers' internal controls were adequate to ensure the separation of religion from PSA operations (Finding 11).

The Department had not identified and requested legislation or administrative rules needed to more effectively administer the State's PSA program. Also, the Department has sometimes not developed and implemented policies and procedures needed to administer statutory requirements. (Finding 12)

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**Other Conditions:**

The Department had not established, and provided to PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated (Finding 8).

The Department did not monitor PSA authorizers to determine if their internal controls were effective in ensuring that PSAs completed required teacher certification, employee background, and unprofessional conduct checks. Also, the Department should request legislation requiring all persons associated with providing educational or support services to children and board members to have background and unprofessional conduct checks. (Finding 9)

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers' internal controls are effective in monitoring emergency permit applications and ensuring that PSAs' instructional staff collectively have the necessary certifications and qualifications (Finding 10).

The Department did not provide adequate guidance to authorizers to help ensure that PSA boards complied with the Open Meetings Act and other statutes and their authorizers' contracts and policies (Finding 13).

The Department did not determine if PSA authorizers' internal controls were adequate to monitor the development and implementation of PSA board policies and procedures (Finding 14).

The Department should improve its oversight of and guidance provided to authorizers to help ensure that the PSA authorizers' financial related internal controls are effective in ensuring that PSAs' financial assets are safeguarded (Finding 15).

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers assist their PSAs in compiling and

maintaining complete student records (Finding 16).

The Department did not monitor PSA authorizers to help ensure that PSAs obtained insurance coverage as required by statute and their authorizers' charter contracts (Finding 17).

The Department needs to substantially improve its internal control over the review of PSA contracts. Also, the Department should request legislation to improve the efficiency of its charter contract review process. (Finding 18)

The Department did not require all licensed boarding schools to comply with teacher certification requirements. Also, the Department should improve its process for licensing boarding schools. (Finding 19)

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***Agency Responses:***

Our audit report contains 19 findings and 28 corresponding recommendations. The Department's preliminary response indicated that it agreed with 26 recommendations and disagreed with 2.

Also, the Superintendent of Public Instruction stated in his full response (see page 13 of the audit report) that he fully concurred with the majority of our findings and noted that the State has been remiss in fulfilling its obligation to provide appropriate oversight for charter schools. In addition, a number of steps have been taken under his direction to strengthen the PSA program and to make all public schools more accountable. Further, since being hired in April 2001, the Superintendent has redirected the Department's resources to increase the number of full-time equated staff assigned to PSA program work from 2.0 to 3.5; hired a new director for OEO; and informed the State Board of Education, the Governor, the Legislature, and the

Commission on Charter Schools of the need for additional resources as State appropriations have not been sufficient to carry out responsibilities prescribed by law.

The Superintendent also stated that the prior administration, which administered the PSA program for most of the audit period, defined the role of PSA program staff as maintaining the status quo, not to provide oversight, monitoring, or accountability. In addition, although as a member he did not concur with all of the Commission's recommendations and did not sign the report, he wholeheartedly

supports the recommendation to strengthen the oversight and accountability for existing charter schools.

Further, if granted the resources, the Superintendent will implement a certification process for authorizers. Finally, the Department's responses to the audit findings reflect knowledge of the corrective action that can be taken given current resources.

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



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