

EXECUTIVE DIGEST

DEPARTMENT OF EDUCATION

INTRODUCTION

This report contains the results of our financial audit*, including provisions of the Single Audit Act, of the Department of Education and federal programs within Michigan Rehabilitation Services, Michigan Jobs Commission, for the period October 1, 1993 through September 30, 1995.

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 of 1984 and the federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The Department is responsible for managing numerous State and federally funded educational programs. During fiscal years 1994-95 and 1993-94, the Department had 19 and 20 major federal financial assistance programs, respectively, and 2 major federal nonfinancial assistance programs. In addition, the Department provided accounting and administrative support services for the federal programs within Michigan Rehabilitation Services (MRS), Michigan Jobs Commission. MRS's federal programs included 1 major federal financial assistance program. Of all the State departments, the Department of

Education has the largest number of and the most diverse major federal programs.

In April 1995, the Department reorganized into the Instruction and Administration Bureaus. Deputy superintendents administer these two Bureaus, which oversee service areas responsible for Instruction and Administration. In addition to the Bureaus, the Department established an associate superintendent position which oversees audit services, and assistant superintendent positions responsible for Educational Choice/Charters, Post Secondary Education, and Research and Information.

During our audit period, the Governor issued Executive Orders 1993-19, 1993-20, 1993-21, and 1995-3. These Executive Orders transferred the School Bond Loan Program, the Michigan Higher Education Assistance Authority (which includes Student Financial Assistance Services), and the Michigan Higher Education Student Loan Authority to the Department of Treasury; Michigan Rehabilitation Services to the Michigan Jobs Commission; and the Disability Determination Services Program to the Family Independence Agency. These transfers included 1,478 full-time equated positions and approximately 27.5% of the Department's General Fund operating expenditures, including three major federal assistance programs included in the scope of this audit.

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

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 1994-95 and 1993-94 were approximately \$1.4 billion and \$1.5 billion,

respectively. In addition, the Department received and distributed approximately \$48 million and \$53 million in federal nonfinancial assistance (food commodities) for fiscal years 1994-95 and 1993-94, respectively.

As of September 30, 1995, the Department had 580 employees.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To assess the adequacy of the Department's internal control structure*, including applicable administrative controls related to the management of federal assistance programs.

Conclusion: Our assessment of the Department's internal control structure disclosed one material weakness*:

- The Department did not provide the administrative oversight necessary to ensure that its internal control structure functioned as designed for its federal assistance programs (Finding 1). As a result, our audit identified numerous reportable conditions* concerning program management internal control exceptions (Findings 5 through 9) and material noncompliance* with laws and regulations for one of the Department's major federal financial assistance programs (Finding 16).

The Department continues to disagree with this finding. The Department does have a grants management system which the auditors believe is not comprehensive enough. The Department has complied with two thirds of the prior audit recommendations, and it believes that this is a good record, and is continuing to work on the remaining recommendations as resources permit. The Department has approached corrective actions with good faith and due diligence. Responses to the

specific weaknesses have been addressed by the program offices.

Our assessment also disclosed that the Department did not comply with most of the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its system of internal accounting and administrative control. We have a finding related to the duties of the Department's internal auditor (Finding 2).

In addition, our assessment disclosed other reportable conditions pertaining to common control functions, such as federal cash management, federal financial reporting and grant overpayment recoveries, indirect cost determination and accounting, personnel-payroll cost distributions, Personnel-Payroll Information System for Michigan (PPRISM) processing controls, and mail opening and cash receipts (Findings 3, 4, and 10 through 13).

Our assessment also identified two reportable conditions pertaining to vehicle purchases and modifications and cost allocations for Michigan Jobs Commission programs (Findings 14 and 15).

Audit Objective: To assess the Department's compliance with both State and federal laws and regulations that could

have a material effect on either the Department's financial schedules or any of its major federal assistance programs.

Conclusion: Our assessment did not disclose any noncompliance with laws and regulations that could have a material effect on the Department's financial schedules. However, our assessment did disclose material instances

of noncompliance with federal laws and regulations pertaining to one major federal assistance program:

- The Department did not ensure that the Adult Education - State Administered Basic Grant Program (*Catalog of Federal Domestic Assistance #84.002*) for fiscal year 1994-95 was administered in accordance with federal laws and regulations (Finding 16).

The Department agrees with the recommendation related to this finding. In response to a prior audit finding, the Office of Equity Services has already made the eligibility guidelines for State and federal adult education programs consistent with each other. This will allow the Department to make school district reimbursement for both State and federal programs based on actual audited membership counts.

Our assessment also disclosed a reportable condition regarding noncompliance with laws and regulations pertaining to private nonprofit school student participation (Finding 17).

In addition, our audit disclosed questioned costs* totaling at least \$1.2 million and negative questioned costs* totaling approximately (\$580,000) for the Department and questioned costs of at least \$3,644 and negative questioned costs of approximately (\$6,400) for the Michigan Jobs Commission for the two-year period ended September 30, 1995, which are presented as supplemental information in the schedule of questioned costs.

Audit Objective: To audit the Department's financial schedules for the fiscal years ended September 30, 1995 and September 30, 1994.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules. However, we did note reportable conditions pertaining to the establishment of encumbrances and in the valuation of fixed assets and corresponding operations (Findings 18 and 19).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Education and the federal programs within Michigan Rehabilitation Services, Michigan Jobs Commission, for the period October 1, 1993 through September 30, 1995. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States 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 State School Aid Fund, a special revenue fund, which is audited and reported on separately.

Our audit objective for the assessment of the internal control structure included an evaluation of the Department's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our report includes 17 findings and 27 recommendations addressed to the Department of Education. The Department's preliminary response indicated that it agreed with 20 of the recommendations and disagreed with 7. Our report also includes 2 findings and 6 recommendations addressed to the Michigan Jobs Commission. The Michigan Jobs Commission preliminary response indicated that it agreed with our recommendations.

The Department of Education had complied with 35 of the 52 prior audit recommendations included within the scope of our current audit, and 17 recommendations are repeated in this report. The Michigan Jobs Commission had complied with 3 of the 8 prior audit recommendations included within the scope of our current audit, and 5 recommendations are repeated in this report.