

MICHIGAN SCHOOL AUDITING MANUAL

Michigan Department of Education
2010/11



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INTRODUCTION

The Michigan Department of Education (MDE) provides this manual to assist public schools and independent auditors in meeting the Federal Office of Management and Budget (OMB) Circular A-133 audit requirements. The intent of this manual is to supplement, explain, and interpret the authoritative literature. The manual addresses high-risk areas and issues we believe need further explanation. **This manual is not intended to completely explain and describe the OMB Circular A-133 audit requirements.** School management and independent auditors will need to refer to the Authoritative Literature listed in the Appendix of this manual in order to ensure that all federal requirements are met.

Every public school, including public school academies, regardless of whether the school falls under the OMB Circular A-133 requirement, must submit a financial audit, completed in accordance with Government Auditing Standards, to the MDE Office of Audits on or before November 15th of each year. It is the MDE's responsibility to review the audits to: 1) ensure that the audits meet the OMB Circular A-133 requirements and are performed in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS), and 2) ensure that findings and questioned costs are resolved in a timely manner.

With regard to the auditor's responsibilities, in accordance with GAS, the staff assigned to conduct the audit must collectively possess adequate professional proficiency for the required tasks and the audit organization must have appropriate quality controls for performing government audits. The audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing professional education requirements, have an appropriate internal quality control system in place, and participate in an external quality control review program. Audit organizations conducting government audits should have an independent external quality review or peer review once every three years.

For further information contact:

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Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909
(517) 373-4591
Fax: (517) 241-0496
<http://www.michigan.gov/mde/audit>

OVERVIEW

I. Auditor Responsibilities

A. Determine the reports and schedules to be issued

1. Independent Auditor's Opinion on the Financial Statements
 2. *Report on Internal Control Compliance and other Matters over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Generally Accepted Government Auditing Standards (GAGAS)*
 3. For A-133 audits, Opinion on the Schedule of Expenditures of Federal Awards, "in relation to" the Federal Statements (may be combined with item 4)
 4. For A-133 audits, *Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*. You must plan the audit to support a low assessed level of control risk. See OMB Circular A-133, Section .500, for a more comprehensive description.
 5. For A-133 audits, Schedule of Findings and Questioned Costs
- ** See Part II – General Audit Issues of this manual for further guidance

B. For A-133 audits, determine if the school is a "low-risk auditee" (must meet all of the following for the prior two years):

1. Must have had single audits
2. Unqualified Opinions on the Financial Statements and the Schedule of Expenditures of Federal Awards
3. No material weaknesses in internal controls at the financial statement level (See Appendix C (pages 288 & 289) for instructions and letter to be sent to USDE for low-risk waiver request.)
4. For each major program:
 - a. No material weaknesses or significant deficiencies in internal controls
 - b. No material noncompliance
 - c. No questioned costs (known or likely) greater than 5% of total federal expenditures for Type A program

**See OMB Circular A-133, Section .530 for a more comprehensive description.

C. For A-133 audits, determine the programs to be tested (Risk-Based Approach)

1. Identify Type A programs – generally \$300,000 or 3% or more of federal expenditures
2. Identify Type B programs – generally <\$300,000 of federal expenditures
3. Identify low-risk Type A programs – audited as a major program at least once in the last two years with no audit findings in most recent year. Auditor needs to consider the risk items identified in number 4 below.
4. Identify high-risk Type B programs – criteria include:
 - a. Complexity of contract requirements
 - b. Subrecipient competence
 - c. Current and prior audit experience
 - d. Internal control environment

- e. Risk of a material noncompliance
 - f. Other relevant factors – See OMB Circular A-133, Section .525 for a more comprehensive description.
5. Identify the major programs using the following criteria:
- a. All Type A programs must be tested. Exception: Low-risk Type A programs can be excluded on a rotating basis, but must be audited once every three years.
 - b. The lesser of the number of low-risk Type A programs or one-half of the high-risk Type B or one high-risk Type B program for each low-risk Type A program excluded.
 - c. Additional programs must be selected to comply with the 50% rule that could include programs less than \$100,000 (reduced to 25% for “low risk auditees”).
 - d. Programs not selected for coverage do not need to be tested.

** For further information, refer to OMB Circular A-133, Section .520.

6. A cluster of programs shall be considered as one program for determining major programs. See OMB Circular A-133 Compliance Supplement for a complete listing of federal program clusters.

D. For A-133 audits, Schedule of Findings and Questioned Costs (SFQC)

1. Disclose material noncompliance conditions (Sec. 510[a] [2]).
2. Disclose known questioned costs greater than \$10,000 or likely questioned costs (based on extrapolation) greater than \$10,000.
3. Include internal control significant deficiencies and identify those that are material weaknesses (Sec. 510[a] [1]).
4. Description of the findings must include:
 - a. The size of the universe in number of items and dollars
 - b. The number and dollar amount of transactions tested by the auditor
 - c. The number and dollar amount of instances of noncompliance
 - d. Name of award, source code and project number, grant year, Catalog of Federal Domestic Assistance (CFDA) number
 - e. Condition, criteria, cause, effect, recommendation, legal reference
 - f. Corrective action plan
5. Must include a Summary of the Auditor’s Results (See General Audit Issues, Section B, of this manual for further guidance).
6. Must include separate components for findings and questioned costs related to financial statements and those related to federal awards (Sec. 505).

Note: The components for financial statement findings and the components for federal award findings are not the same. Financial statement findings should include the following information:

- criteria or specific requirement,
- condition,
- questioned costs,
- context, cause,
- effect,

- recommendation,
- Management's response.

Federal award findings should include the following details, providing information required by Circular A-133:

- federal program information (program title, CFDA number, agency, award number and year, and name of pass-through entity, if applicable);
- criteria or specific requirement on which the audit finding is based, including a statutory regulatory or other citation;
- condition found, including the facts that support the deficiency identified in the audit finding;
- questioned costs and how they were computed (Circular A-133 requires auditors to report known or likely questioned costs greater than \$10,000);
- context;
- cause and effect of the finding to provide sufficient information to the auditee and federal agency or pass-through to permit them to determine the cause and effect and take corrective action;
- Recommendation to prevent future occurrences of the deficiency identified in the audit finding; and management's response.

7. Material misrepresentations in the Summary Schedule of Prior Audit Findings.

** See OMB Circular A-133, Sections .505 and .510, for a more comprehensive description and the AICPA's *Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* for format examples.

E. Audit Work Papers

1. Audit work papers must be in compliance with GAGAS and OMB Circular A-133, if applicable.
2. Audit work papers must support the auditor's planning decisions and results of the audit.
3. Audit work papers must be made available to the MDE upon request.
4. Audit work papers must be retained for three years from the date of the audit report.

** See OMB Circular A-133, Section .515 for a comprehensive description.

II. AUDITOR/PUBLIC SCHOOL RESPONSIBILITIES

For A-133 audits, the report package shall include (sample reports are in the AICPA's *Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards, formerly SOP 98-3*):

- A. Data Collection Form (See OMB Circular A-133, Section .320)
- B. Financial Statements (See OMB Circular A-133, Section .310)

- C. Schedule of Expenditures of Federal Awards (See OMB Circular A-133, Section .310)
- D. Summary Schedule of Prior Audit Findings (See OMB Circular A-133, Section .315)
- E. Auditors Reports: (See OMB Circular A-133, Section .505) (Note: The format of the reports should follow the AICPA examples. On internet at: <http://www.aicpa.org>)
 - 1. Opinion on Financial Statements
 - 2. Opinion on Schedule of Expenditures of Federal Awards, "in relation to" the Financial Statements
 - 3. Reports on Internal Controls and Compliance in Accordance with Governmental Auditing Standards (GAS)
 - 4. *Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*
 - 5. Schedule of Findings and Questioned Costs including a Summary of the Auditor's Results
- F. Corrective Action Plan (See OMB Circular A-133, Section .315)

III. PUBLIC SCHOOL RESPONSIBILITIES

- A. Determine the type of audit required
 - 1. All public schools (including public school academies) must have a financial audit in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).
 - 2. Public schools expending \$500,000 or more in federal funds must also have an audit in accordance with OMB Circular A-133 and the Single Audit Act.
 - 3. Public schools expending less than \$500,000 in federal funds have no OMB Circular A-133 audit requirements.

** For further information, see OMB Circular A-133, Section .300.
- B. Audit Procurement
 - 1. Follow the procurement standards prescribed by the Grants Management Common Rule.
 - 2. Factors to be considered in evaluating each proposal include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price.

** See General Audit Issues, Section E, of this manual and OMB Circular A-133, Section .305 for a complete description.
- C. For A-133 audits, prepare a Schedule of Expenditures of Federal Awards

** See General Audit Issues, Section B, of this manual for an example and OMB Circular A-133, Section .310 for a complete description.

- D. For A-133 audits, follow up on all audit findings. This includes the school's preparation of a Summary Schedule of Prior Audit Findings and a Corrective Action Plan.
1. Summary Schedule of Prior Audit Findings shall report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs and include audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings.
 - a. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
 - b. When audit findings were not corrected or were partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
 - c. When corrective action taken is significantly different from corrective action previously reported, the summary schedule shall provide an explanation.
 - d. When the auditee believes the audit findings are no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule.
 2. The Corrective Action Plan shall include:
 - a. Names of contact persons, the corrective actions planned, and the anticipated completion dates.
 - b. Explanations of any disagreements with the audit findings.
- ** For further information, see OMB Circular A-133, Section .315.

E. Distribution of Reporting Package

1. For A-133 Audits, submit a copy to the Federal Clearinghouse and additional copies for each federal agency with audit findings in current or prior audit periods.
2. Submit an electronic copy to MDE and other pass-through entities that request a copy

NOTE: MDE and the Michigan Department of Treasury have unified the audit submission/collection process. Beginning with fiscal year ended June 30, 2010, school districts only need to submit one audit to meet the needs of both departments and satisfy the audit requirements of Public Act 34 of 2001. (See addresses in General Audit Issues, Section C.)

3. It is the auditor's responsibility to inform the school of the distribution process.
- ** See General Audit Issues, Section C, of this manual and OMB Circular A-133, Section .320 for a complete description.

F. Subrecipient Monitoring

1. Any school granting federal funds to another entity must perform subrecipient monitoring.
- ** See General Audit Issues, Section D, of this manual for a complete description.

GENERAL AUDIT ISSUES

SECTION A

REPORTS

I. REFERENCES

- A. Government Auditing Standards (2007 Yellow Book Revision), issued by the Comptroller General of the United States.
- B. American Institute of Certified Public Accountants (AICPA) Audit Guide – “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards.”
- C. Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” revised in 1997.

II. REPORTS REQUIRED UNDER THE REVISED OMB CIRCULAR A-133

- A. A report on the financial statements, a report covering Government Auditing Standards (GAS) compliance and internal controls, and the single audit compliance and internal controls report.
- B. Other Reports/Letters
 - 1. A management letter may be issued for nonmaterial internal control weaknesses in accordance with GAS. Other nonmaterial instances of noncompliance with state and local laws and regulations may also be reported in the management letter. GAS allows this communication to be oral; MDE prefers the written format. If more than one management letter is issued, or if a letter to the director of business or finance, etc., is issued along with a separate letter to management, the MDE should receive both letters. Communications with the audit committee (or equivalent) for certain matters related to the conduct of an audit under **SAS 114**, does not preclude the issuance of, or replace the auditor’s responsibility to issue a management letter. MDE should receive both the management letter and any written communication with the audit committee under SAS 61 as amended by **SAS 114**, if issued.
 - 2. Management Discussion & Analysis (MD&A) – The MDE and the Michigan Department of Treasury require the MD&A for all school districts.
 - 3. Reports on Finding of Suspected Fraud and/or Embezzlement—during the course of an engagement, the independent CPA should be constantly aware of the possibility of fraud and/or embezzlement. SAS 54, 82, and 99 should be followed where applicable. If the possibility of any fiscal fraud, defalcation, misfeasance, nonfeasance, or malfeasance comes to the auditor’s attention, the school should make an “oral report” immediately to Kathleen Weller (517-335-6858), the Director of the Michigan Department of Education, Office of Audits. This oral report should be followed up by a written report to the

Director with a copy to the CPA disclosing the CPA's findings within two weeks. If the CPA does not receive a copy of the report to the Director within two weeks, then the CPA is required to report the information to the Department. If the district fails to report suspected irregularities, the Department may withhold state aid in accordance with Section 162 of the State School Aid Act or federal funds in accordance with 34 CFR, Part 80.43. The independent CPA, unless otherwise directed in writing by the Director, Office of Audits, should complete the normal audit. To avoid any possible conflict with the professional ethics of the independent CPA pertaining to the client relationship, the district should give written permission to the independent CPA to make the disclosures required by these reports, prior to commencing the audit. Preferably, this permission should be included in the engagement letter or contract for audit. The district should consider referring the situation to the appropriate law enforcement agency.

SECTION B

SCHEDULES

I. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (A sample schedule follows this section)

A. The schedule must include all federal financial assistance (include grants, contracts, property, loans, loan guarantees, interest subsidies, cooperative agreements, insurance, or direct appropriations) and related expenditures. These are reported whether received directly from the federal agencies or indirectly through other units of government, nonprofit organizations, etc.

Examples:

1. Payment from the county for Schools and Roads Grant, unrestricted-use national forests, etc.
2. WIA funds received under contract from an administrative agency.
3. Special Education, Individuals with Disabilities Education Act (IDEA), P.L. 101-476 and Title V received through the intermediate school district (ISD) or another school district acting as a fiscal agent.
4. Payments in kind, such as United States Department of Agriculture (USDA) Donated Commodities. The Michigan Department of Education Recipient Entitlement Balance Report should be used to determine distribution of commodities to the school district during the year.
5. Energy grants (Energy Conservation Measures and [ECM] Technical Assistance [TA] grants).
6. Loan amounts received from the Environmental Protection Agency (EPA) under Asbestos Hazard Emergency Response Act, etc. The value of loans should be reported separately in the schedule or disclosed in a footnote. Any interest subsidy or administrative costs allowance received during the fiscal year should be included in the schedule.
7. Medicaid Outreach claims.
8. Various other sources.

B. The following items must be included for each active award:

1. Approved amount of the award/grant
2. Catalog of Federal Domestic Assistance (CFDA) number. If a CFDA number has not been assigned, identify it under the caption "other federal assistance."
3. Source code and project number
4. Inventory and accrued or deferred revenue July 1, 20X0
5. Prior year(s) cumulative actual expenditures from federal sources
6. Current year cash or payments in-kind received from federal sources
7. Current year actual expenditures from federal sources
8. Inventory and accrued or deferred revenue June 30, 20X1
9. Adjustments to prior year awards, expenditures and balances including transfers between grants (All adjustments must be explained in the footnotes to the schedule.)

- C. All projects should be classified by program, and all programs should be classified under the federal department that administers the program. Also, for each program and project, the schedule should identify whether assistance is received directly from a federal department or passed through a state or local recipient (such as an ISD). The schedule should provide unit amounts, subtotals, and totals for each classification (projects, programs by CFDA number, direct and pass-through, departments, etc.).

Note: Clusters must be identified on the schedule and must be considered as one program for determining major programs. See OMB A-133 §.105.

- D. The same amount of accrued/deferred revenue should be reported at 6/30/X0 and at 7/1/X0 Project adjustments may be reported when funds are returned by check or as a deduction from future funding requests, when transferred to another project, or when a project is amended.
- E. The schedule should include the following statement: The notes accompanying are an integral part of this schedule.
- F. The following footnotes must be included in the schedule:
1. Describe the significant accounting policies used in preparing the schedule. Quite often, reference to the Financial Statements footnotes will be appropriate here.
 2. Management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
Guidance: Differences between current payments reported in the GAR and amounts reported in the schedule should be reconciled. The auditor should provide an explanation for all differences as a footnote to the schedule.
 3. When the adjustment column is used, a clear explanation must be given for each adjustment.
Guidance: For example, the 20X0 Schedule of Expenditures of Federal Awards includes an award for \$213,000, expenditures of \$209,000, amount received of \$213,000, deferred amount 6/30/X0 of \$4,000. If for the 20X1 federal year, the award is adjusted downward to \$209,000, and then report the original award of \$213,000, prior year expenditures of \$209,000, and \$4,000 in the adjustment column. The footnote may read, "Project #021530-0102 was reduced from \$213,000 to \$209,000 and the amount deferred at 7/1/X1 of \$4,000 was returned to the MDE (via check #_____) or has been/will be taken out of a future request for funds, or the school has recorded \$4,000 as a payable to the MDE," etc.

II. SCHEDULE OF RECONCILIATION OF REVENUES WITH EXPENDITURES FOR FEDERAL AWARD PROGRAMS

A. The purpose of this schedule is to reconcile and explain any differences between the revenues from federal sources reported in the financial statements and the expenditures reported in the Schedule of Expenditures of Federal Awards. This schedule is to be prepared when there are several reconciling items. Otherwise, the reconciliation may be disclosed in a note to the Schedule of Expenditures of Federal Awards. Differences may result from the following:

1. Incoming and outgoing transfers (identified by program)
2. Timing differences (i.e., GASB 33 revenue recognition issues)
3. Federal revenue reported as state revenue and vice versa
4. Beginning and/or ending accrued (deferred) revenues that have not been recognized in the financial statements

Items 3 and 4 should be properly reported on future financial reports to eliminate these differences.

B. Rebates and discounts from United States Department of Agriculture (USDA) Donated Commodities in the National Commodities Processing (NCP) Program may be netted against expenditures in the financial statements. However, for Financial Information Database (FID) presentation and accuracy in reporting, rebates should be reported as revenue. Do not offset or reduce expenditures or show costs net of rebates from the NCP Program.

III. SCHEDULE OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS (A recommended schedule format follows this section.)

This schedule must be submitted when funds are passed through to another school and should include:

1. Subrecipients' program(s) title and project numbers
2. CFDA number of program
3. Subrecipient award or contract amount. To the extent practical, identify the total amount provided from each program included in the SEFA.
4. Due to (or from) subrecipients July 1, 20X0
5. Prior year federal expenditures reported by subrecipient
6. Current year cash, etc., transferred to subrecipients
7. Current year federal expenditures reported by subrecipients
8. Due to (or from) subrecipients June 30, 20X1

IV. SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Clear presentation of audit findings and questioned costs is important to single audit users. The revised OMB Circular A-133 (Sections .505 and .510) requires the following three components in the Schedule of Findings and Questioned Costs:

A. Summary of the auditor's results should include all applicable elements as required by Section .505(d) (1) of the revised OMB Circular A-133.

- B. Findings relating to the financial statements that are required to be reported in accordance with Generally Accepted Government Auditing Standards (GAGAS). For information, refer to Chapter 7, "Reporting Standards for Performance Audits" of Government Auditing Standards GAS.
- C. Findings and questioned costs for federal awards in accordance with Section .510(a) of the revised OMB Circular A-133 should include the following components:
1. Significant deficiencies in internal control over major programs. Also, identify if any of these significant deficiencies are individually or cumulatively material weaknesses.
 2. Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements that the auditor concludes, based on evidence obtained, has occurred or is likely to have occurred in major programs. For reporting purposes, the auditor is required to report a finding when the noncompliance discovered is material to an individual type of compliance requirement.
 3. Report all known questioned costs that are greater than \$10,000. Also, report any known questioned costs when the likely questioned costs are greater than \$10,000.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

4. The reasons why the auditor has issued "other than an unqualified opinion" on the report on compliance for major programs. A separate explanation is not necessary if these reasons are reported as audit findings.
5. Report any known fraud or illegal activity unless it is reported as a separate finding.
6. Identify if the Summary Schedule of Prior Year Audit Findings prepared by the school materially misrepresents the status of any prior audit findings.

D. Audit Finding Detail

The following information should be included in the Schedule of Findings and Questioned Costs. Also, refer to Section .510(b) of OMB Circular A-133.

1. Identify the federal assistance awards involved by name of award, CFDA number, source code and project number, grant year, grant number, and any applicable pass-through agency.
2. Clearly identify the condition found, including the facts relied on that indicate that noncompliance or deficiencies in internal control over federal programs occurred.
3. Put the finding in perspective by relating the extent (number of instances and dollar amount) of noncompliance to the number of cases examined, the dollar amount tested, and the audit universe.
4. Identify the specific requirement(s) (statutory, regulatory, or citation of the requirement) with which the grantee did not comply. The finding may include

- identification of the records that were made available and efforts to obtain others, when there are conditions of unsupported or undocumented costs.
5. Provide information that would be necessary in order for federal, state, and local officials to determine the cause and effect of the condition so that timely and proper corrective action can be planned and taken.
 6. Include recommendations for corrective actions to prevent future occurrences of noncompliance. The corrective action may consist only of returning funds received for disallowed expenditures.
 7. Include pertinent views of responsible school officials when there is disagreement with the audit findings.
 8. Include the auditor's reasons for rejecting the views of the school's officials when those views oppose the auditor's findings and conclusions.
 9. Report all known questioned costs that are greater than \$10,000, associated with each condition of noncompliance, along with an indication of what the questioned costs represent (i.e., how it was computed). Also, report any known questioned costs when the likely questioned costs are greater than \$10,000. If the questioned costs are not calculated, recommend a method of computing them.
 10. Number the findings to allow for easy referencing during follow-up. If the auditor's report does not include the applicable elements identified in these guidelines, then it must specify whether the information will be disclosed at a later date or give the reason(s) why it was not included in the report. For example, "additional information was not considered relevant or obtainable during the audit." **Failure to provide well-developed findings or the exclusion of information may cause a determination that the report is substandard.** A statement of grant purpose, amount of carryover available, grant allocation, etc., may be informational only. Do not include these items as findings in the Schedule of Findings and Questioned Costs.

V. CORRECTIVE ACTION PLAN

The school's response to the findings should be included with the audit report. It should be specific and action oriented. The response is generally titled a corrective action plan and should be on the school's letterhead and signed by an appropriate official. If funds are due to the state, they must be returned in order to resolve the finding. The corrective action plan should include the following elements:

- A. The public school's comments for each finding; denote by the finding reference number.
- B. The corrective steps that have already been taken.
- C. The steps that will be taken, along with target dates.
- D. The plan for monitoring adherence to the corrective action plan.
- E. If warranted, reasons why the auditee does not consider corrective action necessary.
- F. Name of contact person(s) for further information.

- G. For funding passed through the MDE: If costs are unallowable, undocumented, unapproved, or unreasonable, or cash was received in advance and not expended within the grant time limits (deferred revenue), repayment of these funds is required, unless these conditions can be resolved so as to meet the requirements of the grant. For United States Department of Agriculture (USDA) funding and most United States Department of Education (USDOE) funding, the MDE will recover/reduce a future payment by the amount of questioned costs. However, for all other programs, funds may be recovered by the Grants System or the school district may be asked to send a check payable to the Michigan Department of Education, with project and source codes reported on the stub, Checks should be mailed to the following address:

Chief Cashier, Accounting Program
Michigan Department of Education
P.O. Box 30106
Lansing, Michigan 48909
Attention: Ken Rademacher

The corrective action plan should disclose the mailing date of the check and the amount of questioned costs returned.

VI. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

In accordance with the revised OMB Circular A-133, the school is responsible for follow-up and development of a corrective action plan (see Part V above) for all (current and prior year[s]) federal findings, including significant deficiencies (internal control weaknesses), material noncompliance with laws and regulations, and questioned costs. As part of this responsibility, the school should prepare a Summary Schedule of Prior Audit Findings. The summary schedule should include the following elements as outlined in OMB Circular A-133, Section 315(b):

- A. Audit finding numbers
- B. The fiscal year in which the finding initially occurred
- C. Status of all findings. If a previously reported finding is fully corrected, it must still be listed, and the auditee should state that corrective action was taken. If findings are not corrected or partially corrected, report the planned corrective action.
- D. Report any revisions or deviations in corrective action plans previously reported.
- E. If school staff believes that the audit findings are no longer valid or does not warrant further action, the reasons for this position should be described.

SECTION C

REPORT DISTRIBUTION

To comply with OMB Circular A-133 filing requirements, each public school should follow the information provided in this section in conjunction with Section .320 of OMB Circular A-133.

I. WHERE TO FILE

A. Intermediate School District (ISD)

Each public school should file one copy of the reporting package, a management letter, and data collection form, if required, as discussed in Part II of this section, on or before October 28 of each year.

B. Michigan Department of Education (MDE)

Each ISD, public school and public school academy must file one copy of their audit reporting package and management letter with the MDE by November 15 of each year.

Beginning June 30, 2009, public schools and public school academies are required to submit their audit packages to MDE electronically via e-mail. The e-mail address is MDE-FinAudit@michigan.gov. Specific instructions may be found on the MDE website.

MDE reserves the right to request a hard copy of the audit package if for any reason the electronic submission process is not successful. The hard copy should be mailed to:

Michigan Department of Education
Office of Audits
Hannah Building, 4th Floor, B-17
P.O. Box 30008, 608 West Allegan Street
Lansing, Michigan 48909 (for P.O. Box) **OR** 48933 (for street
address)

Note: For late audit reports, Section 18(5) of the State School Aid Act requires that the MDE withhold 100% of the school's annual state aid until the audit is received.

C. Federal Audit Clearinghouse

Each school should submit one copy of the reporting package to the Federal Audit Clearinghouse to retain as an archival copy. Also, send one copy for each federal awarding agency when the Schedule of Findings and Questioned Costs disclosed audit findings relating to awards that the federal awarding agency provided directly, or the Summary Schedule of Prior Audit Findings reported the status of any audit findings relating to awards that the federal awarding agency provided directly. Beginning January 1, 2008, all Single Audit reporting packages

and Form SF-SAC must be submitted electronically to the Federal Audit Clearinghouse. The website address is: <http://harvester.census.gov/fac/collect/ddeindex.html>. Directions may be found at the Federal Audit Clearinghouse website: <http://harvester.census.gov/fac>.

D. Michigan Department of Treasury

Beginning with fiscal year end June 30, 2010, MDE and the Michigan Department of Treasury have unified their process for submission of school district financial audits. Districts will need to submit only one audit, which will meet the needs of both Departments and satisfy the audit filing requirements of Public Act 34 of 2001. The audits must be submitted to MDE-FinAudit@michigan.gov. Specific instructions may be found on the MDE – Office of Audits website under “Guidance for Electronic Filing of Audited Financial Statements.”

Note: All Bond Audits will still need to be submitted to Treasury at:

Local Audit and Finance Division
Michigan Department of Treasury
P.O. Box 30728
Lansing, Michigan 48909-8228

E. Michigan Department of Community Health (MDCH)

Intermediate school districts and the City of Detroit Public Schools, which receive Medicaid Administrative Outreach and Transportation program funding from the Michigan Department of Community Health, that have a single audit conducted as a result of \$500,000 or more in expenditures of federal funds must submit one copy of the school district’s reporting package and management letter, if one is issued within nine months of the school district’s fiscal year-end*.

MDCH does not need a copy of the audit if the federal funds were not received directly from MDCH.

Mail copies of the audit reporting package or a CD-ROM to:

Michigan Department of Community Health
Office of Audit
Quality Assurance and Review Section
400 South Pine Street, P.O. Box 30479
Lansing, Michigan 48909-7979

Audit reporting packages may also be submitted to MDCH electronically via e-mail. The e-mail address is MDCH-AuditReports@michigan.gov. Specific instructions may be found on the MDCH web site located at www.michigan.gov/mdch. (PDF file compatible with Adobe Acrobat [read only] is required for all electronic submissions.)

**Early submission in keeping with the MDE audit filing requirements of November 15 of each year is encouraged.*

F. Additional Submission Requirements

As discussed in Section .320(e) and (f) of the OMB Circular A-133, schools are required to submit to each pass-through entity (for MDE, see Part I-B, above) one copy of the following:

1. Reporting package as discussed in Part II of this section when the Schedule of Findings and Questioned Costs disclosed audit findings relating to federal awards that the pass-through entity provided or the Summary Schedule of Prior Audit Findings reported the status of any audit findings relating to federal awards that the pass-through entity provided.
2. Requests for copies of reports: When requested by any federal or pass-through entity, schools should provide copies of the reporting package and the management letter. If not requested, subrecipients must still inform pass-through agents of compliance with the single audit. (This may be communicated by letter.)

II. WHAT TO FILE

A. MDE Required Reporting Package – A reporting package to MDE should include the following documents:

1. Data Collection Form (for single audits) – Auditors are required to complete this form. Both the auditor and the school official need to electronically certify the information included in the data collection form. As discussed in Section .320(b) of OMB Circular A-133, this form should be approved by the Office of Management and Budget. It is available from the Federal Audit Clearinghouse (<http://harvester.census.gov/sac/>) and must be filed on-line. School districts should include an “Archived” copy of the Data Collection Form with their audit submission to MDE. (Draft copies are not acceptable.)
2. Audited financial statements and Schedule of Expenditures of federal awards
Reference: General Audit Issues, Section B, of this manual and Section .310(a) and (b), respectively, of OMB Circular A-133.
3. A Summary Schedule of Prior Audit Findings prepared by the district
Reference: Section .315(b) of OMB Circular A-133
4. Auditors reports
Reference: General Audit Issues, Section A, of this manual and Section .505 of OMB Circular A-133
5. A corrective action plan to resolve the current and prior year audit findings as prepared by districts.
Reference: General Audit Issues, Section B, of this manual and Section .315(c) of OMB Circular A-133

B. Management letter, if issued by auditors. This letter should be filed with the MDE. Also, this letter should be submitted to other federal and pass-through entities upon request. If the auditor does not issue a management letter, schools should include a memo to the MDE indicating that a management letter was not issued.

- C. Statements on Auditing Standards (SAS) 114 letter: *The Auditor's Communication With Those Charged With Governance*.
- D. Public schools expending less than \$500,000 in federal funds are not required to have single audits performed. However, they are required to file Financial Statement audits (performed in accordance with Government Auditing Standards) and management letters with the ISD, MDE, MDCH (if they meet requirements listed in Section I-E),.

III. WHEN TO FILE

As discussed in Part I of this section, to avoid penalties, schools should file all required reports with the MDE by November 15 of each year. Also, the reporting package or required reports should be filed with appropriate agencies within 30 days after issuance of the auditor's reports or 9 months, whichever is sooner, per OMB Circular A-133, Section .320(a).

*****SPECIAL NOTE*****

The Department of Defense (DOD) has transferred federal cognizance or oversight responsibilities for audits of school districts that meet certain criteria to the Department of Education (DOE). If a district meets the following criteria, then it should report the DOE as its federal cognizant or oversight agency:

1. The DOD provides the district less than \$800,000 in direct funding; and
2. The total of both direct and indirect funding provided to the district by the DOE is greater than the total direct funding provided by the DOD.

SECTION D

SUBRECIPIENT MONITORING

I. PRIMARY RECIPIENT RESPONSIBILITIES

A primary recipient assumes responsibility for complying with federal requirements when it accepts federal financial assistance. That responsibility includes operating the program, maintaining property and financial records, arranging for audits, and assuring audit resolution. When the primary recipient provides a pass-through grant to a subrecipient, federal agencies hold the primary recipient ultimately responsible for compliance at the subrecipient level. The primary recipient is responsible for providing the subrecipient with applicable federal requirements as well as identification of the source of funding and any additional administrative requirements imposed on the subrecipient.

A. Office of Management and Budget (OMB) Circular A-133 requires the primary recipient to perform the following for the federal awards it passes through to subrecipients:

1. Identify federal awards passed through by informing each subrecipient of Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is for research and development, and name of the agency. When some of this information is not available, the pass-through entity will provide the best information available to describe the federal award.
2. Advise subrecipients of requirements imposed on them by laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
3. Monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and to ensure that performance goals are achieved.
4. Ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 for that fiscal year.
5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
6. Consider whether subrecipient audits necessitate adjustment of the primary recipient's own records.
7. Require each subrecipient to permit independent auditors to have access to its records and financial statements as necessary for the pass-through entity to comply with the requirements of OMB Circular A-133.

B. Subrecipient Monitoring Responsibilities

Primary recipients should monitor subrecipients during the grant period to ensure compliance with applicable federal requirements and attainment of performance goals. The primary recipients are expected to establish a system to ensure that

audits of their subrecipients meet the requirements of OMB Circular A-133. Such a system should include a desk review of each subrecipient report or Data Collection Form to ensure that it conforms to the circular. Management of primary recipients may perform the following procedures when monitoring subrecipients:

1. Review submitted A-133 single audit reports.
2. Evaluate audit findings and corrective action plans.
3. Determine if funds are disbursed to subrecipients only on an “as needed” basis.
4. Determine if disbursements to subrecipients are approved and properly supported.
5. Ensure that the subgrant agreement identifies the federal award, CFDA number, and the primary recipient, or that its auditor has access to the subrecipient’s records.
6. Determine if procedures exist to ensure that subrecipients meet all eligibility requirements.
7. Determine if reports received from subrecipients are reviewed on time.
8. Review evidence of previously detected deficiencies and determine whether corrective action was taken.
9. Perform on-site visits.

II. AUDITOR RESPONSIBILITIES

- A. Review the primary recipient’s system for monitoring, obtaining, and acting on subrecipient audit reports and review the adequacy of the system.
- B. Test to determine whether the system is functioning in accordance with prescribed procedures.
- C. Determine whether the subrecipient has complied with all applicable A-133 audit requirements and whether subrecipient audit reports are current.
- D. Comment on the primary recipient’s monitoring and disbursing procedures with respect to subrecipients.
- E. Determine if subrecipient questioned costs or compliance findings, which may be material or otherwise, require adjustment of the primary recipient’s records, are properly reflected.
- F. If subrecipient monitoring has not been completed and the federal awards are material to programs administered by the primary recipient, the scope of the primary recipient’s audit can be expanded by management to include testing of the subrecipient records for compliance with the applicable provisions of the program. If the scope of the audit is not expanded, the auditor should consider disclosing the amount of the subgrant as a questioned cost and modify the applicable auditor’s reports. In addition, the auditor should consider whether a significant deficiency or material weakness in the internal control system may exist.

- G. If a subrecipient's audit report or Data Collection Form was due but not received, the primary recipient's auditor should consider noncompliance with the implementation of reporting requirements when evaluating the finding or reportable condition.
- H. Primary recipients are responsible for identifying federal awards to their subrecipients. If the primary recipient fails to advise the subrecipient that the award is federal, this should be considered a weakness in the primary recipient's internal control system for monitoring subrecipients and should be reported as a potential significant deficiency.

The primary recipient's auditor is strongly encouraged to review the public comment and response section of the 1996 revisions of OMB Circular A-133. Insight is given on how to deal with subrecipients expending less than \$500,000 in federal awards.

SECTION E

PROCUREMENT AND MANAGEMENT OF AUDIT SERVICES

I. PROCUREMENT OF AUDIT SERVICES

A. Audit Requirements

The MDE requires districts, including public school academies, which expend less than \$500,000 of federal financial assistance to procure an audit made in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS), issued by the Comptroller General of the United States. The MDE requires districts, including public school academies, which expend \$500,000 or more a year of federal financial assistance to procure an audit made in accordance with GAAS; GAS, issued by the Comptroller General of the United States; the OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"; and the Single Audit Act.

B. Auditor Selection

Public school officials should use appropriate procurement procedures when contracting for audit services. Sound contract award and approval procedures, including the monitoring of contract performance, should be in place. School officials should know the objectives and scope of the audit before procuring services. Although price is a consideration, other factors must also be considered. Some of these factors are listed for your reference:

1. The auditor should understand the audit requirements and the single audit process unique to schools. Review the CPA's qualifications. The proposal should contain a sound technical plan, a realistic cost proposal, and estimate of time to complete the audit.
2. Track record of performing acceptable audits. This would include verifying the filing of acceptable reports on a timely basis.
3. Auditor's commitment to perform a quality audit. Responsiveness in taking corrective action (for audit deficiencies) and implementing single audit requirements should be timely.
4. Prospective bidders should be notified of work paper retention requirements (three years minimum for retention of work papers), and work papers must be available to the school and its oversight agencies, such as the MDE. Reference: Paragraph 6.65 of GAS.
5. Schools should have the prospective bidder's most recent completed peer quality review opinion report. Reference: Paragraph 3.36 of GAS.

The quality of the audit depends on the skill and professionalism of the provider. Professional service demands special skills and training and includes consideration of the needs and requirements of the auditee and its oversight agencies. The price alone should not be used to guide the selection of an auditor. Public schools that continue to employ a competitive bid process should balance price with the auditor's professional qualifications. If auditors are selected on the basis of cost rather than professional qualifications, the school

faces the prospect of receiving a substandard or an unacceptable audit that is subject to very strict sanctions.

C. References

The Michigan School Auditing Manual and OMB Circular A-102, Section 36, provide school officials with essential information on the single audit concept, process and requirements, or references to additional information that provides guidance for receiving an acceptable audit. It is intended to guide school officials in determining the scope and applicability of the audit and in procurement of audit services. For further guidance, see Section .305 of OMB Circular A-133.

D. Written Agreement

An adequate written agreement (an engagement letter) provides a basis for a quality audit and enhances the school's ability to monitor the audit. An adequate written agreement must be signed by the school and the auditor and should document the expectations of both parties. It should include the following: administrative information (period to be audited, support to be provided, etc.), audit work and reporting requirements, audit fee, time requirements, contractual information (provisions for termination of contracts, recourse if poor quality work, etc.), statement as to the type of engagement and that the engagement is intended to meet governmental oversight agencies' requirements, Michigan School Auditing Manual, OMB Circular A-133, GAAS and GAS.

II. MANAGING YOUR AUDIT

A. The responsibility to work with your auditor includes the following functions:

1. Fully cooperate with your auditor during the auditing process by performing tasks essential to "readying" books and records, files, and documents for the auditor in a timely fashion. Also, implement prior and current recommendations and suggestions made by your auditor.
2. Meet periodically with your auditor or assess the audit progress and/or request progress reports. Review such items as accounting adjustments, findings and questioned costs, documentation for work performed and conclusions reached, caliber of staff and work performed, and the draft report, etc. Coordinate and follow up on corrective actions taken by school personnel until audit resolution is satisfactorily achieved.
3. Formulate, in consultation with your auditors and the MDE personnel, a corrective action plan for program findings.
4. Maintain contact with the MDE during the audit resolution process.

B. Audit Review Process

When the audit performed is substandard or unacceptable, the MDE will contact the auditor to take corrective action, with a copy of the letter to the public school. If the audit findings are not resolved in the requested time or manner, the MDE will inform the school that the necessary corrective action has not been taken or planned. If the school has been notified by the MDE that the audit requirements have not been met, the school should monitor the auditor's responsiveness in resolving audit deficiencies. If corrective action is not taken in the requested

time, the MDE will notify the school and other interested parties and will make recommendations for follow-up action. Federal regulations and the Single Audit Act provide that costs for deficient audits may not be charged to federal programs. In cases of substandard audits, MDE and federal agencies must consider appropriate sanctions such as withholding of federal funds.

SECTION F

INDIRECT COST RATES

I. OVERVIEW

When an organization has an approved indirect cost rate, it is allowed to assign value for indirect costs to grants or projects. In the majority of grants, it is permissible to request reimbursement for both direct and indirect costs to the extent of the grant award. Your organization may be able to increase the dollars recoverable on grants by using an approved indirect cost rate.

II. AUTHORIZATION

Edgar 34CFR 75.561

III. DEFINITIONS

Indirect cost rate: is a ratio based upon the costs of all operations of the organization, which proportions indirect costs to direct costs.

Indirect costs: costs that are incurred for the benefit of more than one cost objective, but are not readily assignable to any program. Indirect costs serve common or joint purposes, and to identify the specific program or project served would take an effort disproportionate to the results achieved. Typically, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of costs that are considered to be indirect costs.

Direct costs: costs that are readily identified with a grant, project, function, or activity.

IV. OBTAINING AN APPROVED INDIRECT COST RATE

The MDE Office of State Aid and School Finance calculates restricted and unrestricted indirect cost rates for all Michigan public schools (including academies) and intermediate school districts annually in the spring.

V. CALCULATION OF INDIRECT COST RATE

The calculation is based on the information reported in the school's prior year Financial Information Database (FID) Report/FID Submission. For example, the 2004-2005 indirect cost rates are based on data collected on the 2002-2003 FID Report. For local districts, the information is compiled and reported on Form R0418 and sent to the school for review and adjustment to be made on Form DS-4513. For intermediate school districts (ISDs), the information is compiled on Form 4513 and sent to the ISD for completion. Once adjustments are approved, a final approved

indirect cost rate is reported to the school. MDE caps the approved indirect cost rate at 15%. For example, if your approved rate calculates out to 18.2%, you are limited to the 15% maximum cap.

VI. USE OF RESTRICTED VS. UNRESTRICTED INDIRECT COST RATES

The restricted indirect cost rate is used for all programs subject to “supplement, not supplant” requirements. Generally, United States Department of Education (USDOE) programs use the restricted rate.

VII. EXAMPLE APPLICATION OF ICR

A local education agency (LEA) has a restricted indirect cost rate of 5%. The total grant award is \$10,000. To determine the budgeted amount of direct and indirect costs, the following formulas are used:

$$\begin{aligned} \text{Direct Costs} + \text{Indirect Costs} &= \text{Total Grant Award} \\ \text{Indirect Costs} &= (\text{Direct Costs}) * (\text{Indirect Cost Rate}) \end{aligned}$$

Step 1: We know the total grant award is \$10,000, so:

$$\text{Direct Cost} + \text{Indirect Cost} = \$10,000$$

Step 2: We know that the Indirect Cost is 5% of the Direct Cost, so:

$$\text{Indirect Costs} = .05(\text{Direct Cost})$$

Step 3: Substitute .05(Direct Cost) for Indirect Costs in the equation in Step 1:

$$\text{Direct Cost} + .05(\text{Direct Cost}) = \$10,000$$

Step 4: Solve the equation:

$$1.05(\text{Direct Cost}) = \$10,000$$

$$\text{Direct Cost} = \$10,000/1.05$$

$$\text{Direct Cost} = \$9,524$$

Step 5: Substitute the \$9,524 for Direct Costs in the equation in Step 1:

$$\$9,524 + \text{Indirect Cost} = \$10,000$$

Step 6: Solve for Indirect Costs:

$$\$9,524 + \text{Indirect Cost} = \$10,000$$

$$\text{Indirect Cost} = \$10,000 - \$9,524$$

$$\text{Indirect Cost} = \$476$$

Step 7: Prove your results:

$$\text{Direct Costs} + \text{Indirect Costs} = \text{Total Grant}$$

$$\$9,524 + \$476 = \$10,000$$

$$\text{Indirect Costs} = (\text{Direct Costs}) * (\text{Indirect Cost Rate})$$

$$\$476 = \$9,524 * 5\%$$

VIII. AUDIT CONSIDERATIONS

- A. Verify that the correct rate category (restricted or unrestricted) was applied according to grant guidelines.
- B. Verify that the rate applied was the approved rate for the current year.

C. Verify that no indirect charges were applied to exclusions, such as equipment or flow-through dollars.

IX. REFERENCE MATERIALS

EDGAR, 34CFR 75.560-75.564

EDGAR, 34CFR 76.560-76.569

OMB Circular A-87

COST ALLOCATION GUIDE FOR STATE AND LOCAL GOVERNMENTS, US DEPARTMENT OF EDUCATION, INDIRECT COST GROUP, FINANCIAL IMPROVEMENT AND POST AUDIT OPERATIONS, OFFICE OF THE CHIEF FINANCIAL OFFICER, SEPTEMBER 2009

X. PERSONNEL

Craig Thurman
Office of Financial Management and Administrative Services
Michigan Department of Education
(517) 373-2810
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STATE FISCAL STABILIZATION FUND (SFSF)

EDUCATION STABILIZATION FUND (ESF) GRANTS

CFDA #84.394

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Change: 2010/11

I. FEDERAL OVERVIEW

A. Federal Agency

Academic Improvement and Teacher Quality Programs, Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization

The American Recovery and Reinvestment Act of 2009, Public Law 111-5

C. Beneficiary Eligibility

For the funds allocated in October and March of 2010 all Michigan Public Schools, as defined by Michigan Compiled Law that receive a decrease to section 22b of their State Aid Payment in FY 2010 who also have an August 2009 pupil count are eligible.

II. STATE OVERVIEW

The purpose of the grant is to provide funds to help stabilize state and local budgets to minimize and avoid reductions in education and other essential services, and to save and create jobs. In exchange for the funds, the state has committed to advancing educational reform.

The Michigan Department of Education (MDE), Office of Grants Coordination and School Support, Grants Administration and Coordination Unit, is responsible for state administration of the Education Stabilization (ESF) Fund portion of the State Fiscal Stabilization Fund grant program. MDE uses the single audit to ensure that funds were used for allowable expenditures during the grant period, to verify the expenditures reported, and to ensure that ARRA funds were tracked and accounted for separately.

Applicants **may** use SFSF funds for any activity authorized by the:

- 1) Elementary and Secondary Education Act of 1965 (ESEA) (20 U.S.C. 6301 et seq.);
- 2) Individuals with Disabilities Education Act (IDEA) (20 U.S.C. 1400 et seq.);
- 3) Adult Education and Family Literacy Act (AEFLA) (WIA--P.L. 105-220);
- 4) Carl D. Perkins Career and Technical Education Act (Perkins Act) (20 U.S.C. 2301 et seq.); or
- 5) for modernization, renovation or repair of public school facilities including modernization, renovation, and repair that is consistent with a recognized green building rating system (ARRA Division A, Section 14003).

If funds are used for modernization, renovation, or repair activities, it must be consistent with the requirements of ARRA Division A, Section 14003, comply with specific requirements relating to the use of American iron, steel, and manufactured goods

(ARRA Division A, Section 1605), Wage Rate Requirements (ARRA Division A, Section 1606), and any applicable environmental impact requirements of the National Environmental Policy Act of 1970 as amended (42 U.S.C. 4371 et seq.) (ARRA Division A, Section 1609).

The use of funds should be consistent with the intent and overall goals of the ARRA, to create and save jobs, and to advance the following educational reforms:

- 1) making improvements in teacher effectiveness and in the equitable distribution of qualified teachers for all students, particularly students who are most in need;
- 2) establishing pre-K-to-college-and-career data systems that track progress and foster continuous improvement;
- 3) making progress toward rigorous college and career-ready standards and high-quality assessments that are valid and reliable for all students, including limited English proficient students and students with disabilities; and
- 4) providing targeted, intensive support and effective interventions for the lowest performing schools.

Districts may **not** use SFSF-ESF funds for any of the following purposes:

- 1) To increase endowments (ARRA Division A, Section 14003);
- 2) For payment of maintenance costs (ARRA Division A, Section 14003);
- 3) For casinos, gambling establishments, aquariums, zoos, golf courses, or swimming pools (ARRA Division A, Section 1604);
- 4) Purchase or upgrade of vehicles (ARRA Division A, Section 14003);
- 5) Improvement of stand-alone facilities whose purpose is not the education of children, including central office administration or operations or logistical support facilities (ARRA Division A, Section 14003);
- 6) For maintenance of systems, equipment, or facilities (ARRA Division A, Section 14003);
- 7) To engage in school modernization, renovation, or repair that is inconsistent with state law (ARRA Division A, Section 14003); or
- 8) For modernization, renovation, or repairs of certain types of facilities:
 - Athletic stadiums;
 - Facilities that charge admission to the general public; and/or
 - Facilities used for sectarian or religious instruction or purposes (ARRA Division A, Section 14003).
- 9) To provide financial assistance to students to attend private elementary or secondary school, unless the funds are used to provide special education and related services to

children with disabilities as authorized by IDEA (ARRA Division A, Section 14011).

10) To restore or supplement a “rainy day” fund.

III. DISTRICT CONSIDERATIONS

The following is provided as an overview to assist you in complying with ARRA Education Stabilization requirements.

A. Application and Funding Periods

1. An application must be submitted. Applicants do not need to re-apply in order to receive funds in subsequent years once an approved application is on file.
2. No budget is required as part of the application. However, a final expenditure report detailing the use of funds is due within 60 days of the expenditure of all funds or within 60 days of the grant ending date, whichever comes first.
3. The award period for FY 2009 funds is April 1, 2009 through September 30, 2011. Districts may request a start date going back to February 17, 2009 by emailing mdestabilization@michigan.gov. A district charging pre-award costs to the SFSF program must maintain the same documentation that it maintains for post-award costs. The award period for FY 2010 funds is July 1, 2009 through September 30, 2011. The award period for FY2011 funds is July 1, 2010 through September 30, 2011.

B. Time Keeping

LEAs must maintain documentation demonstrating the amount of SFSF funds, if any, used to support salaries. Because of the nature of the SFSF program, there are no specific federal time and effort requirements that apply to individuals whose salaries may be supported with SFSF funds. Thus, the entities must maintain documentation to support the time and effort of these individuals in the same manner that it supports the time and effort of individuals performing similar duties who are paid with State or local funds. For the purposes of the SFSF program only, entities may demonstrate, at a minimum, that an aggregate amount of funds was used to support a group of salary expenses.

Because the SFSF program does not support specific cost objectives or activities, an individual whose salary is paid in whole or part with SFSF funds is not required to maintain separate time distribution records. An individual whose salary is supported with both SFSF funds and state funds is not required to maintain records documenting the amount of time spent on SFSF activities because there are not specific “SFSF activities.”

C. Procurement

US Ed procurement requirements are addressed in 34 CFR 80.36 which can be found at:

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl+%2Findex.tpl>. Subgrantees are required

to follow their own procurement procedures provided that they conform to state and federal laws

and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

D. Financial Reports

Districts that receive Education Stabilization funds are required to file a final expenditure report within 60 days of the expenditure of all funds or within 60 days of the grant ending date, whichever comes first.

E. Retention of Records

An entity that receives SFSF funds must maintain records that separately track and account for those funds. In accordance with the requirements of Section 443(a) of GEPA (20 U.S.C. §1232f (a)), each recipient of SFSF funds must maintain records that fully disclose how those funds were used, the total cost of the activity for which the funds were used, the share of that cost provided by other sources, and such other records as will facilitate an effective audit.

At a minimum to show that salary costs are "reasonable and necessary," as with other similarly situated employees, the entities must maintain contemporaneous documentation to show that individuals for whom salary is paid, worked sufficient hours to justify the salary, the level of salaries were similar to other employees who performed similar work and were paid from other sources, and that the individuals were not paid more than once for the same work. Thus, the documentation should be able to demonstrate that the costs were reasonable for the service provided, that the service was actually provided, and that no other funds were paid for the same service.

F. Inventory of Materials and Equipment

Federal regulations require local educational agencies (LEAs) to maintain a continuous inventory of the items acquired with federal funds.

G. Monitoring

MDE periodically monitors the use of Education Stabilization funds by its subrecipients.

H. Supplement Not Supplant

SFSF differs from other federal programs in that one of its primary purposes is to provide federal support for expenditures that are typically paid for with non-federal

resources. The SFSF program provides resources to support education and other services that may have occurred even in the absence of federal funds. There is no state- or local-level supplanting prohibition.

I. Maintenance of Effort

Maintenance of effort is calculated at the state and not the local level.

J. Section 1512 Reporting

Under section 1512 of ARRA, recipients of SFSF funds must submit a quarterly report that describes, among other things, how the entity used those funds.

IV. AUDIT CONSIDERATIONS

Education Stabilization funds are subject to the single audit requirements that govern federal education programs.

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures are intended to help the auditor perform compliance tests in an efficient and effective manner in accordance with professional standards and federal guidelines.

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance

Testing. What follows is additional guidance provided to assist in the audit of this program.

A. Use of Funds

1. Review the internal controls designed to ensure that the district or academy uses funds for allowable activities. Refer to the Guidance for Grantees and Auditors issued by the U.S. Department of Education on 12/24/2009 or subsequent revision. See Reference Materials section for link.

2. Review expenditure records and supporting documentation to determine if funds have been spent on allowable activities.

3. While the specific requirements in the OMB Circulars that apply cost principles, such as OMB Circulars A-21 and A-87, do not apply to SFSF funds, expenditures attributed to the SFSF program must still be "reasonable and necessary," and consistent with applicable state and local requirements.

4. Restricted indirect cost rate are allowable, up to the restricted indirect cost rate approved for the district by MDE. Restricted indirect cost rate charged to the program must meet the following criteria:

- (1) The rate applied was the MDE approved rate for the current year; and
- (2) No restricted indirect cost rate were applied to exclusions, such as equipment or flow-through dollars.

5. Review expenditures and determine whether funds were obligated within the appropriate time frame.

B. Time Certification

Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine if the time and effort of individuals paid with Education Stabilization funds is documented in the same manner that the district supports the time and effort of individuals performing similar duties who are paid with state or local funds. Verify that these costs are "reasonable and necessary," as with other similarly situated employees, the entities must maintain contemporaneous documentation to show that individuals for whom salary is paid, worked sufficient hours to justify the salary, the level of salaries were similar to other employees who performed similar work and were paid from other sources, and that the individuals were not paid more than once for the same work. Thus, the documentation should be able to demonstrate that the costs were reasonable for the service provided, that the service was actually provided, and that no other funds were paid for the same service.

C. Procurement

Refer to OMB Circular A-133 Compliance Supplement for procurement and suspension and debarment internal control requirements.

If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures:

1. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
2. Determine that the district complied with bidding requirements.
3. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
4. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
5. Determine that payments to contractors and vendors were according to the contract or purchase order.
6. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
7. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

E. Cash Management

Payments to districts is on a reimbursement basis only.

F. Infrastructure

1. Review expenditure records and supporting records to determine if an infrastructure investment was made. To the extent consistent with state law, an LEA may use Education Stabilization funds for modernization, renovation, or repair of public school facilities, including modernization, renovation, and repairs that are consistent with a recognized green building rating system. Although the U.S.

Department of Education encourages that any modernization, renovation or repair is consistent with a recognized green building rating system, this is not a requirement.

2. Review a sample of infrastructure personnel to determine whether the school followed the Davis-Bacon Act if funds were used for infrastructure activities
3. Verify that the district submitted a Section 1511 certification to MDE if an infrastructure investment was made.
4. If applicable, verify that the district complied with the requirements of ARRA Division A, Section 14003 regarding the use of American iron, steel, and manufactured goods, and with any applicable environmental impact requirements.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

The U.S. Department of Education frequently posts updated information about the ESF Program on its website – www.ed.gov. ESF guidance is also available on the following websites: www.ed.gov/programs/statestabilization/guidance.pdf, <http://www.ed.gov/programs/statestabilization/auditor-guidance.pdf>, and www.ed.gov/policy/gen/leg/recovery/guidance/uses.doc.

The complete text of the regulations cited can be found online. The links are as follows:

American Recovery and Reinvestment Act of 2009

http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf

Section 442 of the General Education Provisions Act (GEPA) (20 U.S.C. 1232e)

<http://uscode.house.gov/download/pls/20C31.txt>

Section 1232f of General Education Provisions Act (GEPA) (20 U.S.C. 1232f)

<http://uscode.house.gov/download/pls/20C31.txt>

Section 794 of title 29 (29 U.S.C. Sec. 29)

<http://uscode.house.gov/download/pls/29C16.txt>

Section 427 of GEPA (20 U.S.C. 1228a)

<http://uscode.house.gov/download/pls/20C31.txt> and www.ed.gov/fund/grant/apply/appforms/gepa427.doc

Elementary and Secondary Education Act (20 U.S.C. 6301 et seq.)

<http://uscode.house.gov/download/pls/20C70.txt> and www.ed.gov/policy/elsec/leg/esea02/beginning.html

Individuals with Disabilities Education Act (20 U.S.C. 1400 et seq.)

http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_public_laws&docid=f:publ446.108

Adult Education and Family Literacy Act (WIA--P.L. 105-220)

www.ed.gov/policy/adulted/leg/legis.html

Carl D. Perkins Career and Technical Education Act (20 U.S.C. 2301 et seq.)

www.ed.gov/policy/sectech/leg/perkins/index.html

EDGAR (34 CFR Parts 74-86 and 97-99)

www.ed.gov/policy/fund/reg/edgarReg/edgar.html

OMB Circulars

www.whitehouse.gov/omb/circulars

B. Personnel

Office of Grants Coordination and School Support

Michigan Department of Education

(517) 373-1806

Fax: (517) 241-0496

mdestabilization@michigan.gov

SECTION 1512 REPORTING

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Change: 2010/11

I. FEDERAL OVERVIEW

A. Federal Agency

Office of Management and Budget (OMB)

B. Authorization

The American Recovery and Reinvestment Act of 2009, Public Law 111-5

C. Beneficiary Eligibility

This is not a grant program so there are no beneficiaries. The following grants awarded by MDE are subject to ARRA Section 1512 Reporting:

| Grant Name (Contact Name) | Federal Awarding Agency | CFDA Number |
|-----------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------|
| State Fiscal Stabilization Fund – Education Fund LEA (Office of Grants Coordination & School Support) IHE (Cindy Johnson) | USED | 84.394 |
| Title I, Part A (Includes Part D) Improving Basic Programs Operated by Local Educational Agencies (Becky Pennington, Judy Thelen) | USED | 84.389 |
| Education of Homeless Children and Youth (Pam Kies-Lowe) | USED | 84.387 |
| Title II, Part D, Enhancing Education Through Technology (Bruce Umpstead – competitive, Margaret Madigan - formula) | USED | 84.386 |
| IDEA, Part B, Section 611-Flowthrough (John Andrejack, Monica Butler) | USED | 84.391 |
| IDEA, Part B, Section 619 – Preschool (Gary Schafer) | USED | 84.392 |
| IDEA, Part C – Early On (Gary Schafer) | USED | 84.393 |
| Temporary Emergency Food Assistance Program (TEFAP) (Cheryl Schubel) | USDA | 10.568 |
| National School Lunch Program Equipment Assistance (Howard Leikert) | USDA | 10.579 |
| School Improvement Grant (SIG) (Mark Coscarella & Linda Forward) | USED | 84.388 |
| Education Jobs Fund (Alyssa Sagolla) | USED | 84.410 |

Note: Section 1512 guidance has changed regularly. Always check for updated federal and state guidance on programs that are required to report. Districts must report on each of the grants that they receive that are subject to Section 1512 reporting through the quarter that the grant was fully expended.

II. STATE OVERVIEW

Aimed at providing transparency into the use of Recovery Act funds, Section 1512, Division A of the Recovery Act requires reporting on the use of Recovery Act funding by prime recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). The Michigan Department of Education (MDE) submits the state Section 1512 reports to the federal government by the 10th. Districts submit their subrecipient data to MDE by the 5th.

The Office of Grants Coordination and School Support, Grants Administration and Coordination Unit, is responsible for administration of the Section 1512 Reporting for all grants awarded to MDE.

III. DISTRICT CONSIDERATIONS

Federal Section 1512 reporting guidance has been changed by the Office of Management and Budget several times during the past two years. Although MDE posts updated guidance on the MDE website, and disseminates information to Superintendents and MEGS Authorized Officials it is important to read the "Important Information About the ARRA Section 1512 Report Application" within the MEGS report application each quarter. The "Important Information" will always contain the most up-to-date information. This information is also posted on the MDE Grants website - <http://www.michigan.gov/mde/0,1607,7-140-5236-222377--,00.html>.

The following is provided as an overview to assist you in complying with ARRA Section 1512 reporting requirements.

A. Central Contractor Registration (CCR) and Data Universal Numbering System (DUNS)

1. A DUNS number is required for all recipients of ARRA funds.
2. An active CCR registration is also required for all recipients of ARRA funds. Registrations **must be renewed annually**.
3. The DUNS number must be entered and maintained in the Education Entity Master (EEM). In the future districts will have to maintain their CCR registration date.

For questions and help with DUNS numbers call 866-705-5711. For questions and help with CCR registration call 866-606-8220. For questions and help with entering information into EEM call 517-335-0505.

B. Jobs

1. Jobs created and/or retained are those jobs funded by ARRA funds.
2. The number shall be expressed as a "full-time equivalent" (FTE), calculated as all **hours worked for the quarter** divided by the total number of hours in a full-time schedule for the quarter (as full-time is defined by your organization).
3. Maintain documentation to support the FTEs reported.

4. Employees who are not directly charged to Recovery Act supported projects or activities that, nonetheless, provide critical indirect support, e.g., clerical and administrative staff preparing reports, institutional review board staff members, and departmental administrators, are NOT counted as jobs created or retained. Recipients are required to report only direct jobs.

5. Section 1553 of Division A, Title XV of the American Recovery and Reinvestment Act of 2009, P.L. 111-5, provides protections for certain individuals who make specific disclosures about uses of Recovery Act funds. The poster on the following webpage must be posted on all Recovery Act job sites - http://www.michigan.gov/documents/mde/WhistleblowerPoster_329829_7.pdf.

*See also "C. Vendors" for information on reporting vendor jobs.

C. Vendors

1. Vendors receiving a single payment of \$25,000 or greater with funds from the ARRA grant are reported.

2. Once a vendor meets the threshold in C.1., the **cumulative** amount of payments to that vendor is reported and updated if necessary, each reporting quarter.

3. Districts must consider the job impact on vendors funded with Recovery Act funds. Typically, individuals who are employed by vendors in order to provide services to prime recipients or sub-recipients would be counted. This could include, for example, vendors providing professional development for teachers. Note that the recipient would be responsible for identifying those hours worked by personnel employed by vendors that are attributable to Recovery Act funding.

4. Recipients should not attempt to report on the employment impact on vendors from whom recipients are purchasing materials, equipment, or other supplies (so-called "indirect" jobs), except in those instances where the value or the quantity of the purchases is so significant as to have an identifiable employment impact on the vendor.

D. Infrastructure

1. Submit a Section 1511 certification to MDE if conducting infrastructure activities. (Contact MDEStabilization@michigan.gov to request the certification form.)

2. Although the U.S. Department of Education encourages that any modernization, renovation, or repair is consistent with a recognized green building rating system, this is not a requirement.

3. If personnel are paid for the infrastructure activities whether by the district or a contractor, they are subject to Davis-Bacon requirements. Obtain documentation from the contractor or architect indicating:

a) U.S. Labor Department prevailing wage rate determination for the job categories paid;

b) certified payroll documents showing infrastructure hours worked and job category/title(s);

c) documentation of hours worked on ARRA vs. non-ARRA infrastructure projects;

- d) payroll records showing infrastructure wages paid on the ARRA vs. non-ARRA projects; and
- f) a copy of the district's monitoring plan to audit compliance with Davis Bacon wage rate requirements.

4. Save documentation that supports that procurement procedures were followed including a copy of the district's procurement policy.

5. Save documentation from the contractor or architect that verifies that the district complied with the requirements of ARRA Division A, Section 14003 regarding the use of American iron, steel, and manufactured goods, and with any applicable environmental impact requirements.

6. Infrastructure activities are only allowable for Education Stabilization Funds, and IDEA grants. Contact the program office awarding the grant for further information prior to making an infrastructure investment.

E. Monitoring

MDE periodically monitors ARRA Section 1512 Reporting by subrecipients.

IV. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures are intended to help the auditor perform compliance tests in an efficient and effective manner in accordance with professional standards and federal guidelines.

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. OMB has issued many documents that provide guidance on the reporting requirements under ARRA (located at http://www.whitehouse.gov/omb/recovery_default/). Among them, M-09-21 provides relevant information for audit procedures. The M-09-21 guidance covers the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements, and (2) a Recipient Reporting Data Model.

For purposes of Section 1512 reporting, MDE is considered the prime recipient and the districts are considered subrecipients. MDE reports on behalf of its subrecipients. MDE does not delegate reporting responsibility to subrecipients. MDE requires subrecipients to submit a quarterly report in the Michigan Electronic Grants System (MEGS) consisting only of those sub recipient data elements that MDE cannot extract from existing systems (e.g. Cash Management System). The specific data elements to be reported by prime recipients and subrecipients are included in the data dictionary in the Recipient Reporting Data Model. The data dictionary (<https://www.federalreporting.gov/federalreporting/downloads.do#rrdm>) specifies which

of the required Section 1512 data elements are prime recipient only, subrecipient only, or both.

Additional guidance provided to assist in the audit of this program.

A. Central Contractor Registration (CCR) and Data Universal Numbering System (DUNS)

1. Review documentation of DUNS number registration.
2. Review documentation to determine if the district's CCR registration is current. An active CCR registration must be maintained. It needs to be renewed annually.

B. Jobs

1. Determine which method was used to calculate the number of FTEs reported and verify the calculation according to the guidance in effect for the reporting period.
2. Review supporting documentation to determine that the FTEs reported were funded by the grant during the report period.
3. Verify that the poster on the following webpage is posted on all Recovery Act job sites - http://www.michigan.gov/documents/mde/WhistleblowerPoster_329829_7.pdf.

C. Vendors

1. Verify that vendors receiving a single payment of \$25,000 or greater with funds from the ARRA grant are reported.
2. Verify that once a vendor is reported, the **cumulative** amount of payments to that vendor is updated if necessary, each reporting quarter.
3. Test to determine if "direct" hours worked by vendors were included in quarterly FTE calculations.

D. Infrastructure

1. Review expenditure records and supporting records to determine if an infrastructure investment was made. To the extent consistent with state law and grant requirements, an LEA may use Education Stabilization funds and IDEA funds for modernization, renovation, or repair of public school facilities, including modernization, renovation, and repairs that are consistent with a recognized green building rating system. Although the U.S. Department of Education encourages that any modernization, renovation or repair is consistent with a recognized green building rating system, this is not a requirement.
2. Review a sample of infrastructure personnel to determine whether the school followed the Davis-Bacon Act if funds were used for infrastructure activities
3. Verify that the district submitted a Section 1511 certification to MDE if an infrastructure investment was made.
4. If applicable, verify that the district complied with the requirements of ARRA Division A, Section 14003 regarding the use of American iron, steel, and manufactured goods, and with any applicable environmental impact requirements.

E. Changes to Prior Reports

Per OMB memo 10-34, the recipient or the federal agency may initiate a change to a prior report if they deem it to be appropriate. In either scenario, the recipient must

provide the agency with documentation to support the requested change. The Federal agency must determine that the change is “material.” If so, it may be submitted as a requested change.

Information is “material” if its omission or misstatement in the prior period report could mislead the public on how the Recovery Act funding is being expended. Materiality will vary with the data field being corrected. Report fields that involve a dollar amount may utilize a “sliding scale” method which varies with the size of the award, as the materiality of the change depends on its proportionality to the overall award.

Changes to prior reports may not be initiated for the “Number of Jobs” field.

In the case of a “material” change to a report from a prior period, OMB will establish a template through the MAX Community web page (Federal access only) for agencies to submit detailed information on the correction and the adjustment requested at a specified time.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

The U.S. Department of Education frequently posts updated information about Section 1512 reporting on its website – <http://www2.ed.gov/policy/gen/leg/recovery/section-1512.html>. The U.S. Department of Agriculture also posts Section 1512 reporting information on its website - http://www.usda.gov/wps/portal/usda/usdahome?contentidonly=true&contentid=Supp_jobs_guidance.xml and <http://www.rurdev.usda.gov/arra/USDAARRASec1512RecRptInfoandGuidance10-2010.pdf>.

American Recovery and Reinvestment Act of 2009

http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf

Updated OMB Guidance on the American Recovery and Reinvestment Act -

September 24, 2010 (OMB’s Guidance on the Education Jobs Fund, updated reporting procedures, changes for federal contractors, and improving transparency of narrative descriptions in recipient reporting)

<http://www.whitehouse.gov/sites/default/files/omb/memoranda/2010/m10-34.pdf>

Updated OMB Guidance on the American Recovery and Reinvestment Act –

December 18, 2009 (OMB’s Updated Jobs Guidance, Non-Reporting Recipients, Data Quality) http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-08.pdf

OMB Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009 - June 22, 2009

http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21.pdf

OMB Frequently Asked Questions, American Recovery and Reinvestment Act of 2009

http://www.whitehouse.gov/OMB/RECOVERY_FAQS

Recipient Reporting Data Model

<https://www.federalreporting.gov/federalreporting/downloads.do#rrdm>

U.S. Department of Education Clarifying Guidance on Recovery Act Section 1512 Quarterly Reporting

<http://www.ed.gov/policy/gen/leg/recovery/section-1512.html>

Davis-Bacon Act Information

<http://www.dol.gov/whd/contracts/dbra.htm>

U.S. Department of Labor Prevailing Wage Rate Information

<http://www.wdol.gov/>

B. Personnel

Office of Grants Coordination and School Support

Michigan Department of Education

(517) 373-1806

Fax: (517) 241-0496

mdestabilization@michigan.gov

USDA DONATED FOOD COMMODITIES

CFDA –Based on program supported by Commodities

- I. Introduction
- II. Identification and Value of USDA Donated Commodities
- III. Revenue Recognition Criteria
- IV. Procurement
- V. Findings
- VI. Contacts

ATTACHMENT

Sample Commodity Value Listing

Date of Last Change: 2010-11

I. INTRODUCTION

- A. Federal financial assistance received by school districts or School Food Authorities (SFA) from the U. S. Department of Agriculture (USDA) may include the following:
1. Claims for reimbursement on reimbursable meals, after school snacks, and milk served
 2. Cash in lieu of commodities
 3. USDA donated commodities (both bonus and entitlement)
 4. Discounts and rebates for the value of USDA donated commodity ingredients contained in processed foods (end products) provided by the state and federal processing program
 5. Other: Payment for administrative costs, etc.
- B. SFAs may participate in several USDA funded programs that include USDA commodities:
1. National School Lunch Program (NSLP) for the regular school year and extended school year (summer, June-August) CFDA #10.555 - Includes reimbursement for reimbursable meals served, NSLP snack reimbursements, USDA donated commodities, discounts and rebates for USDA donated commodities included in processed items. Code of Federal Regulations 7 (CFR), Part 210. Food distribution is reported under Catalog of Federal Domestic Assistance (CFDA) number of the program supported by the Commodities (7 CFR, Part 250). Under the commodity processing system, the value of the commodity usually/ideally reduces the price of the end product. Salad dressing, for example, would cost \$12.00 for four gallons without commodities, but because commodity oil is being utilized, the cost of salad dressing is reduced by \$2.50-\$3.00, for the value of the oil.
 2. Summer Food Service Program for Children (SFSPC), CFDA #10.559 – Includes reimbursement for meals and administrative costs, USDA donated commodities, discounts and rebates. Federal Regulations 7 CFR, Part 225.
 3. Special Milk Program, CFDA #10.556 – Reimbursement for milk or USDA commodities. Federal Regulations 7 CFR, Part 215.
 4. USDA Donated Food Commodities, CFDA #10.555 – Food Distribution for National School Lunch or Breakfast Programs. Federal Regulations 7 CFR, Part 250.

II. IDENTIFICATION AND VALUE OF USDA DONATED COMMODITIES

The value of entitlement (non-bonus) and bonus commodities for the school year 2011 are available on the Internet at the Grants Coordination and School Support (GCSS) website: http://www.michigan.gov/documents/mde/CommFile_11-16-2009_alpha_333659_7.pdf

A. Entitlement – Value

For Planned Assistance Level (PAL): Entitlement equals actual meal count based on prior year's actual participation, multiplied by Commodity Cash Value per meal determined by the USDA prior to July 1 of the current year. This formula is used to prepare the entitlement value for the PAL report.

Calculation of the Program Award for Entitlement Commodities:
Actual Meal Count (from previous year's claim forms SM-4012-SL)

_____x

Commodity Cash Value (from MDE Administrative Policy #1)

_____ =

Total Entitlement _____

Delivery charges and any processing charges are not included as part of the program award. These charges should be expensed in a separate account as used.

B. Bonus – Value

The USDA purchases other commodities referred to as “bonus.” These commodities are not considered part of the regular base entitlement (non-bonus) commodities. The majority of commodities are non-bonus.

C. Entitlement and Bonus Values

The commodity values are listed in the USDA Processed Commodity Inventory Management System (PCIMS). This is a listing that describes the product, pack weight, loading data, and an estimated cost per pound. The cost data is used in developing the commodity values and the PAL report. The invoice value of bonus commodities may be computed as follows: number of cases or pounds of each commodity received, multiplied by the USDA dollar value per case, or value per pound.

D. Warehouse Forms and Correspondence for Planning and Tracking USDA Donated Commodities

The request form, delivery receipt, warehouse newsletters, etc., provide the following information that may be used to plan for and track delivery, storage, and use of USDA donated commodities:

1. a. Commodity code
b. Commodity description
c. Amount requested by a consortium in ECOS (Electronic Commodity Ordering System) for its membership
d. Service charge per consortia board
2. Delivery Receipt
 - a. Full loading units
 - b. Commodity code
 - c. Commodity description
 - d. Weight

- e. Single unit count
- f. Single unit charge
- g. Total service charge
- 3. Newsletters and information from each consortium on USDA commodities and food products, such as availability or status of food products (what, when, how much can be ordered, demand for, etc.)
- E. USDA Donated Food Commodities Report – National School Lunch Program
 - 1. The Recipient Entitlement Balance Report, also known as the Planned Assistance Level Report (PAL), provides SFAs with the status of their commodity entitlement. Each month the SFAs may access each consortium's website to locate their report. The fourth quarter PAL report is cumulative. Rounding of numbers may cause the balance to vary slightly. Groups A and B and bonus designations are included primarily to comply with USDA tracking procedures and have little effect on schools. The value of commodities to which a SFA is entitled for the current school year ended June 30, 2011, is calculated by multiplying its previous school year's June 30, 2010, total reimbursable lunches by the entitlement rate (\$.2275 for 2010/2011). This number represents the "market value" to which a school is entitled. Use of these commodities represents lowering of food cost; therefore, maximum usage is an indication of efficiency.
 - 2. Fair market values for Entitlement and Bonus Commodities: SFAs should use the fourth quarter PAL report figures (value of commodities delivered to them during the school year). The fourth quarter PAL report can be accessed on each consortium's web site after July 15.
- F. During school year 2011, three school district consortia are participating in the direct diversion of USDA commodity foods. The GLC (Great Lakes Consortium), SPARC (School Purchasing and Resource Consortium) and MOR (Macomb, Oakland and Wayne RESA) are diverting all USDA donated and processed commodity products to their contracted warehouse and processors. (For questions, contact Jaime Malnar at 517-335-3792.)

III. REVENUE RECOGNITION CRITERIA

The Single Audit Act of 1984, as amended, and OMB Circular A-133 define federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc. The Schedule of Expenditures of Federal Awards should report commodities under CFDA #10.555. Bonus and entitlements should be reported separately on both the SEFA and the FID. The National School Lunch Program should be reported under CFDA #10.555.

IV. PROCUREMENT and SUSPENSION and DEBARMENT

- 1. Procurement – Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated by State agencies and SFSPC institutions on or after October 1, 2000. The effective date of these requirements

for SFAs (school districts) is set by their administering agencies, but cannot be later than July 1, 2001.

1. Contractor Selection – A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7CFR sections 3016.60(b) and 3019.43).
 2. Geographical Preference – A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7CFR section 3016.60(c)). Effective October 1, 2008, the purchase of unprocessed locally grown and locally raised agricultural products is exempt from the geographical preference requirement.
-
2. Suspension and Debarment – Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (7CFR section 3017.110(a) (2) (i)).

V. FINDINGS

If USDA donated commodities are not reported or improperly reported in the Schedule of Expenditures of Federal Awards, the financial statements and/or the FID financial report, this should be reported as a finding.

VI. CONTACTS

If you have any questions regarding PAL Reports, please contact:

Jaime Malnar
Grants Coordination and School Support
Michigan Department of Education
(517) 335-3792
OR
Gloria Suggitt
Single Audit Coordinator
Office of Audits
Michigan Department of Education
(517) 373-4591

If you have questions regarding the PAL for Great Lakes Consortium, please contact:

Lead School District
Grand Rapids Public Schools
Paul Baumgartner
(616) 819-2135

If you have questions regarding the PAL for SPARC, please contact:

Lead School District
Manistee ISD
Katie Petersen
(231) 845-5758

If you have questions regarding the PAL for MOR, please contact:

Lead School District
Oakland Schools
Chuck Wolford
(734) -334-1511
OR
Lori Atkins
(248) 209-2102 or (586) 228-3349

CHILD NUTRITION CLUSTER

CFDA #10.553 – SCHOOL BREAKFAST PROGRAM (SBP)
CFDA #10.555 – NATIONAL SCHOOL LUNCH PROGRAM (NSLP)
CFDA #10.556 – SPECIAL MILK PROGRAM (SMP)
CFDA #10.559 – SUMMER FOOD SERVICE PROGRAM (SFSP)

- I. Federal Overview
- II. State Overview
- III. District Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

Note: The above programs are included in the “Child Nutrition Cluster” according to the OMB Compliance Supplement and must be audited together (CFDA Numbers 10.553, 10.555, 10.556 and 10.559). Risk should be based on the cluster

ATTACHMENTS

1. Menu Planning System
2. Offer vs. Serve for Traditional and Enhanced Food-Based Menu Planning
3. Traditional Food-Based and Enhanced Food-Based Menu Planning Approach – Breakfast and Lunch
4. Offer vs. Serve in Nutrient Standard Menu Planning and Assisted Nutrient Standard Menu Planning
5. Nutrient Standard Menu Planning Approach

Date of Last Change: 2010/2011

I. FEDERAL OVERVIEW

A. Federal Agency

Food and Nutrition Services (FNS), United States Department of Agriculture (USDA)

B. Authorization

Richard B. Russell National School Lunch Act of 1946, as amended (42 U.S.C. 1751); Child Nutrition Act of 1966, as amended (42 U.S.C 1771).

C. Beneficiary Eligibility

All public school districts, except intermediate school districts, public school academies, and districts serving less than K-12 programs, are mandated to provide lunches meeting the standards of the National School Lunch Program. All students attending public schools may participate in the school lunch program. Also, non-public schools may participate in the school lunch program if they desire to do so. An After-School Snack Program was implemented in fiscal year 1999. Income eligibility guidelines, updated annually by the USDA, are provided to all schools participating in the lunch program via the MDE. These guidelines are broken down by family size and income to determine eligibility of students to receive either free (no charge) or reduced (maximum charge of 40 cents per meal) benefits. All K-12 public school district buildings that have over 20% of their enrollment qualified for free and reduced price meals in October of the immediately preceding school year, must also provide a breakfast program to their students. If a student qualifies for free or reduced lunch, that student would also qualify for the same benefits for breakfast and after school snack (except for Area-Eligible After-School Snack Programs – all participants are eligible for free snacks). The eligibility requirements for free and reduced price meals are the same for school lunch and breakfast. The Special Milk Program is available to split-session pre-schoolers/kindergarteners who do not have access to a federally reimbursed meal/snack program.

D. Beneficiary/Participant Eligibility

Summer Food Service Program (SFSP) only – Children age 18 and younger may receive meals through SFSP. Eligibility to participate in the SFSP is based upon the type of site.

Site Eligibility - A site is a physical location where meals are served during a supervised time period. There are five types of sites:

- Open – At least half the children in the area are eligible for free and reduced price school meals.
- Enrolled – At least half the children in the program are eligible for free and reduced price school meals.
- Camp – Offers a regularly scheduled food service as part of a residential or day camp program.
- Migrant – Primarily serves children of migrant families.
- NYSP – Is a college or university participating in the NYSP.

STATE OVERVIEW

Coordinated Review Effort (CRE)

- E. The Coordinated Review Effort (CRE) is a plan of action whereby all school food authorities (public, private, or residential childcare institutions) that participate in the National School Lunch Program are reviewed for compliance once every five years and includes two performance standards.
1. Performance Standard #1: Certification, Counting, and Claiming. All free, reduced price and paid lunches claimed for reimbursement are served only to eligible children and are recorded, consolidated, and reported through a system which consistently yields correct claims.
 - a. Certification:
 - (1) Applications for meal benefits, as submitted by families, are accurately reviewed and the eligibility determinations given are appropriate.
 - (2) Direct certification eliminates the need for households to submit an application for meal benefits. Direct certification identifies children eligible for free school meal benefits when their households are approved for Food Stamps (FS). The direct certification process electronically imports a list of FS records from the Michigan Department of Human Services, matches them with existing Universal Identification Codes (UIC) from the Center for Educational Performance Information (CEPI) Single Record Student Database (SRSD), and distributes the list (Direct Certification Report) to districts based on the enrollment roster. Beginning with SY2008/09, all schools participating in the NSLP are required to directly certify students for free meals.
 - b. Benefit Issuance: That rosters, class lists, and other documents used at point of service (where students actually receive their meals) are complete and accurately reflect the category for the meal count (free, reduced or paid) determined by the application on file or with the name appearing on the direct certification list.
 - c. System for Consolidating School Counts: That counts taken at point of service from all buildings are correctly combined and filed on the "Claim for Reimbursement" to the MDE.
 - d. Counting and Claiming at Point of Service: That meals are accurately counted at the point in a food service operation where a determination can be made that a reimbursable free, reduced price, or paid meal has been served to an eligible student and claimed in the proper category.
 - e. Changes in Eligibility Status: That changes in eligibility that reflect an increase in benefits is made within three days, and that changes in eligibility that reflect a decrease in benefits be made within ten days.
 2. Performance Standard #2: Components. Lunches claimed for reimbursement within the school food authority (SFA) contain food items/components as required by program regulations. The SFA chooses the Menu Planning System identified on its annual application (Attachment 1).
 - a. Food Based Menu Planning System
 - (1) Meal Components on Day of Review/Inspection: That each meal observed on the day of review contains the required food

items/components. Five required items must be available to all students for the meal to be reimbursable. There are two serving options: regular lunch and “offer vs. serve” lunch. Both options receive the same federal reimbursement rate. In regular service, the students must be served all five items. In the “offer vs. serve” option, the students may reject zero, one, or two of the five items available. The “offer vs. serve” lunch option is mandatory at the high school level (Attachment 2). Refer to Attachment 3 for appropriate portion sizes for each grade grouping.

(2) Menu: That the menu published by the SFA lists all five required food items for each lunch for each day and production records document food items served.

b. Nutrient Standard Menu Planning (NSMP)

(1) Meal Components on Day of Review/Inspection: That each meal observed on the day of review contains the required food items/components. At least an entrée, side dish, and fluid milk must be available to all students for the meal to be reimbursable. There are two serving options: regular lunch and “offer vs. serve” lunch. Both options receive the same federal reimbursement rate. In regular service, the students must be served at least an entrée, side dish, and fluid milk. In the “offer vs. serve” lunch option, the students must take an entrée and one other menu item. Students may reject no more than two menu items. The “offer vs. serve” lunch option is mandatory at the high school level (Attachment 4). The minimum nutrient standards are listed in Attachment 5.

(2) Menu: That the menu published by the SFA lists all menu items for each lunch for each day and production records document food items served.

- F. Other regulatory issues are examined during the CRE process, including but not limited to the following:
1. Student/parent input into the lunch program
 2. Production records (i.e., quantities of food items prepared, served, and left over)
 3. Proper storage of USDA commodities (i.e., storage areas, temperatures, and sanitation)
 4. Inventory/excess of USDA commodities
 5. On-site review/inspections that need to be conducted by the SFA of each building by February 1 of each year. On-site review/inspections that need to be conducted by the SFA of each After School Snack Program during the first four weeks that the snack program is in operation and in the second half of each school year.
 6. Daily/monthly edits to assure that counts by category do not go over 100%, and documentation is maintained on file for counts over the national attendance factor: 93.5% for fiscal year 2006, 93.47% for fiscal year 2007, and 93.5% for fiscal year 2008, and 93.5% for fiscal year 2009.
 7. Purchasing
 8. Civil rights

9. Health inspections, Sanitation Food Safety Program based on Hazard Analysis and Critical Control Point (HACCP) Principles
10. Verification system
11. Other – Nutrition Review, Local Wellness Policy

The CRE process applies to the School Breakfast Program only when a follow-up review is necessary. Follow-up is necessary when an SFA does not meet all of the appropriate criteria for the School Lunch Program during the initial CRE.

G. SFSP Administrative Review

The SFSP Administrative Review is similar to the NSLP CRE except it is completed once every three years. The SFSP Administrative Review involves two performance standards.

1. Performance Standard #1: Certification, Counting, and Claiming.
 - Certification: All meals served to children in the SFSP are considered eligible for maximum reimbursement except for camp sites. Camp sites must use family applications. All eligible applications are considered free. There is no reduced price category in SFSP. If the site is an enrolled site, at least one-half of the children on the day of the highest program participation should have a completed and eligible application for free meals on file.
 - Counting: All meals must be counted at the point of service on the daily meal count form except for camps. Camps may use the seven-day meal count consolidation form.
 - Claiming: Meals counted accurately at point of service may be claimed.
2. Performance Standard #2: Meal Components: Meals claimed for reimbursement by the sponsor contain food items/components as required by program regulations.
 - a. Meal Components (7 CFR 225.16[d]): That each meal observed on the day of review contains the required food items/components. The meal patterns establish the minimum portions of the various meal components that must be served to each child in order for the sponsor to receive reimbursement for each meal.
 - (1) For breakfast to be a reimbursable meal:
 - One serving of milk
 - One serving of a vegetable or fruit or full-strength juice
 - One serving of grain or bread
 - (2) For a lunch or supper to be a reimbursable meal, it must contain:
 - One serving of milk
 - Two or more servings of vegetables and/or fruits
 - One serving of grain or bread
 - One serving of meat or meat alternate

H. Other regulatory issues are examined during the SFSP Review, including but not limited to:

1. Production records – requirement/documentation
2. Proper storage of USDA commodities

3. Inventory/excess of USDA commodities
4. Site reviews need to be conducted by the sponsor within the first four weeks of the program. Pre-operational site reviews need to be conducted on all new sites and problem-prone sites. First week visits need to be conducted on all SFSP sites. Documentation of the reviews/visits needs to be maintained by the sponsor.
5. Purchasing
6. Civil rights
7. Sanitation
8. Other

II. DISTRICT CONSIDERATIONS

The following is provided to serve as a list of “basic” procedures to be performed and documented to assist you in compliance with federal food service guidelines. This guide is not considered to be all-inclusive and should not be used in place of MDE and USDA publications.

A. Application – Agreement and Policy Statement

Any new program desiring to participate in the National School Lunch, School Breakfast, After School Snack, and Special Milk Programs must complete a “permanent” Application-Agreement and Policy Statement on-line on the Child Nutrition Application Program (CNAP).

B. Program Renewal - CNAP

Each year all districts already participating in the National School Lunch, School Breakfast, After School Snack, and Special Milk Programs that choose to continue participation, must renew the Application-Agreement. This renewal process is completed on CNAP. All application (CNAP) information must be reviewed, updated, and submitted electronically. This web-based program is available through the CNAP link at <http://cnap.mde.state.mi.us/cnap>.

C. Application for Free and Reduced Price School Meals

1. Prototype materials, including Free and Reduced Price School Meals Family Application (Form SM-4458-C) and a letter to parents, are available on the CNAP system. Each district is required to print and photocopy both sides of the form and letter and then provide one to each household at the beginning of the school year. A district may develop its own application and letter, however, must have prior approval for use by the MDE. The application forms are completed by any parents or guardians believing that their income level or family financial situation may qualify their children for free or reduced price meals under the National School Lunch, School Breakfast, After School Snack, and Special Milk Programs. Each form returned must include the following information:
 - a. Child’s name, food stamp, Family Independence Program (FIP) or Food Distribution Program on Indian Reservations (FDPIR) case number, (The number on the Electronic Benefit Transfer [EBT] is not acceptable for use

- on the School Meals Application. The food stamp case number is alphanumeric; the EBT card number is numeric.) adult's signature, or
- b. Child's name, names of all household members, social security number only of an adult household member, "none" indicated if adult has no social security number, income by source, adult's signature.
2. The district is then required to analyze each application and determine eligibility. If the application includes a Food Stamp, FIP or FDPIR case number, the student is automatically eligible. If the application is for a student living in a foster care home (the application must include spending monies of foster child, if any), eligibility is determined using the student's income only. In most cases, the student will be eligible.
 3. In all other cases, eligibility is determined by using the "Income Scale for Reduced Price or Free Meals" provided annually (via the USDA) by the MDE. All applications returned, regardless of eligibility determination, must remain on file within the district. The district can provide free/reduced lunches to any student who has a properly completed and approved application on file from the previous school year (for 30 days from the first day of school). This process can take place until a new application (for current year) is approved or disapproved.
 4. SFSP Application for Free Meals – Free meal applications are not necessary for area eligible locations (Schools are area eligible when 50% or more children enrolled in the school are on free or reduced price school meals.). Applications are necessary for enrolled programs, those in areas with less than 50% of school children on free or reduced priced meals but whose program consists of 50% or more students on free or reduced price meals.

D. Verification Procedure for Applications and Free and Reduced Price School Meals

Each school year, the Local Educational Agency (LEA) is required to perform income verification for an exact sample size of all approved free/reduced (FR) applications on file as of October 1. There are three sampling methods for verification:

1. Basic
 - LEA must verify three percent or 3,000, whichever is less, of all approved applications on file as of October 1.
 - Once the sample size is determined, error prone applications are the first selected; error prone applications are those with income within \$100 monthly or \$1,200 annually of the appropriate income eligibility guideline.
 - If there are not enough error prone applications to complete the sample, the remainder of applications to be verified is selected from all applications subject to verification.
2. Qualifying LEAs (response rate to verification during the previous school year was greater than 80%) also may use one of two alternate sample sizes. These are:
 - a) Alternate-Random
 - LEA must verify three percent or 3,000, whichever is less, of all approved applications on file as of October 1.

- Once the sample size is determined, applications are selected at random.
- b) Alternate-Focused
- LEA must verify:
 - the lesser of 1,000 or one percent of all applications approved as of October 1 PLUS
 - The lesser of 500 or one-half of one percent of all applications approved as of October 1 that provided a case number in lieu of income.

The deadline for completion of the selection and verification of the sample of free and reduced price applications is November 15th. No later than March 1st each LEA must annually report the results of verification to MDE.* The LEA must retain copies of the reported verification information with all supporting documents on file in the district.

*The web-based system – LEARS – verification summary report is provided by MDE.

E. Discrimination/Confidentiality

The names and/or identity of those students eligible for free/reduced price lunches shall not be posted, announced, or disclosed in any manner. There shall be no overt identification of needy children by use of special tickets, serving lines, or dining areas (7 CFR Part 210.18(l) (1) (iii) (C)).

A district may send a “Sharing Information with other Programs” form for parents to sign. This form should indicate the specific purpose for which the names will be used. Names can be released for those purposes only, and only for those families that sign the form. Specified programs may receive information without prior notice and consent. Refer to Eligibility Guidance for School Meals Manual, Part 7.

F. Daily/Monthly Meals Served Counts

Each district is required to maintain records of meals served daily by building. This information must be derived from a count of meals served at the point of service and must be maintained by category: free, reduced, and paid. This information is submitted monthly via the Internet on the MEIS system (SM-4012-SL). If at any time, free, reduced, or total meal counts claimed by building exceed the annual national attendance factor (see II B6) 93.5% of eligible students for any month, this must be explained by completing the “Justification for Exceeding the National Attendance Factor” form available on line as part of the monthly claim form on Michigan Education Information System.(MEIS).

G. Reimbursable Meals

Effective July 1, 1996, school meals are held to a nutrient standard. Schools may comply with the nutrient standard by:

1. Food Based Menu System
 - a. Schools using either traditional or enhanced food based menus must serve lunches composed of five menu items/components as described in

Section II (2) (a) of this document. Those schools must also provide documentation for one week of menus so a nutrient analysis of the menu can be done. The required documentation includes menus, production records, standardized recipes, food labels, and manufacturer data sheets showing the nutrient content of all food prepared to meet meal requirements for one week.

- b. A nutrient analysis will be conducted through MDE via an independent contractor, Food Creations, using this data. The results of the analysis will be compared to USDA's nutrient standard. A Nutrition Review report will be sent to the SFA showing the comparison and suggesting any needed changes so the School Food Authorities (SFA) menus can meet the nutrient standard.
2. NuMenus Menu System
Schools using NuMenus or Assisted NuMenus will serve lunches composed of menu items as described in Section II (2) (b) of this document. Those schools will also provide a nutrient analysis of the menu for one week during the review period. This nutrient analysis will be reviewed by the MDE contractor (Food Creations) and a report provided to the SFA. Schools that are using NuMenus are analyzing their menus weekly using a USDA approved software package; schools using Assisted NuMenus have their analysis done by an outside contractor.
 3. Alternate Menu Planning Approach
Documentation of approval of the alternate menu planning approach by MDE is required. Contact Barbara Campbell for details (517) 373-2077.

H. Meal Reimbursement Rates and Commodity Entitlement Values

These rates are subject to change annually and are provided to each district by the USDA via the MDE as an Administrative Policy. The district's monthly reimbursement will be based on these meal reimbursement rates. The commodity entitlement value is used to compute the amount of the district's award for entitlement commodities for single audit purposes.

I. Number of Eligibles

This information is used in conjunction with the commodity entitlement value to calculate the district's entitlement commodity award. The number of eligibles will be displayed on the district's commodity warehouse order form and will change each January, based on the October claim data.

J. Procurement of Food

Refer to IV, Audit Considerations, Paragraph C.

K. Procurement, Suspension and Debarment

USDA procurement requirements are addressed in 7 CFR 3016.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that

procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided; for whom, when, and how much; and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

L. Foods of Minimal Nutritional Value

Foods of minimal nutritional value (FMNV) include carbonated beverages, fruit ices, gum, and certain candies. FMNV may not be sold in the food service area during meal service. The food service area is the total area where school meals are served and eaten. FMNV may be purchased by the School Food Service Account for use outside the food service area or in the food service area during times other than program meal periods. If School Food Service Account (SFSA) funds are used to purchase FMNV for sale outside a meal period(s) or outside a food service area(s) during meal periods, such purchases must be self-sustaining. This means that funds must be deposited in the SFSA in an amount sufficient to cover all direct and indirect costs relating to the purchase and service of FMNV with SFSA funds. Records documenting the recovery of these costs must be maintained and available for review.

Foods of minimal nutritional value are not restricted by regulation with the Summer Food Service Program (SFSP) meals; however, they may not be counted as a meal component.

M. Net Case Resources/Fund Equity

The district shall limit its School Breakfast and Lunch Fund net cash resources to an amount that does not exceed three months average expenditures (7 CFR Part 210.14[b]).

SFSP – Excess funds may be applied to another child nutrition program or carried over to the next year to cover operating and administrative costs for the SFSP.

N. Annual On-Site Review

A complete review of the National School Lunch Program must be conducted by the district in each building each year prior to February 1. The review form must be completed and retained on file within the district. Annually, an MDE Food Service Administrative Policy is issued regarding the requirements.

Please note: This only applies to districts with more than one building, per NSLP Regulations (7 CFR 210.8[a] [1]).

| Information | Due Date | Send/File |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Child Nutrition Program Security Agreement (Needed for all CN Programs, Year End Report, CNAP, Meal Reimbursement Claim, Verification Summary Report) | When changes are required for previously submitted forms or for new access requests. | Fax to Ruby Zavala c/o MDE at 517-373-4022 |
| Food Service Management Company Contract – Renewal | June 30th of each year | Mail copy of contract renewal for MDE approval |
| Applications for Free and Reduced Price Meals/Free Milk | Distribute at beginning of each school year but not before July 1st . Process completed applications within 10 school days after receipt. | File at SFA |
| Annual Child Nutrition Application Program (CNAP) Renewal | Early September | Submit to MDE via MEIS, refer to CNAP Quick Guide; update during year as needed |
| After School Snack Program – On Site Review (two reviews required) | First review within first four weeks of snack operation . Second review completed after January 1 st | File completed forms at SFA |
| Verification Summary Report (Local Educational Agency Review System – LEARS) | Verification starts October 1 st based on number of approved applications. Verification Summary Report must be completed by November 15th | Complete paper copy and file copy at SFA. Submit data to MDE via LEARS annually on-line before March 1st |
| Building On-Site Review (Required if more than one school or meal site within the SFA) | Complete monitoring visit and forms for all sites by February 1st annually | File completed forms at SFA (if required) |
| Annual Commodity Order Survey for Consortiums | February – May | Submit annually through consortiums |
| Daily Participation Record/Edit Check | Daily/Prior to submitting monthly claims | File at SFA with monthly claim materials |
| Menu Production Records – Prototype forms and examples of supporting materials available in | Daily records of meal production and meal service for each meal | File at SFA |

| | | |
|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| <i>USDA Menu Planner for Healthy School Meals</i> | program (production plans, standardized recipes, Child Nutrition labels or production specifications) | |
| Claim Form – SM-4012-SL (Meal Reimbursement Claim) | By 10 th of month following the claim month | Submit to MDE via MEIS |
| Commodity Fair Share/Bonus Surplus Order | Offered monthly pending availability | Submit monthly on-line through designated warehouse |
| Civil Rights Compliance Self Evaluation Form (PI-1441) | Completed during CRE Review | File form at SFA |
| Summer Food Service Program (SFSP) Application/Renewal | May 1st | Submit to MDE via MEIS |
| Claim Form – SM-4012-SF (Summer Food Service Program Claim) | By 10 th of month following the claim month | Submit to MDE via MEIS |
| Summer Camp Special Milk (SCSM) Application/Renewal | Application must be approved two weeks prior to start of camp | Submit to MDE via MEIS |
| Claim Form – SM-4012-SC (Summer Camp Special Milk Claim) | By 10 th of month following the claim month | Submit to MDE via MEIS |

School Meals Program applications, forms and reports are submitted to the Michigan Department of Education via the Michigan Education Information System (MEIS) and located at <http://michigan.gov/meis>.

III. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures, along with those listed in the Office of Management and Budget A-133 Compliance supplement, are to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. The following are specific requirements that should be considered when auditing National School Lunch and School Breakfast Programs:

A. Activities Allowed or Unallowed

1. Review production records for existence and completeness. These must be kept by the SFSA on a daily basis. It is recommended that SFAs use the state prototype. All columns of the form must be completed.
2. Utilize the SFSP Administrative Guide for the appropriate year. (This guide is updated yearly.)

B. Eligibility

1. Review the eligibility requirements in the “Eligibility Guidance for School Meals Manual,” at www.fns.usda.gov/cnd/guidance/eligibility-guidance.pdf.
2. Review selected applications to determine applicants are properly accounted for and applications are properly completed.
3. Determine the number of free and reduced meals claimed for reimbursement. This amount should not exceed the number of approved applications on file. Determine that the number of applications reported on the monthly claim does not include applications for students found ineligible or who had departed the building before the beginning of the month.
4. Review applications to determine that changes in eligibility that reflect an increase in benefits are made within three days, and that changes in eligibility that reflect a decrease in benefits are made within ten days of notification of such changes.
5. Review the “benefit issuance” list (roster of approved free and reduced applicants). Approved names at point of service must match the approved applications on file.
6. Review the collection procedures to ensure eligible participants are not overlooked.
7. SFSP
 - a. Area eligibility – review that the school qualifies as area eligible. It has 50% or more free and reduced priced children enrolled in the school.
 - b. Enrolled program – review that 50% of enrolled children are eligible for free or reduced price meals.

C. Purchasing – Study the Purchasing in the Food Service to Assure:

Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

For contracts, purchase orders or other procurements selected for testing, perform the following audit procedures.

1. Obtain the district’s procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements. Determine that the food service has a standard of conduct consistent with 7 CFR 3016.36(b) (3) and 3019.42**.
2. Determine that the district complied with bidding requirements. Determine that the process provides open and free competition consistent with 7 CFR 3016.36(c) (1) and 3019.43**.
3. Determine that the equal employment opportunity provision was adhered to consistent with 7 CFR 3016.36(e) and 3019.44**.
4. Determine that any person or organization who developed or drafted specifications, requirements, statements of work, invitations for bid, requests for proposals, contract terms and conditions, or other documents is excluded from competing for contract awards resulting from that procurement consistent with 7 CFR 3016.60(b) and 3019.43.
5. Determine that the district has a system in place to ensure that it does not enter into a contract with a suspended or debarred party. School district

- should check the Excluded Parties List System (EPLS) on <http://epls.arnet.gov> to determine the eligibility of its party.
6. Determine that procurements by small purchase procedures were properly documented. For purchases in excess of \$21,308, a sealed bid, formal advertisement, and a reasonable bid specification were used by the district. Also, assure that the district did not use a “cost plus a percentage of cost or cost plus percentage of income method.” (34 CFR 80.36)
 7. If bids were accepted which allow price adjustments for changes in the base price of a product, determine that the districts validated those adjustments using the standard(s) specified in the bid (Consumer Price Index [CPI], Market Basket, etc.).
 8. Determine that bid specifications used by the district did not limit the supplier companies’ operation or structure on geographic preference consistent with 7 CFR 3016.36(c) (2)**. Open and fair competition must be maintained in accordance with 7 CFR 3016.36(c) (1) and 3019.43**.
 9. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
 10. Determine that payments to contractors and vendors were according to the contract or purchase order.
 11. If contract or purchase order is new (not a renewal or extension), compare the RFP with the signed contract or purchase order to determine that conditions are being met. Note: For Food Service Management Company (FSMC) contracts, only the MDE-approved RFP may be used by the district. Assure that the FSMC RFP and contract are the MDE-approved RFP and contract.
 12. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
 13. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

**Please refer to 7 CFR Part 3016 and 3019 at <http://www.access.gpo.gov/index.html>.

D. Matching Level of Effort and/or Earmarking Requirements
No procedures required for the auditor to perform.

- E. Food Service Management Company (FSMC) Operated Food Services
1. Verify that the signed contract is consistent with the issued Request for Proposal (RFP)
 2. Verify that the financial requirements of the food service management contract are being followed.
 3. Review the renewal of the contract to assure that the Michigan Department of Education (MDE) has given its approval of the contract renewal and that a copy of the renewal has been submitted to Michigan Department of Education (MDE). Districts may renew for up to four years on a yearly basis.
 4. Assure that any increase in payments to the food service management company does not exceed the provisions of the contract and that the increase was approved by MDE.

5. Assure that the FSMC is properly crediting the School Food Authority's (SFA) food service account monthly for all discounts, rebates, credits, and allowances received by the FSMC from the purchase of goods and services on the behalf of the SFA.
6. Ensure the following activities are performed by school district personnel, not employees of the food service management company:
 - a. All hearings
 - b. Certification of meal reimbursement claims via MEIS and certification of the on-line School Meals Program Year End Report (SM-4012-A/R).
 - c. Annual on-site reviews

Note: The LEA may delegate certain responsibilities to the FSMC. See Food Service Admin Policy #3 – SY 2008/2009.

F. Reporting Requirements

1. Review daily and monthly meal counts reported to determine accurate data. This is the basis for preparing the monthly claim for reimbursement.
2. If the district has any contracts in excess of \$25,000, ensure that the district did not apply indirect costs to the portion of each contract exceeding \$25,000.
3. Review the last Claim Status Report available on the Claim Form website (MEIS).

G. Special Tests and Provisions: Consider the Following:

1. Review the most recent CRE Report. Check for corrective action on findings.
2. Review the procedures performed for the required internal on-site review and the status of findings, if any.

H. Reporting in the Schedule of Expenditures of Federal Awards

1. The National School Lunch funding must be reported, by each project, in the following manner:

Example:

| | |
|------------------------------------------|-----------|
| Accrued (Deferred) Revenue July 1, 2010 | \$15,000 |
| <u>PLUS:</u> Current Year Expenditures | \$25,000 |
| <u>LESS:</u> Current Year Cash Receipts | (30,000)* |
| Accrued (Deferred) Revenue June 30, 2011 | \$10,000 |

*This amount must match the amount reported as "Current Payment" in the "Grant Sections Auditors Report," Form R7120.

2. Each project reported under the CFDA #10.555 must crossfoot using the above equation. Any adjustments or timing differences must be explained as notes to the Schedule of Expenditures of Federal Awards.
 3. For further information, refer to Part II – Section B of this manual.
- I. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: allowable costs/cost principles, cash management, and period of availability of federal funds, program income, and subrecipient monitoring.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Catalog of Federal Domestic Assistance, Section 10.555, National School Lunch Program
2. Accounting and Reporting of USDA Donated Food Commodities
3. A Menu Planner for Healthy School Meals, FNS Publication FNS-303 (<http://teammnutrition.usda.gov/library.html>)
4. Eligibility Guidance for School Meals Manual, USDA, 2008 (www.fns.usda.gov/cnd click on Guidance)
5. Offer vs. Serve, <http://teammnutrition.usda.gov/library.html>
6. Summer Food Service Program for Children Administrative Guidance for Sponsors www.michigan.gov/sfsp and The Key to Reimbursement Michigan Summer Food Service Program www.michigan.gov/sfsp.

B. Personnel

1. For information regarding school meal regulations and policies, findings of school food authority (CRE) reviews, or concerns about an SFSP administrative review, please contact Barbara Campbell, School Nutrition Training Programs Supervisor, at (517) 373-2077.
2. For information on payment of claims for reimbursement for school meals, please contact Pam Miller, Department Specialist, at (517) 373-1074.
3. For information regarding processing contracts, calculating commodity entitlement values, food service management contracts, and **vended school meal contracts**, please contact Cheryl Schubel, Fiscal Management and Food Distribution Supervisor, at (517) 373-8642.
4. For information on Child and Adult Care Food Program requirements or reimbursement, please contact Marla Moss, Child and Adult Care Food Program Supervisor, at (517) 373-7391.
5. For information regarding the Summer Food Service Program, contact Gloria Zunker, Consultant, at (517) 241-2096.

MENU PLANNING SYSTEM

- OPTION #1** **FOOD BASED MENU PLANNING – ENHANCED**
Menus must contain the required food components in the correct portion sizes for age/grade groups as established by USDA. Menus for reimbursable lunches must offer: fluid milk, lean meat/meat alternate, 2 servings of different fruits and/or vegetables, and 12 servings of breads/grains per week at elementary schools or 15 servings of breads/grains per week at secondary schools. Refer to attached Enhanced Food Based Menu Planning Approach. Note: Grain-based desserts may be used to meet part of the bread/grain component.
- OPTION #2** **NUTRIENT STANDARD MENU PLANNING**
Three (3) items must be offered for reimbursable lunches every day – an entrée, a side dish and fluid milk. The nutrient content of menus planned must be analyzed using USDA approved software. Nutrients will be analyzed and averaged for an entire week. There are no specific components or specific portion sizes, but the nutrient standards for ages/grades must be met. Refer to attached Nutrient Standard Menu Planning Approach.
- OPTION #3** **ASSISTED NUTRIENT STANDARD MENU PLANNING**
Exactly the same as Nutrient Standard Menu Planning, except cycle menus are developed and analyzed by other sources using an approved USDA nutrient analysis software program. Other sources may include: another school district, private consultants or food service management companies.
- OPTION #4** **FOOD BASED MENU PLANNING – TRADITIONAL**
Menus must contain the required food components in the correct portion sizes for age/grade groups as established by USDA. Menus for reimbursable lunches must offer: fluid milk, lean meat/meat alternate, 2 servings of different fruits and/or vegetables, and a minimum of 8 servings of breads/grains per week. Refer to attached Traditional Food Based Menu Planning Approach.
- OPTION #5** **ALTERNATE MENU PLANNING APPROACH**
Menu planning system developed by SFA that differs from the standard approaches (Option #1 – Option #4).

State Agency review and approval is required to use an alternate menu planning approach. Written documentation clearly identifying the menu planning approach must be submitted prior to State Agency approval of the renewal/agreement.

OFFER VS. SERVE (OVS) FOR TRADITIONAL AND ENHANCED FOOD-BASED MENU PLANNING

What are the basic requirements for the food-based menu planning approaches?

- Menus planned using the food-based menu planning approaches are based on meal patterns that specify four food components (meat/meat alternate, grains/breads, vegetables/fruits, and milk) in the specified minimum amounts for various ages/grades of students.
- For lunches, five food items must be offered in the specified minimum amounts. These are: meat/meat alternative, grains/breads, two servings of vegetables/fruits, and milk.
- For breakfasts, four food items must be offered in the specified minimum amounts. These are:
 - One serving of juice/fruit/vegetable, and
 - One serving of milk, and
 - Two servings of grains/breads OR
 - Two servings of meat/meat alternate OR
 - One serving of meat/meat alternate and one serving of grains/breads OR
 - An equivalent combination of meat/meat alternate/grains/breads.
- An “equivalent combination” of the meat/meat alternate/grains/breads components for the SBP provides flexibility for menu planners. Using this concept, menu planners may plan dishes that **in total** are credited as meeting one or more of required servings of these components. For example, if the menu planner offers a breakfast pizza with 1 $\frac{1}{4}$ serving of grains/breads and $\frac{3}{4}$ serving of cheese, this combination food would be credited as 2 servings of these components.
- In addition, meals planned using the food-based menu planning approaches must also meet the nutrition standards for school meals.
- Please refer to: [A Menu Planner for Healthy School Meals](#) for additional information.

What are the general Offer vs. Serve requirements for lunches and breakfasts?

- The choice of which food items to select is strictly the student’s decision. Schools cannot specify which food items a student must select. However, if the menu has a combination food such as pizza that contains, for example, three of the five required food items for the NSLP, the student must select the pizza if there are not enough additional items available to select a reimbursable lunch. (Also see Question 1 for this section.)
- Students must take **full** servings of the food items selected to count toward a reimbursable meal. Students may take smaller portions of any food items; however, the smaller portions do not count toward a reimbursable meal.
- Students may decline any item, including the entrée or milk in a food-based menu planning approach.

What are the specific Offer vs. Serve requirements for lunch?

- At all levels, students must be offered at least the minimum serving sizes of five food items from the four food components.
- At the senior high school level, the school food authority must permit students to decline up to two of the five food items offered.
- Below the senior high school level, the school food authority has the option to permit students to decline one or two of the five food items offered.
- Double servings of the same food item (such as two servings of milk or two servings of corn) may only be credited as one food item.
- Under the enhanced food-based menu planning approach only, schools may credit up to one grain-based dessert per day toward meeting the grains/breads component for students in kindergarten through grade 12.

What are the specific Offer vs. Serve requirements for breakfast?

- Students must be offered at least the minimum serving sizes of four food items from three or four components.
- At all grade levels, OVS is optional.
- If implemented, each school may allow students to refuse one food item from any component.
- Double servings of the same grains/breads or meat/meat alternate food items can be credited toward a reimbursable breakfast.
- Double servings of other food components, such as vegetables/fruits, **cannot** be credited toward a reimbursable breakfast.
- Only two food items from the meat/meat alternate/grains/breads components may be counted toward a reimbursable breakfast.

What are the Offer vs. Serve requirements by food component?

Meat/Meat Alternate

- If the meat/meat alternate is provided in two items on a menu (such as soup and sandwich), a student must take the full servings of both foods to meet the required amount of meat/meat alternate to be credited as providing the full meat/meat alternate component.
- For the SBP, a full serving of the meat/meat alternate component is not required when combined with the grains/breads component. Schools may offer a **total** of two servings of meat/meat alternate/grains/breads. For example, if the school offers a muffin (1 ½ servings of grains/breads) with ½ ounce of cheese. This combination **totals** two servings of these components and is credited as providing two of the four required food items.

Vegetables/Fruits

- To count one vegetable/fruits food item, a student must take the full serving size planned for that food item.
- Menu items that are mixtures, such as fruit cocktail or mixed vegetables, only count as one vegetables/fruits serving.

- For the NSLP, two or more servings of **different** vegetables and/or fruits (that total the minimum serving size) must be offered to meet the component requirement.
- For the NSLP, a student must take two or more food items that total the full amount required (i.e., $\frac{3}{4}$ cup for grades 4-12 in traditional food-based menu planning) in order to be credited as the full vegetables/fruits component.
- For the NSLP under the enhanced food-based menu planning approach only, the meal pattern for students in kindergarten through grade 6 has a weekly (an extra $\frac{1}{2}$ cup over the school week) as well as a daily requirement ($\frac{3}{4}$ cup for vegetables/fruits). In order for schools to meet the weekly requirement, the amount of vegetables/fruits offered on some days may exceed the daily requirement. Only the daily requirement for the vegetables/fruits component is credited for OVS. For example, the school offers three different servings of fruits and vegetables – $\frac{1}{4}$ cup of peas, $\frac{1}{2}$ cup of peaches and $\frac{1}{2}$ cup of tossed salad for a total of $1\frac{1}{4}$ cup. A 5th grade student selects all three items. For the purposes of a reimbursable meal, the student is credited with the full vegetables/fruits component because the requirement for $\frac{3}{4}$ cup of two different vegetables/fruits is met. The selection of the tossed salad cannot be credited as an additional food item for a reimbursable lunch.

Grains/Breads

- To count a grains/breads food item, a student must take a minimum of one full serving. A serving is a slice of bread or a comparable serving of another grains/breads item.
- The grains/breads food item may be taken in combination with another food item (for example, an entrée) or separately (such as a roll or serving of rice).
- For the NSLP, a grains/breads item may only be credited if the total selected adds up to one full grains/breads serving.
- For the NSLP under the enhanced food-based menu planning approach only, schools may credit up to one grain-based dessert per day toward the grains/breads component for kindergarten through grade 12.
- For the NSLP, there are both daily and weekly minimum requirements. In order for schools to meet the weekly requirement, more than one grains/breads item may be offered on some days. Only one of the grains/breads items counts toward OVS. For example, the school offers $\frac{1}{2}$ cup of pasta and a one-ounce roll. Either the pasta or the roll may count as meeting the grains/breads component but if the student selects both, only one grains/breads item is credited for a reimbursable lunch.
- For the SBP, a full serving of the grains/breads component is not required when combined with the meat/meat alternate component. Schools may offer a total of two servings of meat/meat alternate//grains/breads. For example, the school offers a breakfast burrito ($\frac{3}{4}$ serving of grains/breads) filled with shredded cheese and sausage (totaling $\frac{3}{4}$ ounce of meat/meat alternate). This combination **totals** two servings of these components and is credited as providing two of the four required food items.

Milk

- For lunch, schools must offer fluid milk as a beverage.
- For breakfast, schools must offer fluid milk as a beverage, on cereal, or both.

QUESTIONS AND ANSWERS FOR PART II, TRADITIONAL AND ENHANCED FOOD-BASED MENU PLANNING

1. **If the school food service serves a menu item that is a combination of foods (such as beef stew) that cannot be separated, can the student be required to take that item?**

Yes. Combination foods that do not allow separation of food items may require that specific foods be selected in order to meet meal pattern requirements. Therefore, when students cannot select other items to make up a reimbursable meal, they must take a combination dish.

2. **Under the traditional food-based menu planning approach, Group IV of the meal pattern requires that at least two servings of vegetables/fruits, totaling $\frac{3}{4}$ of a cup be offered. A menu planner chooses to offer three servings ($\frac{1}{4}$ cup of peaches, $\frac{1}{4}$ cup of peas and $\frac{1}{4}$ cup of green beans) totaling $\frac{3}{4}$ of a cup. If the student selects the peaches and the peas along with a carton of milk, is this a reimbursable meal under OVS since the student has taken two different sources of vegetables/fruits?**

No, it is not a reimbursable meal; the student must take the number of servings of vegetables/fruits which total the full amount required in the meal pattern for the component. In this example, to meet the requirement for the component and thus to count as two food items for OVS, the student must take all three servings.

3. **Consider this SBP menu for either of the food-based menu planning approaches for kindergarten through grade 12:**

Choice of full-strength orange juice, full-strength apple juice OR fruit cup;
Choice of low-fat chocolate milk, low-fat unflavored milk OR non-fat unflavored milk;
Choice of two of the same or two different foods from the following:

- Scrambled egg (1/2 large egg)
- 1 slice of whole-wheat toast
- 1.8-ounce blueberry muffin
- 1.1-ounce waffle
- $\frac{3}{4}$ cup of cold cereal

Please indicate if the following trays selected by students are reimbursable:

| Tray | Reimbursable? |
|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| 2 servings of scrambled eggs double (1 large egg) and apple juice component | Yes, there are three food items because servings of the meat/meat alternate are counted under the SBP. |
| 1 serving of scrambled egg | No, only two food items selected. To be |

(1/2 large egg) and juice
another

reimbursable, the student must select
serving of scrambled egg, a grain/bread item or
milk.

- 4. A school offers one large egg, scrambled, with one ounce of cheese on a biscuit (which provides two servings of grains/breads). If the student selects only this item, does she/he have a reimbursable breakfast?**

No. While the egg/cheese biscuit has two servings of meat/meat alternate and two servings of grains/breads, a maximum of two food items from these components may be counted toward a reimbursable breakfast. The student must also select a milk or vegetables/fruits item to have a reimbursable breakfast.

**TRADITIONAL FOOD-BASED MENU PLANNING APPROACH
BREAKFAST**

| TRADITIONAL FOOD-BASED MENU PLANNING APPROACH – MEAL PATTERN FOR BREAKFAST | | | |
|------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------|-------------------------|
| FOOD COMPONENTS AND FOOD ITEMS | AGES 1-2 | AGES 3, 4 & 5 | GRADES K- 12 |
| MILK (fluid) (as a beverage, on cereal or both) | 4 fluid ounces | 6 fluid ounces | 8 fluid ounces |
| JUICE/FRUIT/VEGETABLE: Fruit and/or vegetable; or full-strength fruit juice or vegetable juice | 1/4 cup | ½ cup | ½ cup |
| SELECT ONE SERVING FROM EACH OF THE FOLLOWING COMPONENTS, TWO FROM ONE COMPONENT, OR AN EQUIVALENT COMBINATION: | | | |
| GRAINS/BREADS: | | | |
| Whole-grain or enriched bread | ½ slice | ½ slice | 1 slice |
| Whole-grain or enriched biscuit, roll, muffin, etc. | ½ serving | ½ serving | 1 serving |
| Whole-grain, enriched or fortified cereal | 1/4 cup or 1/3 oz. | 1/3 cup or ½ oz. | ¾ cup or 1 oz. |
| | | | |
| MEAT OR MEAT ALTERNATES: | | | |
| Meat/poultry or fish | ½ ounce | ½ ounce | 1 ounce |
| Alternate protein products* | ½ ounce | ½ ounce | 1 ounce |
| Cheese | ½ ounce | ½ ounce | 1 ounce |
| Large egg | ½ | ½ | ½ |
| Peanut butter or other nut or seed butters | 1 tablespoon | 1 tablespoon | 2 tablespoons |
| Cooked dry beans and peas | 2 tablespoons | 2 tablespoons | 4 tablespoons |
| Nuts and/or seeds (as listed in program guidance)** | ½ ounce | ½ ounce | 1 ounce |
| Yogurt, plain or flavored, unsweetened or sweetened | 2 ounces or ¼ cup. | 2 ounces or ¼ cup | 4 ounces or ½ cup |

*Must meet the requirements in Appendix A of 7 CFR 220.

**No more than one ounce of nuts and/or seeds may be served in any one breakfast.

**ENHANCED FOOD-BASED MENU PLANNING APPROACH
BREAKFAST**

| ENHANCED FOOD-BASED MENU PLANNING APPROACH – MEAL PATTERN FOR BREAKFAST | | | | |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|--------------------|-------------------------------------------------------------------------------|
| FOOD COMPONENTS AND FOOD ITEMS | REQUIRED FOR | | | OPTION FOR |
| | AGES 1-2 | PRESCHOOL | GRADES K-12 | GRADES 7-12 |
| MILK (fluid)(as a beverage, on cereal or both) | 4 fluid ounces | 6 fluid ounces | 8 fluid ounces | 8 fluid ounces |
| JUICE/FRUIT/VEGETABLE Fruit and/or vegetable; or full-strength fruit juice or vegetable juice | 1/4 cup | ½ cup | ½ cup | 1/2 cup |
| SELECT ONE SERVING FROM EACH OF THE FOLLOWING COMPONENTS, TWO FROM ONE COMPONENT OR AN EQUIVALENT COMBINATION: | | | | |
| GRAINS/BREADS: | | | | |
| Whole-grain or enriched bread | ½ slice | ½ slice | 1 slice | 1 slice |
| Whole-grain or enriched biscuit, roll, muffin, etc. | ½ serving | ½ serving | 1 serving | 1 serving |
| Whole-grain, enriched or fortified cereal | ¼ cup or 1/3 ounce | 1/3 cup or ½ ounce | ¾ cup or 1 ounce | ¾ cup or 1 ounce plus an additional serving of one of the Grains/Breads above |
| MEAT OR MEAT ALTERNATES | | | | |
| Meat/poultry or fish | ½ ounce | ½ ounce | 1 ounce | 1 ounce |
| Alternate protein products* | ½ ounce | ½ ounce | 1 ounce | 1 ounce |
| Cheese | ½ ounce | ½ ounce | 1 ounce | 1 ounce |
| Large egg | ½ | ½ | ½ | ½ |
| Peanut butter or other nut or seed butters | 1 tablespoon | 1 tablespoon | 2 tablespoons | 2 tablespoons |
| Cooked dry beans or peas | 2 tablespoons | 2 tablespoons | 4 tablespoons | 4 tablespoons |
| Nuts and/or seeds (as listed in program guidance)** | ½ ounce | ½ ounce | 1 ounce | 1 ounce |
| Yogurt, plain or flavored, unsweetened or sweetened | 2 oz. or ¼ cup | 2 oz. or ¼ cup | 4 oz. or ½ cup | 4 oz. or ½ cup |

*Must meet the requirements in Appendix A of 7 CFR 220.

**No more than one ounce of nuts and/or seeds may be served in any one breakfast.

**TRADITIONAL FOOD-BASED MENU PLANNING APPROACH
LUNCH**

| TRADITIONAL FOOD-BASED MENU PLANNING APPROACH – MEAL PATTERN FOR LUNCHESES | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------|-------------------|--------------------|-------------------------------|
| FOOD COMPONENTS AND FOOD ITEMS | MINIMUM QUANTITIES | | | | RECOMMENDED QUANTITIES |
| | GROUP 1 | GROUP II | GROUP III | GROUP IV | GROUP V |
| | AGES 1-2 | AGES 3-4 | AGES 5-8 | AGES 9+ | AGES 12+ |
| | PRESCHOOL | PRESCHOOL | GRADES K-3 | GRADES 4-12 | GRADES 7-12 |
| MILK (as a beverage) | 6 fluid oz. | 6 fluid oz. | 8 fluid oz. | 8 fluid oz. | 8 fluid oz. |
| MEAT OR MEAT ALTERNATE (quantity of the edible portion as served) | | | | | |
| Lean meat, poultry, or fish | 1 ounce | 1 ½ ounces | 1 ½ ounces | 2 ounces | 3 ounces |
| Alternate Protein Products* | 1 ounce | 1 ½ ounces | 1 ½ ounces | 2 ounces | 3 ounces |
| Cheese | 1 ounce | 1 ½ ounces | 1 ½ ounces | 2 ounces | 3 ounces |
| Large egg | ½ | ¾ | ¾ | 1 | 1 ½ |
| Cooked dry beans or peas | ¼ cup | 3/8 cup | 3/8 cup | ½ cup | ¾ cup |
| Peanut butter or other nut or seed butters | 2 tablespoons | 3 tablespoons | 3 tbsp. | 4 tbsp. | 6 tablespoons |
| Yogurt, plain or flavored, unsweetened or sweetened | 4 oz. or ½ cup | 6 oz. or ¾ cup | 6 oz. or ¾ c. | 8 oz. of 1 cup | 12 oz. or 1 ½ cups |
| The following may be used to meet no more than 50% of the requirement and must be used in combination with any of the above: peanuts, soy nuts, tree nuts, or seeds, as listed in program guidance, or an equivalent quantity of any combination of the above meat/meat alternate (1 oz. of nuts/seeds=1 oz. of cooked lean meat, poultry or fish. | ½ oz. = 50% | ¾ oz. = 50% | ¾ oz. = 50% | 1 oz. = 50% | 1 ½ oz. = 50% |

| | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------|
| VEGETABLE OR FRUIT: 2 or more servings of vegetables, fruits or both | ½ cup | ½ cup | ½ cup | ¾ cup | ¾ cup |
| GRAINS/BREADS (servings per week): Must be enriched or whole grain. A serving is a slice of bread or an equivalent serving of biscuits, rolls, etc., or ½ cup of cooked rice, macaroni, noodles, other pasta products or cereal grains. | 5 servings per week** - minimum of ½ serving per day | 8 servings per week** - minimum of 1 serving per day | 8 servings per week** - minimum of 1 serving per day | 8 servings per week** - minimum of 1 serving per day | 10 servings per week** - minimum of 1 servings per day |

*Must meet the requirements in Appendix A of 7 CFR 210.

**For the purposes of this table, a week equals five days.

**ENHANCED FOOD-BASED MENU PLANNING APPROACH
LUNCH**

| ENHANCED FOOD-BASED MENU PLANNING APPROACH-MEAL PATTERN FOR LUNCHES | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------|
| FOOD COMPONENTS AND FOOD ITEMS | MINIMUM REQUIREMENTS | | | | OPTION FOR |
| | AGES 1-2 | PRESCHOOL | GRADES K-6 | GRADES 7-12 | GRADES K-3 |
| MILK (as a beverage) | 6 fluid oz. | 6 fluid oz. | 8 fluid oz. | 8 fluid oz. | 8 fluid oz. |
| MEAT OR MEAT ALTERNATE (quantity of the edible portion as served): | | | | | |
| Lean meat, poultry, or fish | 1 ounce | 1 ½ ounces | 2 ounces | 2 ounces | 1 ½ ounces |
| Alternate protein products* | 1 ounce | 1 ½ ounces | 2 ounces | 2 ounces | 1 ½ ounces |
| Cheese | 1 ounce | 1 ½ ounces | 2 ounces | 2 ounces | 1 ½ ounces |
| Large egg | ½ | ¾ | 1 | 1 | ¾ |
| Cooked dry beans or peas | ½ cup | ¾ cup | ½ cup | ½ cup | ¾ cup |
| Peanut butter or other nut or seed butters | 2 tbsp. | 3 tbsp. | 4 tbsp. | 4 tbsp. | 3 tbsp. |
| Yogurt, plain or flavored, unsweetened or sweetened | 4 oz. or ½ cup | 6 oz. or ¾ cup | 8 oz. or 1 cup | 8 oz. or 1 cup | 6 oz. or ¾ cup |
| The following may be used to meet no more than 50% of the requirement and must be used in combination with any of the above: peanuts, soy nuts, tree nuts, or seeds, as listed in program guidance, or an equivalent quantity of any combination of the above meat/meat alternate (1 oz. of nuts/ seeds equals 1 oz. of cooked lean meat, poultry or fish.) | ½ oz. = 50% | ¾ oz. = 50% | 1 oz. = 50% | 1 oz. – 50% | ¾ oz. – 50% |
| VEGETABLE OR FRUIT: 2 or more servings of vegetables, fruits or both | ½ cup | ½ cup | ¾ cup plus an extra ½ cup over a week** | 1 cup | ¾ cup |
| GRAINS/BREADS (servings per week): Must be enriched or whole grain. A serving is a slice of bread or an equivalent serving of biscuits, rolls, etc., or ½ c. of cooked rice, macaroni, noodles, other pasta products or cereal grains. | 5 servings per week** - minimum of ½ serving per day | 8 servings per week** - minimum of 1 serving per day | 12 servings per week** - minimum of 1 serving per day*** | 15 servings per week** - minimum of 1 serving per day*** | 10 servings per week** - minimum of 1 serving per day*** |

*Must meet the requirements in Appendix A of 7 CFR 210.

**For the purposes of this table, a week equals five days.

***Up to one grains/breads serving per day may be a dessert.

OFFER VS. SERVICE (OVS) IN NUTRIENT STANDARD MENU PLANNING AND ASSISTED NUTRIENT STANDARD MENU PLANNING

What are the basic requirements for the nutrient-based menu planning approaches?

- The nutrient-standard menu planning approaches require the menu planner to use USDA-approved nutrient analysis software to develop menus that offer the required levels of nutrients for reimbursable meals. At least three menu items must be offered each day and, when averaged over a school week, must meet the age/grade appropriate nutrient standards.
- For lunches, a minimum of three menu items is required (an entrée, side dish and fluid milk). For breakfasts, a minimum of three menu items is required (two menu items and fluid milk).
- Please refer to Appendix A of this publication and to: [A Menu Planner for Healthy School Meals](#) for additional information.

What are the general requirements for OVS in Nutrient Standard Menu Planning/Assisted Nutrient Standard Menu Planning?

- Students must take full servings (as determined by the menu planner) for the items to count toward a reimbursable meal. Students may take smaller portions of the declined items; however, the smaller portions do not count toward a reimbursable meal.
- The menu planner determines the number of menu items in a reimbursable meal based on the nutrient analysis. A variety of choices of entrees, side dishes and milk does not determine the number of items in a reimbursable meal or the minimum number of items for OVS.
- Students may be offered foods as individual items or as combinations.
- Double servings of the same menu item (such as two servings of the same side dish) may be credited as one menu item for both lunch and breakfast.

What are the specific OVS requirements for lunch?

- Students must be offered the planned menu consisting of a **minimum** of three menu items (entrée, side dish, and fluid milk) in the serving sizes planned.
- Students must always take the entrée.
- Students must always take at least two menu items and may never decline more than two menu items. One of the selected menu items must always be an entrée.
- Menu items, particularly entrees, are counted differently for OVS depending on how they are offered and selected. For example:
 - If a school offers "Hamburger on a Bun" as the entrée, this counts as one menu item. The student does not have the choice of taking the hamburger or bun separately.
 - If the school offers "Hamburger Patty" as the entrée and "Bun" as a side dish, this counts as two menu items. A student must take the hamburger, but may decline the bun.

What are the specific OVS requirements for breakfast?

- Students must be offered the planned menu consisting of at least three menu items (fluid milk and at least two additional menu items) in the planned serving sizes.
- Students may decline no more than one of the three or more menu items offered.
- Students may decline any menu item, including the milk.

**QUESTIONS AND ANSWERS FOR PART III
NUTRIENT STANDARD MENU PLANNING AND ASSISTED NUTRIENT
STANDARD MENU PLANNING**

1. How are serving sizes determined for OVS under Nutrient Standard Menu Planning/Assisted Nutrient Standard Menu Planning?

Because there are no prescribed serving sizes for the nutrient standard menu planning approach, once the menu is planned based on the nutrient analysis, the **planned** serving sizes become the **required** serving sizes for a reimbursable meal and for OVS. IF an amount smaller than the planned serving size is served, the menu item cannot count toward meeting the meal requirements under OVS. For the purposes of OVS, it is important that the menu planner communicate the planned serving sizes to all staff in order to ensure that the student receives a reimbursable meal.

2. Must the student select the entrée under OVS for lunch?

Yes; under nutrient standard menu planning/assisted nutrient standard menu planning, the student can never decline the entrée for a reimbursable lunch. If the student does not want to take the entrée, the meal cannot be claimed for reimbursement, and the student must be charged a la carte prices, regardless of the number of other menu items selected.

3. Are condiments considered menu items for the purposes of OVS?

No. Condiments are included in the nutrient analysis but are not considered menu items for the purposes of a reimbursable meal or OVS. In addition, a condiment is not considered part of a menu item. For example, an entrée consists of sliced roast beef, mashed potatoes and gravy. If the student does not want the gravy, she/he is still considered to have taken the entrée.

4. For the NSLP, what is the maximum number of menu items the student may decline?

| Number of Menu Items Planned | Entrée | Maximum Number of Menu Items to Decline |
|-------------------------------------|---------------|------------------------------------------------|
| 3 | Must | 1 |
| 4 | always | 2 |
| 5 or more | take | 2 |

5. Consider this NSLP Menu:

Entrees: Spaghetti with Marinara sauce, turkey sandwich OR chicken nuggets; side dishes (two planned for the full reimbursable meal and student may select a maximum of two): garlic bread, coleslaw, green peas, peaches, roll, green beans, oatmeal cookie; milk: low-fat chocolate milk, low-fat unflavored milk OR non-fat unflavored milk.

How many menu items are offered in this menu? What must the student select in order to have a reimbursable meal under OVS?

There are four menu items planned for a reimbursable meal: an entrée, a choice of two side dishes and a choice of milk. At a minimum under OVS, the student must select an entrée and at least one other menu item – either a side dish or milk.

The menu planner determines the number of menu items in a reimbursable meal. A variety of **choices** of entrees, side dishes or choice of milk does not affect how a reimbursable meal is determined for OVS.

6. Consider this NSLP menu:

Entrees: Hamburger on a bun, cheese pizza OR chef's salad. Side dishes (choose three for a full reimbursable meal): side salad, fruit cup, assorted fresh fruits, oven-baked potatoes, mixed vegetables, green beans, dinner roll, crudités with dip, oatmeal raisin cookie, or apple crisp. Milk: low-fat chocolate milk, low-fat unflavored milk OR non-fat unflavored milk. Assorted condiments.

How many menu items are offered in this menu? What must the student select in order to have a reimbursable meal under OVS?

There are five menu items planned for a reimbursable meal: an entrée, a choice of three side dishes and a choice of milk. At a minimum under OVS, the student must select an entrée and at least plus two other menu items – either two side dishes or one side dish and milk.

7. How can a menu planner help students make more nutritious choices among the side dishes offered?

Side dishes may be divided into two or more groups to help target students' selections. For example, one group of side dishes could include fruits and vegetables while a second group could include grains and desserts. Consider this NSLP menu in which side dishes are grouped:

Entrees:

Choose one of the following:

- Hamburger on a bun
- Cheeseburger on a bun

Pepperoni pizza
Grilled chicken, mashed potatoes and gravy

Side Dishes:

Choose two of the following:

Garden salad with choice of dressing
Steamed broccoli
Mexican corn
Oven baked potatoes
Orange smiles
Fresh strawberries with whipped topping

Choose one of the following:

Garlic bread
Whole-wheat dinner roll
Whole-wheat sugar cookie

Milk:

Choose of the following:

Low-fat chocolate milk
Low-fat unflavored milk
Fat-free unflavored milk
Whole unflavored milk

How many items are offered in this menu? What must a student select in order to have a reimbursable meal under OVS?

There are five menu items planned for a reimbursable meal (an entrée, three side dishes and milk). At a minimum under OVS, the student must select an entrée and at least two other menu items from any of the groups.

GLOSSARY

Offer versus Serve or OVS: A concept that applies to menu planning and to the determination of reimbursable school meals. OVS allows students to decline some of the food offered in a school lunch or school breakfast.

Food-based menu planning: The general term for the two menu planning approaches that follow a meal pattern. The two food-based menu planning approaches are the Traditional Food-based Menu Planning Approach and the Enhanced Food-based Menu Planning Approach.

Food component: One of the four food groups that comprise reimbursable meals planned under a food-based menu planning approach. The four food components are: meat/meat alternate, grains/breads, vegetables/fruits, and fluid milk.

Food item: For the NSLP, one of the five foods offered under a food-based menu planning approach: meat/meat alternate, grains/breads, two servings of

vegetables/fruits, and fluid milk. For the SBP, one of four foods offered under a food-based menu planning approach: milk, juice/fruit/vegetable, and two servings from one of the following components, one serving from each component or an equivalent combination of both: grains/breads and/or meat/meat alternate.

Nutrient analysis-based menu planning: The general term for the two menu planning approaches that analyze the nutrients in meals over a school week to plan meals that meet age/grade appropriate nutrient standards. The two nutrient-analysis based menu planning approaches are the Nutrient Standard Menu Planning Approach and the Assisted Nutrient Standard Menu Planning Approach.

Nutrient standards: Minimum levels of calories and other key nutrients that all school meals must meet.

Menu item: Any single food or combination of foods under Nutrient Standard Menu Planning or Assisted Nutrient Standard Menu Planning except a condiment.

Entrée: A combination of foods or a single food item offered as the main course.

NUTRIENT STANDARD MENU PLANNING APPROACH

MINIMUM NUTRIENT STANDARDS – BREAKFAST

| Calories and Nutrient Levels for School Breakfast (school week averages) | | | |
|-------------------------------------------------------------------------------------|-----------|-------------|----------------------|
| | Preschool | Grades K-12 | Option – Grades 7-12 |
| Energy Allowances (calories) | 388 | 554 | 618 |
| Total Fat (g) | 13*, ** | 18*, ** | 21*, ** |
| Total Saturated Fat (g) | 4*, *** | 6*, *** | 7*, *** |
| Protein (g) | 5 | 10 | 12 |
| Calcium (mg) | 200 | 257 | 300 |
| Iron (mg) | 2.5 | 3.0 | 3.4 |
| Vitamin A (RE) | 113 | 197 | 225 |
| Vitamin C (mg) | 11 | 13 | 14 |

MINIMUM NUTRIENT STANDARDS – LUNCH

| Calories and Nutrient Levels for School Lunch (school week averages) | | | | |
|---------------------------------------------------------------------------------|-----------|------------|-------------|---------------------|
| | Preschool | Grades K-6 | Grades 7-12 | Option – Grades K-3 |
| Energy Allowances (calories) | 517 | 664 | 825 | 633 |
| Total Fat (g) | 17*, ** | 22*, ** | 28*, ** | 21*, ** |
| Total Saturated Fat (g) | 6*, *** | 7*, *** | 9*, *** | 7*, *** |
| Protein (g) | 7 | 10 | 16 | 9 |
| Calcium (mg) | 267 | 286 | 400 | 267 |
| Iron (mg) | 3.3 | 3.5 | 4.5 | 3.3 |
| Vitamin A (RE) | 150 | 224 | 300 | 200 |
| Vitamin C (mg) | 14 | 15 | 18 | 15 |

*The grams of fat will vary depending on actual level of calories offered. The Dietary Guidelines recommend that after 2 years of age, "...children should gradually adopt a diet that by about 5 years of age, contains no more than 30 percent of calories from fat."

**Total fat not to exceed 30 percent over a school week.

***Saturated fat to be less than 10 percent over a school week.

TITLE I CLUSTER

CFDA #84.010 - TITLE I - PART A – IMPROVING BASIC PROGRAMS

CFDA #84.389 - TITLE I – ARRA

TITLE I – 84.013 (not included in cluster) **PART D – NEGLECTED AND DELINQUENT**

- I. Federal Overview
- II. State Overview
- III. Flexibility Provisions
- IV. District Considerations
- V. Title I Staff Qualifications
- VI. Audit Considerations
- VII. Reference Materials and Personnel

ATTACHMENTS

- A. Title I Documentation Worksheet for Professional Development
- B. Title I Schools in Improvement District Set Aside Worksheet
- C. The Revised Michigan Definition for Identifying Highly Qualified Teachers
- D. Schoolwide Program Requirement
- E. Title I Comparability Worksheet from Michigan Electronic Grants Systems (MEGS)

Date of Last Change: 2010/11

I. FEDERAL OVERVIEW

A. Federal Agency

Student Achievement and School Accountability Programs, Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization

Title I, Parts A & D, No Child Left Behind Act (NCLB) of 2001, Public Law 107-110

C. Beneficiary Eligibility

Local school districts providing supplementary services in eligible attendance areas to assist students who are failing, or most at risk of failing, to achieve state content standards in the core academic curriculum are eligible for funding. For more information, consult the Catalog of Federal Domestic Assistance (CFDA).

II. STATE OVERVIEW

The Michigan Department of Education (MDE), Office of Field Services, is responsible for state administration of the Title I program. State activities required by the Title I law include application approval, technical assistance to school districts, on-site reviews, and program improvement assistance to low-achieving schools. School districts apply for Title I funds as part of a consolidated application.

The MDE relies on the single audit to determine that Title I funds are used only for allowable activities within the correct project period, to verify reported expenditures, and to examine backup data used in compliance areas such as the determination of eligible attendance areas, comparability, professional development expenditures, teacher and paraprofessional qualifications, and staff co-funding where required to meet supplement/not supplant requirements.

The single audit is viewed by MDE staff as playing a critical role in ensuring the proper use of Title I funds to benefit all children who are failing to meet state performance standards.

FORM DESCRIPTION

2010-11 CONSOLIDATED APPLICATION
(electronic form in Michigan Electronic Grants System)

DUE DATE

Prior to the beginning of the fiscal obligation period

The **2010-11 Consolidated Application** contains a general description of the Title I program and budget information. An updated narrative plan including academic goals and strategies, student assessments, professional development, and other areas are in the MEGS system called the **LEA Planning Cycle**. A 15 percent limit applies to the amount of carryover funds, with a provision for a waiver once every three years. The 15 percent limit does not apply to districts with allocations of less than \$50,000. **The carryover waivers for the American Recovery and Reinvestment Act (ARRA) Title I are in the MEGS system.**

BUDGET AMENDMENT

Use regular budget pages in 2010-11
Consolidated Application

DUE DATE

As required, but no later than
9/30/XX for regular funds

A budget amendment is required when:

- A. Adding staff not itemized in the original plan or deleting staff.
- B. Adding new capital outlay items.
- C. Adding a new line item of expenditures.
- D. After determining the individual line item over-expenditures and totaling those over-expenditures, the result exceeds 10% of the budget subtotal.
- E. Requesting the full allocation (request final allocations and add carryover).
- F. Deobligating funds.

PROGRAM AMENDMENT

A revised Delivery Systems for Special Populations page is required when a component is added to or deleted from the Title I program.

FINAL EXPENDITURE REPORT (FER) 11/30/XX for regular funds

This report should reconcile to the Single Audit Report and the district's financial records.

Inventory of Materials and Equipment: Federal regulations require LEAs to maintain a continuous inventory of the items acquired with federal funds. Fiscal agent local and intermediate school districts should include equipment that is placed on loan at participating private non-profit schools.

III. FLEXIBILITY PROVISIONS

Flexibility is available to grantees. In some cases, districts are permitted to **transfer** amounts between Elementary and Secondary Education Act (ESEA) programs, with the exception of Title I, Part A funds. In this situation, to determine major programs and to prepare the Schedule of Expenditures of Federal Awards, the transfers and waivers should be handled as follows:

A. Fund Transfers

The transferred funds should be included and reported (and audited, if major) in the program for which the funds were allocated. Budget details in the Consolidated Application display transferred amounts separately from amounts budgeted for the original program. For clarification, a footnote to the Schedule of Expenditures of Federal Awards may be included to indicate by program the amount of funds transferred between ESEA programs.

- B. In conducting an audit, auditors should determine whether any written waivers have been granted by the U.S. Department of Education or MDE. If a waiver was granted, the waiver approval is entered as a comment in the original approved application checklist in the Michigan Electronic Grants Section.

IV. DISTRICT CONSIDERATIONS

The following is provided to serve as a list of “basic” procedures to be performed and documented to assist you in complying with Title I requirements.

A. Funding Periods

1. Approval status screen confirms the beginning date.
2. Districts must have an annual fiscal obligation beginning date.
3. Districts cannot obligate funds until the applications are submitted in the Michigan Electronic Grants System. All applications must receive final approval.
4. The fiscal obligation ending date for regular funds is September 30.
5. The ending date of 9/30/10 does not allow for the subsequent school year’s (10-11) expenditures (i.e., 9/15/10 payroll). Summer school expenditures can be charged to regular funds.

B. Eligible Attendance Areas (determined annually) – Title I funds may be expended only in eligible attendance areas - Documentation for 2010-11 submitted on the Title I School Selection worksheet in the Michigan Electronic Grants System (MEGS).

1. An eligible attendance area is a school attendance area in which the concentration of low-income children is equal to or greater than the average for the district or for a grade span. Eligibility can be determined based on factors such as Free and Reduced Lunches, Family Independence Program (FIP) information, breakfast programs, Medicaid, or a composite of such indicators. (MDE recommends that when using Free and Reduced Lunch counts, one date should be selected from the prior year that is most representative of the poverty concentrations in the schools.)
2. The Free and Reduced lunch counts, as well as the total enrollment counts, must be used from the same period. Both the numerator (free/reduced count public and private) and denominator (total enrollment public and private) must contain information from the same time period.
3. All schools in the district must be included in the ranking process. This is true for specialized schools as well as regular schools (i.e., special education centers and alternative programs).

A district may not skip a building in rank order for Title I funding purposes with two exceptions. A district may skip a building that is not in the grade span that it is serving (i.e., high school) or Section 1113(b)(1)(D)(ii) of Title I, Part A allows an LEA to skip an eligible school attendance area or school that has a higher percentage of poverty if the area or school is receiving supplemental funds from other State or local sources that are “spent according to the requirements of section 1114 (schoolwide) or 1115 (targeted assistance program).”

4. In an LEA with a total enrollment of fewer than 1,000 students K-12 or with only one school per grade span, all schools are eligible. Reference: P.L. 107-110,

Sec. 1113 and Non-Regulatory Guidance. An electronic version of the Title I School Selection application was completed for 2010-11 and submitted in MEGS.

5. The eligible schools must be served based on a ranked ordering (by district or by grade span) of the percentage of low-income children residing in those attendance areas. A district may designate as eligible any school attendance area in which at least 35% of the children are from low-income families. A district may also serve a school that loses its eligibility for one additional year (grandfather).

C. Allocations to Eligible Attendance Areas (determined annually) – Documentation for 2010-11 submitted on the Title I School Selection application in MEGS.

1. School allocations are based on low-income counts; a minimum amount must be allocated to each school, starting with the highest poverty school, until funds are exhausted. The minimum amount that must be allocated per low-income child is 125% of the amount of Title I funds received by the district for each low-income child in the district. This amount may be reduced by the amount of supplementary state or local funds, if any, being spent on programs that meet the Title I requirements.
2. If all school attendance areas that are served have poverty percentages of at least 35%, the local educational agency (LEA) is not required to follow the 125% rule, but must allocate funds based on low-income counts. If schools are allocated different amounts per low-income child, higher-poverty schools must receive larger amounts than lower-poverty schools. NOTE: A common misapplication is allocation by service level rather than by dollars. For example, if all Title I schools are allocated two teachers and one paraprofessional, the allocations are not likely to be equal. Higher seniority staff cost more than lower seniority staff. This must be accounted for in the allocations.
3. The poverty-based formula does not apply to an LEA with a total enrollment of fewer than 1,000 students K-12 or with only one school per grade span. Reference: P.L. 107-110, Sec. 1113(a)(6) and Non-Regulatory Guidance. Also, see worksheet on Title I School Selection application in MEGS.

D. Parent/Staff Involvement

A district must provide opportunities for consultation with parents and teachers of eligible pupils, including those from private schools, in the design, implementation, and evaluation of the Title I project. LEAs with allocations of more than \$500,000 must reserve at least 1% for parental involvement activities. The district must distribute not less than 95% of the amount reserved for parent involvement to schools receiving Title I services. Parents of participating children must be involved in discussions on the use of these funds.

E. Private School Involvement

1. Pupils who are residents of a local district's eligible attendance areas and attend a private school, regardless of where the private school is located, must be offered service on an equitable basis with the public school's eligible pupils.
2. Private allocations are based on the same poverty formula used for public schools.

3. Private low-income students must be identified by Title I school attendance area and allocated the same amount of funds as per low-income public school students in that attendance area. That includes set-asides for professional development, parent involvement, salary differentials, and district-level instructional programs. The homeless set-aside may be accessed for services to homeless private school students.
4. A documented offer and acceptance or rejection must be present. If the private school rejects the offer, the public school may utilize the Title I funds for its Title I program. Reference: P.L. 107-110, Sec. 1120.

F. Student Selection

Each school must base the program of Title I services on an assessment of the educational needs of all children in the school in relation to the core academic curriculum. This assessment is required to identify children for Title I assistance who are failing, or most at risk of failing, to meet the state's performance standards in the core academic curriculum subjects. Reference: P.L. 107-110, Sec. 1114 & 1115.

G. Title I Evaluation

1. The U.S. Department of Education has determined that state assessment results will be used for evaluation of the Title I program.
2. The district must evaluate program effectiveness by reviewing children's progress in the core curriculum and ascertaining if each school served is meeting the state's definition of "adequate yearly progress." The LEA may use additional measures or indicators in order to determine students' achievement of the core curriculum standards. Reference: P.L. 107-110, Sec. 1116.
3. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the information widely available through public means, such as the Internet and the media. (See Adequate Yearly Progress Technical Assistance Reporting Packet). http://www.michigan.gov/mde/0,1607,7-140-6530_30334-103288--,00.html The reports are in the MEGS system.
4. Schools that are identified for improvement must spend at least ten percent of the school's Title I allocation to the school on professional development each of the two years immediately following their identification. Also see Attachment A, Title I Documentation for Professional Development.
5. Districts with Title I schools identified for improvement, continuing improvement, corrective action or restructuring must spend an amount equal to 20% of their allocations on transportation to support the transfer option and supplemental educational services, depending on the phase of improvement the district's schools have reached and unless a smaller amount is needed. See attached worksheet on district set-asides for Title I schools in improvement.

H. Allowable Expenditures

1. Supplement vs. Supplant
 - a. Title I funds must be used to supplement non-federal and other federal categorical funds normally provided by the district (e.g., collective bargaining agreements, charter agreements, board policy) or required by law. For

example, replacing funding for an existing teacher or staff member with Title I funds is prohibited. In schoolwide programs, Title I funds must be used in accordance with the school's Title I schoolwide plan. In targeted assistance schools, Title I funds must be used to provide supplementary services to eligible students.

- b. If Title I services in a targeted assistance school are used to replace general education services, the district must provide a percentage of co-funding based on the number of children in replacement classes, if the number is greater than would be served by 1.0 full-time equivalent (FTE) teachers. Reference: P.L. 107-110, Sec. 1120A(b).

2. Comparability

- a. To be eligible to receive Title I funds, a Local Educational Agency (LEA) must use state and local funds to provide services in Title I schools that are at least comparable to services provided in non-Title I schools. If the LEA serves all of its schools with Title I funds within a particular grade span, the LEA must use state and local funds to provide services that are substantially comparable in each school.
- b. Districts must provide general education services in all Title I schools that are comparable to those provided in non-Title I schools in each grade span. If all schools are served by Title I, the general education services must be comparable in each school. The district must establish procedures for determining and maintaining comparability. The district is responsible for documenting its comparability status at least once every two years. Documentation for 2010-11 was submitted on the Title I Comparability application in MEGS.
- c. Comparability is determined by comparing the instructional staff/pupil ratios or the per pupil expenditures for instruction staff between equivalent grade span schools within the district. The average per pupil expenditures instructional staff/pupil ratios on average for the buildings being compared may not be more than ten percent lower in the Title I or high-poverty schools. Reference: P.L. 107-110, Sec. 1120A(c). Also see Title I Comparability application in MEGS.

3. Time Keeping

Time/salaries spent working on Title I must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h. Acceptable methods for multiple cost objective staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

Instructional staff may no longer use their lesson plans to confirm their written schedules. Districts using lesson plans to confirm written schedules must now

use PARs. Instructional staff may use their lesson plans as documentation to support PARs if:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
- The lesson plans account for the total time the employee is compensated
- The lesson plans are prepared at least monthly and coincide with one or more pay periods
- The completed lesson plans are signed by the employee.

The district must retain the lesson plans as documentation supporting timekeeping records.

Paraprofessionals may use their regular time sheets as long as they; (a) reflect an after-the-fact distribution of their actual activity, (b) account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on, (c) are prepared at least monthly and coincide with one or more pay periods; and (d) are signed by the employee.

Education Department General Administrative Regulations (EDGAR) Federal Regulations do not allow payment of a part of a building principal's salary out of Title I, Part A unless: documentation exists for board action which shows that the position as a principal is not full time and documentation exists which states what part of the day, specifically, is designated for Title I activity – a reasonable time when the principal is not available as a principal to talk with students, parents, etc., because they are working on Title I activities (perhaps a separate office); and documentation exists that includes a time log of all activities charged to Title I and is maintained for single audit purposes. A stipend may be paid to a principal for Title I, Part A duties beyond the contract day/year. Time logs must be kept to ensure that only Title I activities are conducted during this time period.

Schoolwide is a single cost objective unless a teacher's time is split between a schoolwide and a non-schoolwide building. Semiannual certifications are required for anyone charged to federal funds in a schoolwide building.

OMB Circular A-87 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of the work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

4. Indirect costs – May be charged using the school’s MDE approved restricted indirect cost rate. (See Section F, Indirect Cost Rates, in the General Audit Issues section of this manual.)

I. To Become Schoolwide

1. If a building has 40% or greater poverty, it is eligible to be schoolwide.
2. The building may apply for a schoolwide planning grant through MDE.
3. Building must complete one year of planning with a MDE approved provider.
4. If the building decides to convert to a schoolwide, the program should impact all students.
5. The program should be comprehensive.

V. TITLE I STAFF QUALIFICATIONS -

- A. Title I teachers hired after the beginning of the 2002-03 school year must meet the requirements for highly qualified teachers.
- B. Title I instructional paraprofessionals hired after 1/8/02 must meet one of the following requirements:
 1. Have completed at least two years of college;
 2. Have an associate’s degree (or higher);
 3. Have passed a formal assessment of knowledge and ability to assist in instructing reading, writing, and mathematics.
- C. The Title I staff qualifications apply to Title I-funded staff in targeted assistance schools. The qualifications apply to all instructional staff in core academic subjects in Title I schoolwide programs. The paraprofessional qualifications do not apply to Title I paraprofessionals whose sole duty is parental involvement or who serve as bilingual translators. The qualifications also do not apply to paraprofessionals who are personal care aides, computer technicians, or perform only clerical duties.
- D. The MDE Office of Professional Preparation Services (OPPS) has oversight responsibility for assuring that each classroom teacher holds the appropriate certificate and endorsement for his or her assignment. OPPS monitors assignments through a comparison to the certification database. To accomplish this task, the OPPS requests the Center for Educational Performance and Information (CEPI) and the Department of Informational Technology (DIT) to make a comparison of information on teacher assignments obtained from submissions to the Registry of Educational Personnel (REP) to the OPPS certification records. A report of potential exceptions is generated and used as the basis for contact with the local school districts. The report is considered a preliminary screening of the data and is in need of further refinement by contact with the district.

VI. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures, along with those listed in the Office of Management and Budget (OMB) Compliance Supplement, are to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. In addition to the federal general requirements applicable to all federally funded programs, areas to consider in planning procedures to test internal control structure and compliance with specific administrative requirements are as follows:

A. Types of Services Allowed/Allowable Costs

1. Review expenditure records and supporting documentation to ensure:
 - a. In targeted assistance schools, determine that funds have been used for activities designed to serve children who are failing or most at risk of failing to meet state performance standards. These children have been identified for assistance based on local assessments related to the core academic curriculum. Different children may be served over the course of the year as needs are identified through ongoing assessment.
 - b. In both targeted assisted and schoolwide buildings, determine that expenditures are consistent with the approved application and with schoolwide buildings the schoolwide school plan and with targeted assistance buildings the targeted assistance plan. These plans are available in the AdvancEd Portal.
 - c. Supplanting:
 - (1) For any salary added to the grant, ask if the employee is a new hire. If not, how has the job description for the employee changed?
 - (2) Is the service being offered by the grant one that the district has offered in the past using local/state funds to support?
 - (3) Are there other sources of information to confirm that the funds are being used to fund an activity that was not previously funded by a local/state source of revenue?
 - d. Time/salaries spent working on Title I must be documented for multiple cost objective and single cost objective staff in compliance with OMB Circular A-87, Attachment B, Item 8h.
 - (1) Obtain a copy of the district's timekeeping procedures
 - (2) Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation

- e. For both targeted assisted and schoolwide buildings, indirect costs charged to the program must meet all of the following criteria:
 - (1) Verify that the correct rate category (restricted or unrestricted) was used according to grant guidelines; and
 - (2) Verify that the rate applied was the MDE approved rate for the current year; and
 - (3) Verify that no indirect charges were applied to exclusions, such as equipment or flow-through dollars.
- B. Eligibility and Allocation of Funds
1. Review the Title School Selection application in Michigan Electronic Grants System (MEGS). Trace amounts to source documents.
 2. Review adequacy and system of determination of attendance areas having the highest concentrations of low-income families.
 3. Review and verify that the data are supported by the books and records of the district to ensure the allocation of funds to schools for compliance with the Title I formula.
3. Matching, Level of Effort, and/or Earmarking Requirements
1. There are no matching requirements.
 2. Maintenance of effort is determined by the Michigan Department of Education.
 3. Review documentation/procedures that exist to ensure the supplement versus supplant requirement has been met.
 4. Comparability (Refer to Attachment E)
 - a. Determine whether the district has established procedures for determining and maintaining comparability.
 - b. Determine if the district determines its comparability status every year.
 - c. Determine if the district's computation of comparability is accurate biennially. Review the 2010-11 Comparability worksheet (Screen 3) in MEGS for accuracy. For each school, review Screen 3 (only schools that are in a grade span with at least one school receiving Title I, Part A funds need to be reviewed) to determine that information about instructional staff working at the school was accurate when the data was submitted across all columns. This includes determining that any staff member who has the "Omit" box checked either no longer works at that school, works solely with preschool students, or has a non-instructional position (such as secretary, clerk, health aide). See the HELP menu for Screen 3 for details regarding which positions are considered to be instructional and non-instructional for computing comparability. This includes determining that the FTEs entered in the "All Federal Programs" column are accurate. These entries should reflect the portion of an instructional staff member's FTE that is paid for with any federal funding source. All federal funding sources should be included, not just the federal funding sources contained in the Consolidated Application. This includes determining that, if the district excluded Section 31a teachers for any elementary building, Section 31a funded teachers must be excluded in all other buildings.

4. Reporting Requirements
 1. There are no federal financial reports for the auditor to review. However, reports filed with the state should be tested for accuracy and completeness. Verify that reports agree with district detail records and the allocation of costs within the reports is appropriate, including the DS-4044 “Final Expenditure Report.”
 2. If this program is tested, auditors are required to test the Special Tests and Provisions applicable to this program, as discussed in Part F below.
5. Cash Management – Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients will be on a reimbursement basis only.
6. Special Tests and Provisions
 1. Carryover – Determine whether a local educational agency (LEA) with an allocation of \$50,000 or more has carried over no more than 15% of its Title I, Part A allocation, unless a waiver was granted. If a waiver was granted, the waiver approval is entered as a comment in the Michigan Electronic Grants System application checklist. The carryover limit applies only to the LEA’s total allocation, not to individual school allocations. Carryover funds can stay with the building they were originally allocated to or they can be reallocated using the regular allocation rules. The carryover waivers for the American Recovery and Reinvestment Act (ARRA) Title I are in the MEGS system.
 2. Parent Involvement – LEAs with allocations of more than \$500,000 must reserve at least one percent of their allocation for parental involvement activities. Determine whether the district has distributed not less than 95 percent of the amount reserved for parent involvement to schools receiving Title I services. Determine that the school and parents have jointly developed activities within the guidelines described in Section 1118 of the Title I legislation and that the resulting expenditures are for those activities only.
 3. Services to Private Schools – Review procedures for determining allocations for services to private school children. Insure that funds are not passed to private schools. Review procedures for identifying children in private schools who are failing to meet state performance standards and are eligible for Title I services. That includes set-asides for professional development, parent involvement, salary differentials, and district-level instructional programs. The homeless set-aside may be accessed for services to homeless private school students.
 4. Schoolwide Programs – Determine if the LEA has schoolwide programs. If so, perform the following procedure: Determine whether the school met the eligibility requirements in the first year of implementing a schoolwide project. The school’s poverty percentage must be at least 40% in the first year of implementation. Determine whether the schoolwide plan contains all the required components. Refer to Section 1114 of Title I, Part A of P.L. 107-110. See Attachment D, Schoolwide School Planning document.
 5. Schools Identified for Improvement
 - a. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the

information widely available through public means, such as the Internet and the media. (See Adequate Yearly Progress Technical Assistance Reporting Packet) http://www.michigan.gov/mde/0,1607,7-140-6530_30334-103288--,00.html The reports are in the MEGS system.

- b. Determine if professional development expenditures have been documented for schools identified for improvement. Schools that are identified for improvements must spend at least 10% of their Title I allocation each year for the two-year period following their identification for professional development related to the reason the school did not make Adequate Yearly Progress. Also see Attachment A, Title I Documentation Worksheet for Professional Development.
6. Obligation of Grant Funds
- a. Examine transactions recorded after the period of availability to determine if the underlying obligation was recorded in the proper period.
 - b. Test some transactions that were recorded within the period of availability to determine if the underlying obligations occurred within the period of availability.
 - c. The summer school expenditures which comply with Title I legislation are allowable as current year Title I grant expenditures.
 - d. **Regular programs end September 30 of each year.**
7. Highly Qualified Teachers and Paraprofessionals
- a. Review LEA procedures for hiring highly qualified teachers and paraprofessionals in programs supported with Title I funds.
 - b. Trace a sample to personnel files, for example, to source records for affected staff to determine if teachers hired after the first day of the 2002-2003 school year or paraprofessionals hired after January 8, 2002, met the criteria in 34 CFR sections 200.55, 200.56, and 200.58, and the Michigan Definition for Identifying Highly Qualified Teachers (page 68 of this manual).
 - c. Title I and NCLB require districts to employ highly qualified teachers. The Office of Professional Preparation Services (OPPS) has developed a potential exception report for the districts. Auditors are advised to use this report for sampling rather than a complete list of all teachers. Contact Krista Ried to obtain a copy of the OPPS potential exception report for the district. Select a representative sample from the potential exception report and verify the teaching assignment by using the building master schedule. Next compare the teachers' certificates and endorsements to verify the appropriateness. If a discrepancy has been determined to exist, the auditor should calculate the amount of salary, benefits and funding source for the period of the assignment and report it as an audit finding. The district should report the determination to the OPPS for further investigation.
- G. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, and subrecipient monitoring.

VII. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Federal Register – Monday, July 3, 1995, Department of Education, 34 CFR Parts 200, 201, 203, 205 and 212 – Helping Disadvantaged Children Meet High Standards; Final Regulations
2. Public Law No Child Left Behind Act of 2001, Title I, Parts A & D
3. Catalog of Federal Domestic Assistance – Section 84.010 – Educationally Deprived Children – local education agencies
4. OMB Circular A-133 Compliance Supplement – Section 84.010
5. Identifying Eligible Title I Schools Non-Regulatory Guidance, U.S. Department of Education
6. School Program Study Guide – Title I (available on the web at: www.michigan.gov/mde, then click on Site Map, the Field Services, then On-Site Review Materials)
7. Federal Grants Management Handbook – Grants Management Advisory Service, Thompson Publishing Group
8. The Michigan Definition for Identifying Highly Qualified Teachers

B. Personnel

Margaret Madigan, Field Services
Office of School Improvement
Michigan Department of Education
(517) 373-4588
Fax: (517) 335-2886
madiganm@michigan.gov

Title I Professional Development Worksheet

[Title I Set Aside](#)

Definition of Highly Qualified Teacher

Title I Schoolwide Plan

SPECIAL EDUCATION CLUSTER

CFDA #84.027A – SPECIAL EDUCATION – GRANTS TO STATES

IDEA

CFDA #84.391 – IDEA ARRA

CFDA #84.173A – SPECIAL EDUCATION - PRESCHOOL

CFDA #84.392 – PRESCHOOL ARRA

- I. Federal Overview
- II. State Overview
- III. Compliance Review
- IV. Audit Considerations
- V. Reference Materials and Personnel

NOTE: The above programs are included in the “Special Education Cluster” according to the OMB Compliance Supplement and must be audited together (CFDA numbers 84.027 and 84.173). Risk should be based on the cluster.

ATTACHMENTS

- A. Education Department General Administrative Rules – Equipment

Date of Last Change: 2010/2011

I. FEDERAL OVERVIEW

A. Federal Agency

Office of Assistant Secretary for Special Education and Rehabilitative Services,
Department of Education.

B. Authorization

P.L. 108-446, the Individuals with Disabilities Education Act (IDEA), as amended.
The Michigan Department of Education (MDE) is the primary grant recipient and
the state subgrants to intermediate school districts and state agencies, hereafter
referred to as “grant recipients.”

C. Objectives

Funds are used, in accordance with the priorities of the act, to help provide
special education and related services, as defined by each state, needed to
make a free appropriate public education available to all students with disabilities
in the state.

D. Types of Assistance

Formula grants and state competitive grants.

E. Eligibility Requirements

Per the Office of Management and Budget (OMB) Compliance Supplement, the
auditor is not expected to test eligibility.

II. STATE OVERVIEW

A. Statement of Assurance

The annual grant application package includes the assurances agreed to by the
grant recipients as a condition of receiving special education funds. All recipients
are required to be audited yearly. **In those cases where the intermediate
school district (ISD) subgrants funds to local public schools, it is the ISD’s
responsibility to ensure that local public schools comply with the single
audit requirements.**

B. Accounting Criteria

The general accounting procedures are found in the Michigan School Accounting
Manual (Bulletin 1022). A specific list of “Special Education Allowable
Expenditures for State and Federal Programs” enumerates eligible categories of
expenditures by function and object code. This is updated periodically and is
available from ISDs or the MDE, Office of Special Education Services. Items not
listed may not be charged without prior written approval of the MDE.

III. DISTRICT CONSIDERATIONS

This section includes the requirements of the federal A-133 Compliance Supplement
and has been adapted by the MDE.

A. Allowable Costs – An LEA may use Federal funds under IDEA, part B for the excess costs of providing special education and related services to children with disabilities. Special Education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education. Related services include transportation and such developmental, corrective and other supportive services as may be required to assist a child with a disability to benefit from special education. Related services do not include a medical device that is surgically implanted or the replacement of such device. A portion of these funds, under conditions specified in the law, may also be used by the LEA: for services and aids that also benefit non-disabled children; for early intervening services; to establish and implement high-cost or risk-sharing funds; and for administrative case management (20 USC 1401 (26) and (29); 20 USC 1413(a)(2) and (4)).

An LEA can use not more than 15 percent of the amount of their current year Federal funds under IDEA, Part B, Section 611 and 619 in total (less any amount by which it reduces State and local expenditures under 20 USC 1413 (a)(2)(C)), in combination with other funds for early intervening services for children in kindergarten through grade 12 who have not been identified under IDEA but need additional academic and behavioral support to succeed in the general education environment (20 USC 1413(f)). Refer to the IDEA regulations, Appendix D to Part 300 for the interaction with maintenance of effort.

An LEA may use Federal funds under the Preschool Grants Program only for the costs of providing special education and related services (as described above) to children with disabilities ages three through five and, at a State's discretion, providing a free appropriate public education to two-year old children with disabilities who will turn three during the school year (20 USC 1419(a)).

Part C, Early On Program for Infants and Toddlers, includes infants and toddlers, age birth through age two, who need early intervention services because they are experiencing developmental delay or have been diagnosed with a physical or mental condition that has a high probability of resulting in developmental delay.

Early intervention services include, but are not limited to: family training, counseling, and home visits; special instruction; speech pathology and audiology; occupational and physical therapy; psychological services; service coordination; medical services for diagnostic or evaluation purposes; health services necessary to enable the infant/toddler to benefit from the early intervention services; social work services; vision services; assistive technology devices and services; and transportation and related costs that are necessary to enable an infant or toddler or family to receive early intervention services.

The ISDs may contract with others for the provision of services or other activities, as approved by the Service Area Improvement Plan and budget. All contracted services must be directly related to development and/or implementation of the components mandated in IDEA, must make use of state Early On resources, and

demonstrate collaboration with appropriate state level projects. Contracted services must be explained in the contract application, and budget detail provided. Changes involving contracted services that are made after the submission of this application will require prior approval by department staff.

- B. Time Certifications: Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first had knowledge of the work performed by the employee. (2 CFR Part 225,)

Working on More than One Activity:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated
- (c) They must be prepared at least monthly and must coincide with one or more pay periods,
- (d) They must be signed by the employee.

Cost Objective – means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

In determining which rules apply (those for single vs. multiple cost objectives), the significant factor is the number of cost objectives on which the employee works, not the number of funding sources supporting the employee's salary.

In an effort to reduce paperwork, USED has authorized the use of a "blanket semi-annual certification" that would identify multiple employees working on the same single cost objective. This single record would be signed by the supervisory official having firsthand knowledge of the work performed by the employees.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

- C. Procurement – USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase or is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

- D. Level of Effort – Maintenance of Effort – In general, IDEA funds cannot be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.
- E. Proportionate Share – The requirements found at IDEA 34 CFR §300.133 are applicable. (See Appendix B to Part 300 for an example of the Proportionate Share calculation.) Additional guidance is being developed.
- F. Period of Availability of Federal Funds – Costs charged to each grant must be within the grant period in the grant approval letter.
- G. Financial Reporting – Review the prior year Final Expenditure Report submitted to the MDE during the current fiscal year. Verify that the figures on the report are a true and accurate representation of expenditures for each project.
- H. Cash Management
1. Districts and ISDs are expected to use good business practices when disbursing federal funds to subgrantees. They should not disburse cash at a faster rate or in a manner different from that with which they handle their own cash.
 2. If a district is advanced more cash than is needed, the district must refund the excess federal funds.

Note: Effective December 1, 2008, MDE no longer offers the 3-Day Cash Advance option through the CMS. Payments to districts and recipients are on a reimbursement basis only.

- I. Subrecipient Monitoring – ISDs that transfer Federal funds to LEAs/PSAs **must** monitor those LEAs/PSAs, including their timeliness in cash drawdowns.

IV. AUDIT CONSIDERATIONS

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

A. Allowable Costs

Test: Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are for allowable costs.

B. Time Certification

Test: Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

C. Procurement

Test: Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures:

1. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
2. Determine that the district complied with bidding requirements.
3. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
4. Determine that vendor invoices included details of the services provided, for whom, when, how much and any other details required by the contracts or purchase orders.
5. Determine that payments to contractors and vendors were according to the contract or purchase order.
6. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
7. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

8. For contractual expenditures, determine that a contract exists in accordance with IRS regulations and that expenditures are allowable.

D. Level of Effort – Maintenance of Effort

Test: The A-133 auditors determine that the LEA spent an amount of local funds for the education of children with disabilities that is at least equal to the amount of local funds expended for this purpose by the LEA in the prior fiscal year.

Complete the electronic worksheet located at <http://www.michigan.gov/mde> , click on “Offices,” then “Special Education & Early Intervention Service”, then “Finance Management,” “Maintenance of Fiscal Effort as Required under IDEA”. Report cases where the non-federal expenditure is less than the prior year and none of the allowable exceptions apply.

- E. Proportionate Share – The requirements found at IDEA 34 CFR §300.133 are applicable. (See Appendix B to Part 300 for an example of the Proportionate Share calculation.) Additional guidance is being developed.

F. Period of Availability of Federal Funds

Test: Check starting and ending transactions against the grant award letter.

G. Financial Reporting

Test:

1. Test expenditures to verify that grant funds were only expended on programs listed in the approved application.
2. Verify that grants are not commingled by determining that each funding source is identified separately in the accounting records. Revenue and expenditures must be accounted for by project, funding source, and grant fiscal year.
3. Local public school subgrant recipients are limited to their federal restricted indirect rate.
4. If a public school charged equipment (\$5,000 threshold) to the grant:
 - a. Determine that the equipment is approved in advance by the MDE.
 - b. Determine that equipment purchased with grant funds was properly tagged and appropriately inventoried. An inventory control log must be maintained by the public school indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment.
 - c. If the school transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria. Summarize results and report appropriately.

H. Cash Management

Test:

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients are on a reimbursement basis only.
2. Determine that the district did not distribute cash at a faster rate, or in a manner different from with which they handle their own cash.

3. Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

I. Sub-recipient Monitoring

Test: Review the ISDs system for obtaining, reviewing, and acting on SUBRECIPIENT audit reports when the ISD subgrants to local public schools. Determine that flow-through funds reported on the local district's Schedule of Expenditures of Federal Awards agrees to ISD records.

J. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: activities allowed or unallowed, equipment and real property management, and special tests and provisions.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Catalog of Federal Domestic Assistance, Section 84.027, Special Education, State Grants (Part B, Individuals with Disabilities Education Act) and 84.173
2. Public Law 108-446 of 2004, as amended
3. OMB Compliance Supplement
4. Statement of Assurances for the Appropriate Use of Funds Under IDEA
5. Guidance Related to Equipment

B. Personnel

1. Questions regarding special education grant applications, approvals, or specific grant requirements should be directed to the Office of Special Education and Early Intervention Services, Program Finance at (517) 241-1235.
2. Questions regarding these audit procedures can be directed to the MDE, Office of Special Education and Early Intervention Services, Program Finance auditors: Mr. Michael Wynn (517) 862-3040 or Ms. Nancy Jo Serna (517) 977-4939.
3. Questions regarding the Final Expenditure Report should be directed to Debby Roberts, Office of Financial Management, at (517) 335-1210.
4. General accounting questions can be directed to the Office of Financial Management at (517) 335-0539.

EQUIPMENT

EDUCATION DEPARTMENT GENERAL ADMINISTRATIVE REGULATIONS

The following is provided as a guide for budgeting, managing, and disposing of equipment purchased with Special Education IDEA funds:

Budgeting: Written prior approval is required to include equipment in the Federal Special Education Grants. Equipment is defined as tangible nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

Use of Equipment:

1. Equipment shall be used by the grantee or subgrantee in the special education program or project for which it was required as long as needed, whether or not the project or program continues to be supported by federal funds. When no longer needed for the original program or project, the equipment may be used in other special education activities currently or previously supported by a federal agency.
2. The grantee or subgrantee shall also make equipment available for use on other special education projects or programs currently or previously supported by the federal government. Providing such use will not interfere with the work on the projects or programs for which it was originally acquired. First preference for other use shall be given to other special education programs or projects supported by the awarding agency. User fees should be considered if appropriate. [EDGAR 80.32(c)].

Disposition: When original or replacement equipment is no longer to be used in special education projects or programs currently or previously sponsored by the federal government, disposition of the equipment shall be made as follows:

1. Equipment with a current per unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the federal government.
2. Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold; and the federal government shall have the right to an amount calculated by multiplying the current market value or the proceeds from the sale, by the federal share of the equipment. An amount of \$100 or 10 percent of the total sales proceeds, whichever is greater, may be retained [EDGAR 80.32(e)].

References:

1. Property records must be maintained accurately with complete descriptions and history [EDGAR 80.32(d) (1)].
2. Physical inventory at least once every two years [EDGAR 80.32(d)(2)]
3. Security controls [EDGAR 80.32(d)(3)]
4. Maintenance [EDGAR 80.32(d)(4)]
5. Where the federal government has a right to part or all of the proceeds of the sale of equipment, selling procedures shall provide for competition to the extent practicable and result in the highest possible return [EDGAR 80.32(d)(5)].

CAREER AND TECHNICAL EDUCATION

CFDA #84.048A – BASIC GRANTS TO STATES

CFDA #84.243A – TECH PREP EDUCATION

NOT A CLUSTER

- I. Federal Overview
- II. State Overview
- III. Compliance Review
- IV. Reference Materials and Personnel

ATTACHMENT

Attachment A: Education Department General Administrative Rules – Equipment

Date of Last Change: 2010/11

Basic Grants to States (84.048) and Tech Prep Education (84.243) are not to be tested as a cluster.

I. FEDERAL OVERVIEW

A. Federal Agency

Office of Assistant Secretary for Vocational and Adult Education, United States Department of Education

B. Authorization

Carl D. Perkins Career and Technical Education Act of 2006, 20 USC 2301, *et seq.*, as amended by Public Law 109-270 (Perkins IV). The State Board of Education is the primary grant recipient and the Office of Career and Technical Education (OCTE) disburses to some school districts, intermediate school districts and postsecondary institutions, hereafter referred to as “grant recipients.”

C. Objectives

Funds are used, in accordance with the priorities of the act, to provide career and technical education and related services to all students. The purpose of the act is to further develop the academic and technical skills of students, link secondary and postsecondary career and technical programs, and provide professional development and technical assistance to career and technical educators.

D. Types of Assistance

Formula grants

E. Eligibility Requirements

Per the Office of Management and Budget (OMB) Compliance Supplement, the auditor is not expected to test eligibility.

II. STATE OVERVIEW

A. Statement of Assurance

The annual grant application package includes the assurances agreed to by the grant recipients as a condition of receiving career and technical education funds. All recipients are required to be audited yearly. In those cases where the ISD reimburses local public schools, it is the intermediate school district’s (ISD) responsibility to ensure that local public schools comply with the single audit requirements.

B. Accounting Criteria

The general accounting procedures are found in the Michigan School Accounting Manual (Bulletin 1022). A specific list of allowable expenditures is available in the “Perkins IV Secondary CTE Uses of Funds Guide 2008-09” and the “Perkins IV Tech Prep Uses of Funds Guide 2008-09.” These are updated annually and are available from the Office of Career and Technical Education. In addition, guidelines for Career and Technical Education Administrators are in the

III. DISTRICT CONSIDERATIONS

This section includes the requirements of the Federal A-133 Compliance Supplement and has been adapted by the OCTE.

A. BASIC GRANTS TO STATES

1. Allowable Costs

The Carl D. Perkins Career and Technical Education Act of 2006 focuses on the need to develop high skills, high wage, and high demand state-approved career and technical education programs that impact the economic and employment needs of the state and region.

Michigan's approved State Plan (2008-2013) specifies that the use of secondary Perkins IV funds must be used to provide services and activities to state-approved career and technical education programs that provide opportunities for students in grades 9-12 to pursue specific career and technical training. Programs contained in the six career pathways (health sciences; business, management, marketing and technology; engineering, manufacturing and industrial technology; arts and communications; human services; and natural resources and agrisciences) lead directly to employment and/or postsecondary opportunities.

2. Activity Categories

- a. **Integration of Academics with CTE Programs:** Funds are to be used to strengthen the academic and CTE skills of CTE students through integration of academics in CTE programs through a coherent sequence of instruction (courses) in the program of student. Eligible use of funds for support of academics may include: 1) the proportion of an academic teacher salary dedicated to teaching CTE students in state-approved CTE programs; 2) costs associated with implementing the collaborative teaching model in state-approved CTE programs and 3) academic instruction that takes place within CTE program curriculum.
- b. **Use of Technology** – Funds are to be used for development, improvement, or expansion of use of technology to provide CTE students with career and technical and academic (e.g. math and science) skills necessary for entry into technology fields, or encourage schools to partner with technology industries that provide internships and mentoring for CTE students (including programs for the improvement of math and science knowledge that are integrated with the CTE program.) Funds may not be used for equipment or infrastructure costs (e.g. hard wiring, servers, or telecommunication devices).
- c. **All Aspects of Industry** – Funds are to be used to develop or revise curriculum that incorporates into approved CTE programs: strong

experience in and comprehensive understanding of technical and occupation-specific skills, principles of technology, labor and community issues, health and safety issues, environmental issues, and opportunities for advanced education/training.

- d. **Special Populations:** Funds are to be used for the provision of activities and services to prepare special population groups enrolled in CTE programs for high skill, high wage, and high demand occupations that will lead to self-sufficiency. Eligible uses of funds may include tutors, readers, counseling services for students, adaptive equipment, and other supplementary services needed by special populations.
- e. **Secondary/Postsecondary CTE Linkages:** Funds are to be used to establish and strengthen the links between secondary and postsecondary CTE, including the relevant elements of the programs of study. Continuous communication, involvement, and assessment will ensure that programs provide quality and focus to prepare graduates for high-skill, high-wage, and high-demand employment.
- f. **Program Development (Instruction):** – Funds are to be used to provide sustained professional development for secondary teachers and other instructional staff (e.g. paraprofessionals.) Training may include strategies for academic and CTE integration, academic and CTE joint teaching strategies, research-based teaching strategies, practices to improve parental and community involvement, using data and research to improve instruction, all aspects of an industry, CTE teacher internships at relevant businesses, and effective use and application of technology to improve instruction.
- g. **Program Improvement/Size, Scope, Quality:** Funds are to be used to improve, expand, and modernize state-approved CTE programs consistent with size, scope, and quality (SSQ) guidelines and high skill, high wage, high demand (HSHWHD) occupations that lead to postsecondary education and self-sufficiency. Tangible property (items with useful life of more than one year) can be purchased under this function code but must be properly tagged and tracked.
- h. **Evaluation and Assessment:** Funds are to be used to develop and implement evaluations of CTE programs, including an assessment of how the needs of SP students are being met. Other costs may include implementation of standards and performance measures, development and implementation of assessments such as technical skills assessments, and other means of responding to accountability requirements.
- i. **Professional Development (Non-Instruction):** Funds are to be used for the provision of sustained professional development for CTE administrators, counseling and guidance personnel, and other non-instructional staff. Training may include, but is not limited to: effective implementation strategies for CTE programs (instruction and assessment); working with advisory groups on the needs, expectations, and methods of business and all aspects of an industry; promote use and application of technology; methods for accessing and utilizing data to improve programs and services; and practices to improve parental and community involvement.

- j. **Career and Technical Student Organizations (CTSO):** Funds may be used to assist CTSOs and may include CTSO leadership training guides, handbooks, and other resource materials, travel, registration fees, student membership dues, transportation, and lodging.
 - k. **Guidance and Counseling:** Funds may be expended for career guidance, academic counseling, and coordination of special populations and placement services for CTE students to assist with improving program completion and graduation rates, and provide information on postsecondary education and career options. Education Development Plans (EDPs) may be updated and maintained for the CTE programs of study of CTE students.
 - l. **Parents/Business/Labor Organizations:** Funding is permissible for implementing strategies to involve parents, businesses, and labor in the design, implementation, and evaluation of CTE programs.
 - m. **Education/Business Partnerships:** Funding is available to establish and strengthen relationships between business and education partners that provide: CTE student work-related experiences (internships, cooperative education, school-based enterprises, entrepreneurships, job shadowing) related to state-approved CTE programs of study; adjunct faculty arrangements for qualified industry professionals; and industry experience for teachers and faculty. These partnerships should support sound educational curriculum and program outcomes that address high skill, high wage, and high demand careers while responding to the unique needs of the regional workforce community.
 - n. **Administration:** A maximum of 5% of the regional grant expenditures is allowed.
3. **Definition of Participating Agency**
Participating agencies are public education agencies that are within the state-designated Career Initiative regional structure AND have a signed 2008 cooperative agreement with the regional Perkins fiscal agency AND EITHER operate a state-approved CTE program OR send students to another agency with a state-approved CTE program.
4. **Financial Reporting**
Review the prior year Final Expenditure Reports submitted to MDE during the current fiscal year. Verify that the figures on the report are a true and accurate representation of expenditures.

B. TECH PREP EDUCATION

1. Allowable Costs

The Tech Prep program requires that consortium/regional partners work together to develop “seamless” curricula that successfully transitions students from secondary to postsecondary education. The curricula must clearly be aligned and provide for a sequence of curriculum competencies, courses and outcomes that include two years at the secondary level (grades 11 and 12) and two years at the postsecondary level culminating in a two-year

certification, associate degree or two-year registered apprenticeship. The coursework must be carried out under a written program articulation agreement that may allow the student to earn postsecondary credit while enrolled in high school.

2. Activity Categories

- a. **Integration of Academics** – Funds are to be used for integrating academics and career and technical education instruction in programs of study.
- b. **Use of Technology:** Funds are for the use of education technology and distance learning as appropriate, to involve all the participants in the consortium more fully in the development and operation of programs. Perkins funds may not be used for equipment or infrastructure costs (e.g., hard wiring, servers, or telecommunications devices).
- c. **All Aspects of the Industry:** Funds are to be used for curriculum development which incorporates into a Tech Prep sequence of courses: strong experience in and comprehensive understanding of technical and occupation-specific skills, principles of technology, labor and community issues, health and safety issues, environmental issues, and opportunities for advanced education/training. These activities may include work-based or worksite learning experiences in conjunction with business and all aspects of an industry when available and appropriate.
- d. **Special Population:** Funds are to be used to provide equal access to the full range of Tech Prep programs (including pre-apprenticeship programs) to individuals who are members of special populations. Eligible use of funds may include tutors, readers, counseling services for students, adaptive equipment, and other supplementary services needed by special populations. Specific focus should be given to those services needed for a successful transition from secondary to postsecondary education for special population students.
- e. **Secondary/Postsecondary Linkages:** Funds are to be used to link secondary schools and two-year postsecondary institutions, and if possible and practicable, four-year institutions through; non-duplicative sequences of courses in career fields; the development and renewal of articulation agreements; the investigation of opportunities for Tech Prep secondary education students to enroll concurrently in secondary education and postsecondary education coursework to prepare for high skill, high wage, high demand occupations.
- f. **Professional Development (Instruction):** Funds are to be used for sustained professional development for teachers, faculty, and other instructional staff and may include: effective implementation of Tech Prep programs, joint training in the Tech Prep consortium, needs, expectations, and methods of business and all aspects of an industry, use and application of technology, use of contextual and applied curricula, instruction and assessment, and assists in accessing and utilizing data, information available pursuant to Section 118, and information on student achievement, including assessments.

- g. **Professional Development (non-Instruction):** Funds are to be used for sustained professional development for administrators including: effective implementation of Tech Prep programs; joint training in the Tech Prep consortium, needs, expectations, and methods of business and all aspects of an industry; use and application of technology; use of contextual and applied curricula, instruction and assessment; assists in accessing and utilizing data, information available pursuant to Section 118, and information on student achievement, including assessments. Funds are to be used for sustained professional development for counselors/career guidance personnel, including: provide information to students regarding Tech Prep programs; support student progress in completing Tech Prep Program through the use of graduation and career plans including Education Development Plans (EDPs); provide information on related employment opportunities; ensure students are placed in appropriate employment or further postsecondary education; stay current with the needs, expectations, and methods of business and all aspects of an industry provide comprehensive career guidance and academic counseling to participating students, including special populations.
 - h. **Career Plans/EDPs:** Funds are available from Tech Prep sources for postsecondary Education Development Plans for students enrolled in a Tech Prep sequence of classes.
 - i. **Evaluation and Assessment:** Tech Prep funds may be used to support activities related to meeting the data, evaluation, and accountability requirements for students enrolled in secondary/postsecondary aligned programs including tracking secondary Tech Prep student to and through postsecondary education. Funds should complement CTE allocations for secondary Career and Technical Education Information System CTEIS and for postsecondary data collection.
 - j. **Coordination:** Limited to 15% of the grant award for coordination. It is expected that these funds support the Tech Prep Coordinator that provides the leadership and coordinates the efforts of the membership to achieve the goals of the consortium.
 - k. **Administration:** A maximum of 5% of the regional grant expenditures is allowed.
3. **Definition of Participating Agency**
Participating agencies are public secondary education agencies that are within the state-designed Career Initiative regional structure, are participating in CTE Perkins as outlined above, AND have a signed 2008 cooperative agreement with the regional Tech Prep fiscal agency AND have at least one current signed articulation agreement between secondary and post secondary partners as part of a 2+2 CTE program of study. Both secondary and post secondary programs reflected in the program of study and articulation agreement must be state-approved programs.

4. Financial Reporting
Review the prior year Final Expenditure Reports (FER) submitted to MDE during the current fiscal year. Verify that the figures on the report are a true and accurate representation of expenditures for each project.

C. BASIC GRANTS TO STATES and TECH PREP EDUCATION

1. Period of Availability of Federal Funds
Costs charged to each grant must be within the grant period in the grant approval letter.
2. Transfer Monitoring
 - a. 410 Transfer Monitoring – Fiscal agents that transfer federal funds to participating agencies must monitor those recipients.
 - b. 441 Transfer Monitoring – Fiscal agents that transfer funds to postsecondary institutions must monitor those recipients.
3. Federal Assurances
The application for funds contains both general grant assurances that are contained in all federal applications, as well as specific assurances pertaining to the Carl D. Perkins legislation of 2006. These assurances must be certified by signature of the designated administrators (including superintendents, regional CTE administrators, Tech Prep consortia partners, etc.). Additionally, necessary assurances pertaining to non-public school students participating in career and technical education programs are also contained in the application.

Acceptance of federal grant funds is accompanied by requirements for strict compliance with terms, conditions, and regulations. Since grants are awarded to an institution, and not an individual, the grantee organization accepts full legal responsibility for the program and for fulfilling the granting agency requirements.

4. Cash Management
 - Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients are on a reimbursement basis only.
 - If a district is advanced more cash than is needed, the district must refund the excess federal funds.
5. Level of Effort – Supplement Not Supplant
Subgrantees may use funds for career and technical education activities that shall supplement, and shall not supplant, non-federal funds expended to carry out career and technical education activities and Tech Prep activities (Perkins IV, Section 311(a)). The examples of instances where supplanting is presumed to have occurred that are described in Section III.G2.2 of the ED Cross-Cutting Section (84.000) also apply to the career and technical education programs.

6. Coordination of Services

Funds made available under Perkins IV may be used to pay for the costs of career and technical education services required in an individualized education program developed pursuant to Section 614(d) of the Individuals with Disabilities Education Act and services necessary to meet the requirements of Section 504 of the Rehabilitation Act of 1973 with respect to ensuring equal access to career and technical education.

7. Time Certification – Time/salaries spent working on Career and Technical Education must be documented for employees working on more than one cost objective or employees working on a single cost objective in compliance with OMB Circular A-87, Attachment B, Item 8h.

Working on More Than One Cost Objective:

Acceptable methods for staff working on more than one cost objective include written schedules if they are documented by personnel activities reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

- Instructional staff may use their lesson plans to confirm their written schedules were followed if:
 - After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
 - The lesson plans account for the total time the employee is compensated.
 - The lesson plans are prepared at least monthly and coincide with one or more pay periods.
 - The completed lesson plans are signed by the employee.

If the district elects to use this method, it must retain the lesson plans as timekeeping records.

- Paraprofessionals may use their regular time sheets as long as they:
 - Reflect an after-the-fact distribution of their actual activity
 - Account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on
 - Are prepared at least monthly and coincide with one or more pay periods
 - Are signed by the employee

Working on One Cost Objective:

OMB Circular A-87 requires that when employees work solely on a single federal award or cost objective, charges for their salaries **must** be supported by periodic certifications that the employees worked solely on that program

for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees, each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

5. Procurement

USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://frwebgate.access.gpo.gov/cgi-bin/get-cfr.cgi?TITLE=34&PART=80&SECTION=36&TYPE=PDF>. Sub-grantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Sub-grantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

IV. AUDIT CONSIDERATIONS

A. BASIC GRANTS TO STATES AND TECH PREP EDUCATION

Refer to OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

1. Allowable Costs:

Test: Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are for documented and allowable costs.

Test: Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are for documented and allowable costs.

Test: Check starting and ending transactions against the grant award letter.

Test: Review the ISD/postsecondary institution system for obtaining, reviewing, and acting on audit reports when the ISD transfers postsecondary grant funds to local public schools or postsecondary institutions. Determine that flow-through funds reported on the local district's Schedule of Expenditures of Federal Awards agree with ISD/postsecondary institution records.

Test: Review copies of the signed assurance statements submitted with the grant application.

2. Cash Management

Test: Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients will be on a reimbursement basis only.

Test: Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

3. Level of Effort

Test: Sample expenditures and check against previous year to ensure funds are not being used to supplant other funds.

4. Earmarking

Test: Sample expenditures for the grant to ensure that funds are used to improve secondary career and technical education programs and/or articulated secondary programs with a participating postsecondary institution.

5. Period of Availability

Test:

- a. Test expenditures to verify that grant funds were only expended on programs listed in the approved application. In the case of a 410 or 441 transfer, you will need additional supporting documentation.
- b. Verify that grants are not commingled by determining that each funding source is identified separately in the accounting records. Revenue and expenditures must be accounted for by project, funding source, and grant fiscal year.

6. Equipment/Real Property

Test: If equipment (\$5,000 threshold) has been charged to the **Basic Grant:**

- (1) Determine that the equipment is approved in advance by the OCTE.
- (2) Determine that equipment purchased with grant funds was properly tagged and appropriately inventoried. An inventory control log must be maintained by the public school indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment.

- (3) If the school transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria. Summarize results and report appropriately.

7. Timekeeping

Test: Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with 2CFR Part 225.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

8. Procurement

Test: Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

If a payment on a contract purchase order or other procurement is selected for testing, perform the following audit procedures:

- a. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
- b. Determine that the district complied with bidding requirements.
- c. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
- d. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
- e. Determine that payments to contractors and vendors were according to the contract or purchase order.
- f. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
- g. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

Source of Governing Requirements – Basic Grants to States and Tech Prep Education – This program is authorized by the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV), as amended, Public Law 109-270, which is codified at 20 USC 2301 *et seq.*

1. EDGAR 34 CFR, Part 80
2. Classification of Instructional Program (CIP) Code Book, U.S. Department of Education
3. Statement of Assurances for the Appropriate Use of Funds under Carl D. Perkins

B. Personnel

1. Questions regarding career and technical education grant applications, approval, or specific grant requirements should be directed to the Office of Career and Technical Education, (517) 373-3373.
2. Questions regarding these audit procedures can be directed to Kathleen Weller, MDE Office of Audits, (517) 335-6858.
3. Questions regarding the final expenditure report should be directed to OCTE, (517) 373-3373.

Educational Department General Administrative Regulations

Equipment

The following is provided as a guide for budgeting, managing, and disposing of equipment purchased with Carl D. Perkins funds.

Budgeting

Written prior approval is required for equipment in the Carl D. Perkins Basic Grant. Equipment is defined as tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Fiscal agents must report each specific purchase at the end of each grant year to the MDE/OCTE.

Use and Management of Equipment

1. Equipment shall be used by the grantee in the career and technical education program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds. When no longer needed for the original program or project, the equipment may be used in other career and technical education activities currently or previously supported by a federal agency.
2. The grantee shall also make equipment available for use on other career and technical education projects or programs currently or previously supported by the federal government, providing such use will not interfere with the work on the projects or programs for which it was originally acquired. First preference for other use shall be given to other career and technical education programs or projects supported by the awarding agency. User fees should be considered, if appropriate.
3. When acquiring replacement equipment, the grantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.
4. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
5. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
6. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
7. Adequate maintenance procedures must be developed to keep the property in good condition.
8. If the grantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Disposition

When original or replacement equipment acquired under a grant is no longer needed for the original career and technical education program, or for other programs currently or previously sponsored by a federal agency, disposition of the equipment shall be made as follows:

1. Items of equipment with a current per unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
2. Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold; and the awarding agency shall have the right to an amount calculated by multiplying the current market value or the proceeds from the sale by the awarding agency's share of the equipment.
3. In cases where a grantee fails to take appropriate disposition actions, the awarding agency may direct the grantee to take excess and disposition actions.

References

The text of the equipment requirements in EDGAR are located at:

<http://frwebgate.access.gpo.gov/cgi-bin/get-cfr.cgi?TITLE=34&PART=80&SECTION=32&TYPE=PDF>

SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES ACT

CFDA #84.186

- I. Overview
- II. District Considerations
- III. Audit Considerations
- IV. Changes Under Reauthorization
- V. Contact Persons

ATTACHMENT

Statement of Non-public School Participation

Date of Last Change: 2010/2011

I. OVERVIEW

The Michigan Department of Education administers the Title IV, Part A, Subpart 1 – Safe and Drug-Free Schools and Communities Act (SDFSCA) program. Eighty percent of the allotment is awarded to LEAs and 20% is awarded to the Governor's Discretionary Grants.

II. DISTRICT CONSIDERATIONS

A. Title IV, Part A – Purpose (Section 4002)

The purpose of this part is to support programs that prevent violence in and around schools; that prevent the illegal use of alcohol, tobacco, and drugs; that involve parents and communities; and that are coordinated with related federal, state, school, and community efforts and resources to foster a safe and drug-free learning environment that supports student academic achievement.

B. Principles of Effectiveness

1. For a program or activity developed pursuant to this subpart to meet the principles of effectiveness, such program or activity shall –
 - a. Be based on an assessment of objective data regarding the incidence of violence and illegal drug use in the elementary schools and secondary schools and communities to be served, including an objective analysis of the current conditions and consequences regarding violence and illegal drug use, including delinquency and serious discipline problems, among students who attend such schools (including non-public school students who participate in the drug and violence prevention program) that is based on ongoing local assessment or evaluation activities;
 - b. Be based on an established set of performance measures aimed at ensuring that the elementary schools and secondary schools and communities to be served by the program have a safe, orderly, and drug-free learning environment;
 - c. Be based on scientifically based research that provides evidence that the program to be used will reduce violence and illegal drug use;
 - d. Be based on an analysis of the data reasonably available at the time, of the prevalence of risk factors, including high or increasing rates of reported cases of child abuse and domestic violence; protective factors, buffers, assets; or other variables in schools and communities in the state identified through scientifically based research; and
 - e. Include meaningful and ongoing consultation with and input from parents in the development of the application and administration of the program or activity.
2. Waiver provision, Section 4115(a) (3). The act provides a waiver provision allowing an LEA to apply for a waiver of the requirement of subsection (a) (1) (C) to allow innovative activities or programs that demonstrate substantial likelihood of success.

C. Local Educational Agency Activities – Section 4115(b)(1) LEAs shall use funds made available under section 4114 to develop, implement, and evaluate

comprehensive programs and activities, which are coordinated with other school and community-based services and programs, that shall –

1. Foster a safe and drug-free learning environment that supports academic achievement;
2. Be consistent with the principles of effectiveness described in subsection (a)(1);
3. Be designed to –
 - a. Prevent or reduce violence; the use, possession and distribution of illegal drugs; and delinquency; and
 - b. Create a well disciplined environment conducive to learning, which includes consultation between teachers, principals, and other school personnel to identify early warning signs of drug use and violence and to provide behavioral interventions as part of classroom management efforts; and
4. Include activities to –
 - a. Promote the involvement of parents in the activity or program;
 - b. Promote coordination with community groups and coalitions, and government agencies; and
 - c. Distribute information about the local educational agency's needs, goals, and programs under this subpart.

D. Authorized Activities – Section 4115(b)(2)

Each LEA or consortium of such agencies that receives a subgrant under this subpart may use such funds to carry out activities that comply with the principles of effectiveness described in subsection 9a), such as the following:

1. Age appropriate and developmentally based activities that –
 - a. Address the consequences of violence and the illegal use of drugs, as appropriate;
 - b. Promote a sense of individual responsibility;
 - c. Teach students that most people do not illegally use drugs;
 - d. Teach students to recognize social and peer pressure to use drugs illegally and the skills for resisting illegal drug use;
 - e. Teach students about the dangers of emerging drugs;
 - f. Engage students in the learning process; and
 - g. Incorporate activities in secondary schools that reinforce prevention activities implemented in elementary schools;
 - h. Activities that involve families.
2. Dissemination of drug and violence prevention information to schools and the community.
3. Professional development and training for, and involvement of, school personnel, pupil services personnel, parents, and interested community members in prevention, education, early identification and intervention, mentoring, or rehabilitation referral, as related to drug and violence prevention.
4. Drug and violence prevention activities that may include the following:
 - a. Community-wide planning and organizing activities to reduce violence and illegal drug use, which may include gang activity prevention.

- b. Acquiring and installing metal detectors, electronic locks, surveillance cameras, or other related equipment and technologies.
- c. Reporting criminal offenses committed on school property.
- d. Developing and implementing comprehensive school security plans or obtaining technical assistance concerning such plans, which may include obtaining a security assessment or assistance from the School Security and Technology Resource Center at the Sandia National Laboratory located in Albuquerque, New Mexico.
- e. Supporting safe zones of passage activities that ensure that students travel safely to and from school, which may include bicycle and pedestrian safety programs.
- f. The hiring and mandatory training, based on scientific research, of school security personnel (including school resource officers) who interact with students in support of youth drug and violence prevention activities under this part that are implemented in the school.
- g. Expanded and improved school-based mental health services related to illegal drug use and violence, including early identification of violence and illegal drug use, assessment, and direct or group counseling services provided to students, parents, families, and school personnel by qualified school-based mental health service providers.
- h. Conflict resolution programs, including peer mediation programs that educate and train peer mediators and a designated faculty supervisor, and youth anti-crime and anti-drug councils and activities.
- i. Alternative education programs or services for violent or drug abusing students that reduce the need for suspension or expulsion or that serve students who have been suspended or expelled from the regular educational settings, including programs or services to assist students to make continued progress toward meeting the state academic achievement standards and to reenter the regular education setting.
- j. Counseling, mentoring, referral services, and other student assistance practices and programs, including assistance provided by qualified school-based mental health services providers and the training of teachers by school-based mental health services providers in appropriate identification and intervention techniques for students at risk of violent behavior and illegal use of drugs.
- k. Programs that encourage students to seek advice from, and to confide in, a trusted adult regarding concerns about violence and illegal drug use.
- l. Drug and violence prevention activities designed to reduce truancy.
- m. Age-appropriate, developmentally-based violence prevention and education programs that address victimization associated with prejudice and intolerance, and that include activities designed to help students develop a sense of individual responsibility and respect for the rights of others, and to resolve conflicts without violence.
- n. Consistent with the fourth amendment to the Constitution of the United States, the testing of a student for illegal drug use or the inspecting of a student's locker for weapons or illegal drugs or drug paraphernalia, including at the request of or with the consent of a parent or legal guardian of the student, if the local educational agency elects to so test or inspect.

- o. Emergency intervention services following traumatic crisis events, such as a shooting, major accident, or a drug-related incident that have disrupted the learning environment.
 - p. Establishing or implementing a system for transferring suspension and expulsion records, consistent with Section 444 of the General Education Provisions Act (20 U.S.C. 1232g), by a local educational agency to any public or non-public elementary school or secondary school.
 - q. Developing and implementing character education programs, as a component of drug and violence prevention programs that take into account the views of parents of the students for whom the program is intended and such students, such as a program described in subpart 3 of Part D of Title V.
 - r. Establishing and maintaining a school safety hotline.
 - s. Community service, including community service performed by expelled students, and service-learning programs.
 - t. Conducting a nationwide background check of each local educational agency employee, regardless of when hired, and prospective employees for the purpose of determining whether the employee or prospective employee has been convicted of a crime that bears upon the employee's fitness –
 - 1) To be responsible for the safety or well-being of children;
 - 2) To serve in the particular capacity in which the employee or prospective employee is or will be employed; or
 - 3) To otherwise be employed by the local educational agency.
 - u. Programs to train school personnel to identify warning signs of youth suicide and to create an action plan to help youth at risk of suicide.
 - v. Programs that respond to the needs of students who are faced with domestic violence or child abuse.
5. The evaluation of any of the activities authorized under this subsection and the collection of objective data used to assess program needs, program implementation, or program success in achieving program goals and objectives.
6. Time Certification. Time/salaries spent working on these activities must be documented for co-funded and 100% funded staff in compliance with 2 CFR Part 225. Acceptable methods for co-funded staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

Instructional staff may no longer use their lesson plans to confirm their written schedules. Districts using lesson plans to confirm written schedules must now use PARs. Instructional staff may use their lesson plans as documentation to support PARS if:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
- The lesson plans account for the total time the employee is compensated
- The lesson plans are prepared at least monthly and coincide with one or more pay periods
- The completed lesson plans are signed by the employee.

The district must retain the lesson plans as documentation supporting timekeeping records.

Paraprofessionals may use their regular time sheets as long as they; (a) reflect an after-the-fact distribution of their actual activity, (b) account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on, (c) are prepared at least monthly and coincide with one or more pay periods, and (d) are signed by the employee.

2 CFR Part 225 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisor having first-hand knowledge of the work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

- E. Limitations, Exceptions, and Rule of Construction Regarding Use of Funds
 Section 4115(c) (1) – Except as provided in paragraph (2), not more than 40 percent of the funds available to a local educational agency under this subpart may be used to carry out the activities described in clauses which is (in this document) D.4. b/c/d/e/f (ii) through (vi) of subsection (b) (2) (E), of which not more than 50 percent of such amount may be used to carry out the activities described in clauses (ii) through (v) of such subsection.

Section 4115(c)(2) – An LEA may use funds under this subpart for activities described in clauses which is (in this document) D. 4. b/c/d/e (ii) through (v) of subsection (b)(2)(E) only if funding for these activities is not received from other federal agencies.

Section 4115(d) – Rule of Construction. Nothing in this section shall be construed to prohibit the use of funds under this subpart by any local educational agency or school for the establishment or implementation of a school uniform policy if such policy is part of the overall comprehensive drug and violence prevention plan of the state involved and is supported by the state’s needs assessment and other scientifically based research information.

Under Subpart 4, Section 4154(1) (2), no funds under this part may be used for construction, medical services, drug treatment or rehabilitation, except for pupil services or referral to treatment for students, who are victims of, or witnesses to, crime or who illegally use drugs.

Administrative Costs – Section 4114(B) (2). Not more than 2 percent of the local educational agency’s (LEA) allocation may be allocated as an administrative cost. Examples of administrative costs can be found in the Michigan Department of Education’s School Accounting Manual. Also, the cap on funds for security-related expenses is 20%; however, an additional 20% may be used to hire and train school security personnel.

- F. Transferability – Title VI, Subpart 2, Section 6123(b)
1. LEAs (except a local educational agency identified for improvement under Section 1116(c) or subject to corrective action under Section 1116(c) (9)) may transfer not more than 50 percent of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph (2) for a fiscal year to one or more of its allocations for such fiscal year under any other provision listed in paragraph (2).
 2. LEAs Identified for Improvement: In accordance with this subpart, a local educational agency identified for improvement under section 1116(c) may transfer not more than 30 percent of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph (2) for a fiscal year.

- G. Reporting – Section 4116(b)
- LEAs receiving funds under this subpart shall submit to the state educational agency (SEA) such information that the state requires to complete the state report, including a description of how parents were informed of, and participated in, violence and drug prevention efforts. This information shall be made readily available to the public.

Each year the LEA must submit a final report of its accomplishments, the extent to which its objectives have been achieved, and a description and results of its evaluation of the effectiveness of its programs. LEAs receiving SDFSCA funds must submit a final report for the preceding year before approval can be given for current year proposed programming.

A percentage of LEAs are monitored each year by the MDE. A program review/monitoring guide is available from the MDE. Should there be compliance

issues, the state will issue a report outlining level of compliance and work with the LEA to develop a corrective action plan.

H. Allocations, Eligibility, and Development – Section 4114(a)(b)(c)

1. Allocations – Section 4114(a): LEAs obtain their allocations from the Michigan Education Grants System (MEGS). Allocations are established for each LEA, ISD and public school academy using the following formula:
 - a. Sixty percent of such amount based on the relative amount such agencies received under Part A of Title I for the preceding fiscal year.
 - b. Forty percent of such amount based on the relative enrollments in public and non-public elementary schools and secondary schools within the boundaries of such agencies.
 - c. Reallocation of Funds – Section 4114(a) (3) (C). If a local educational agency chooses not to apply to receive the amount allocated to such agency under this subsection, or if such agency's application under subsection (d) is disapproved by the SEA, the SEA agency shall reallocate such amount to one or more of its other local educational agencies.
2. Eligibility – Section 4114(b): To be eligible to receive a subgrant under the subpart, an LEA shall submit an application to the SEA. Application deadline for the FY 2010-2011 year is July 1, 2010; applications are accepted up to December 7, 2010. An application submitted after the due date is denied. Such an application shall be amended, as necessary, to reflect changes in the activities and programs of the local educational agency.
3. Development of Applications – Section 4114(c): An LEA shall develop its application through timely and meaningful consultation with state and local government representatives, representatives of schools to be served (including non-public schools), teachers and other staff, parents, students, community-based organizations, and others with relevant and demonstrated expertise in drug and violence prevention activities (such as medical, mental health, and law enforcement professionals). Evidence of this consultation should be available for audit and monitoring purposes.

I. Evaluation Plan – Section 4115(a)(2)

The program or activity shall undergo a periodic evaluation to assess its progress toward reducing violence and illegal drug use in schools to be served based on performance measures described in Section 4114(d)(2)(B). The results shall be used to refine, improve, and strengthen the program, and to refine the performance measures, and shall also be made available to the public upon request, with public notice of such availability provided.

Section (2) (A) requires a periodic review of the program to assess if progress is being made toward the reduction of violence or the use of illegal drugs. The evaluation must be based on *performance measures*. The application provides specific guidance and direction to the LEA. Evaluations are easier to conduct and more useful when they are based on *measurable* goals and objectives and on quality information.

ODCP supports the accountability provisions of Safe and Drug Free Schools and Community Act (SDFSCA), but recognizes that evaluation is an ongoing process that involves a number of variables.

- J. Non-Public Schools Participation – Section 4413(a) (7) and Title IX, Part E, Uniform Provisions Section 9501 (This section does not apply to public school academies). LEAs or consortia with eligible non-public schools must consult with non-public school officials before application is made. The application requires in pertinent part an assurance that the LEA has had and will continue to have meaningful and timely consultation with representatives of non-public students during all phases of the design of the Title IV – Part A program. Applications for SDFSCA funds must include:
1. Statement of Non-Public School Participation for each non-public school. The decision for participation in this funding by the non-public schools must be determined before the application is submitted.
 2. Description of how the LEA has and will continue to consult with the appropriate representatives of the students enrolled in non-public schools during all phases of the development and design of the SDFSCA program for non-public students' teachers. The following are examples:
 - a. Non-public representatives were invited to attend a planning meeting prior to submission of this application.
 - b. Ongoing contact through participation on the advisory council.
 - c. Follow-up phone contact or site visit is planned for each non-public participant.
 - d. Description of how the LEA will assure that programs and services funded by this grant are equitable for non-public school participants.
 - e. Description of how the LEA will determine the effectiveness of the program funded and comply with the Principles of Effectiveness.

K. Approval Process

FY 2010-2011 applications are due July 1, 2010. Delinquent applications are accepted until December 7, 2010. Applications received after the December date are not accepted unless documented circumstances warranted. Uncommitted funds after December 7, 2010, will be reallocated.

All approvals are handled through the Michigan Education Grants System (MEGS). The district may then draw upon this approved amount. Funds are released on a reimbursement basis. Changes in budget or program plan must be pre-approved by the ODCP through a contract amendment process, unless it falls within the deviation allowance.

L. Disapproval Process

MDE may disapprove an LEA under Section 4115 of SDFSCA in whole or in part and may withhold, limit, or place restrictions on the use of funds allotted to such an LEA in a manner the MDE determines will best promote the purposes of this part, except that an LEA shall be afforded an opportunity to appeal any such disapproval.

M. Capital Outlay

This includes expenditures for the purchase of equipment and other items valued at \$5,000 or more. Purchases and disposition of capital expenditures must be in accordance with EDGAR 34 CFR Part 80.32.

N. Carryover Funds, Section 4114(b)

Consortia or local educational agencies may carry over up to 25 percent of their previous year's formula allocation by submitting the Final Expenditure Report through CHS. Any carryover funds will be automatically transferred into the formula budget and displayed on the Budget Summary. An LEA may retain an amount greater than 25% of its fiscal year allocation for use in the following year if it can demonstrate, to the satisfaction of MDE, that it has "good cause" for such a carryover. All carryover funds need to be approved by MDE.

O. Cash Management

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients are on a reimbursement basis only.

2. If a district is advanced more cash than is needed, the district must refund the excess federal funds.

P. Gun-Free Report Requirements

Pursuant to Title IV, Part A, Subpart 3, Section 4141, each local educational agency receiving funding under the act must report information required under federal law on an annual basis. Reports are submitted to the Center for Educational Performance and Information (CEPI). State and federal laws apply to this requirement. The federal reporting requirements surrounding any expulsions imposed under the state law include:

1. The name of the school concerned;
2. The number of students expelled from such school; and
3. The type of firearms concerned.

Under Subpart 3, Section 4141(h), LEAs also must have a policy requiring referral to the criminal justice or juvenile delinquency system of any student who brings a firearm or weapon to a school served by such agency.

School Safety, Section 4114(A)(B)(C)(D)(E)

LEAs must have a plan for keeping schools safe and drug-free. LEAs were asked to provide an assurance that this requirement has been met. Documentation must be available for site monitoring and auditing purposes. The plan shall include –

1. Appropriate and effective school discipline policies that prohibit disorderly conduct, the illegal possession of weapons, and the illegal use, possession, distribution, and sale of tobacco, alcohol, and other drugs by students;
2. Security procedures at school and while students are on the way to and from school;
3. Prevention activities that are designed to create and maintain safe, disciplined, and drug-free environments;

4. A crisis management plan for responding to violent or traumatic incidents on school grounds; and
5. A code of conduct policy for all students that clearly states the responsibilities of students, teachers, and administrators in maintaining a classroom environment that –
 - a. Allows a teacher to communicate effectively with all students in the class;
 - b. Allows all students in the class to learn;
 - c. Has consequences that are fair, and developmentally appropriate;
 - d. Considers the student and the circumstances of the situation; and
 - e. Is enforced accordingly.

III. AUDIT CONSIDERATIONS

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

A. Allowable Costs

Test: Obtain the grant application to determine allowable costs. Sample the expenditures to determine that they are allowable

B. Time Certification

Test: Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

C. Procurement

USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/textidx?c=ecfr&tpl=%2Findex.tpl>.

Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase order.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors

and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

Test: If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures:

- a. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
- b. Determine that the district complied with bidding requirements.
- c. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
- d. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
- e. Determine that payments to contractors and vendors were according to the contract or purchase order.
- f. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
- g. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

D. Period of Availability of Federal Funds

Test: Check starting and ending transactions against the grant award letter.

E. Cash Management

Test:

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients are on a reimbursement basis only.
2. Determine that the district did not distribute cash at a faster rate, or in a manner different from which they handle their own cash.
3. Determine if the district was advanced more cash than was needed, the district refunded the excess federal funds.

- . Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: allowable costs/cost principles, equipment and real property management, matching, level of effort, earmarking, period of availability of federal funds, procurement and suspension and debarment, subrecipient monitoring, and special tests and provisions.

IV. CHANGES UNDER REAUTHORIZATION

- A. Parental Involvement: The "consultation requirement" contained in SDFSCA, Section 4114(c) (1) (A) provides for meaningful and timely consultation with a host of people and organizations, not the least of which is parents. Understandably, there is considerable reference to parents in SDFSCA and an

assurance must be given that parents are publicly informed regarding the entire SDFSCA application process and the contents. Furthermore, LEAs receiving funds are required to submit a report, as part of an ongoing evaluation process, that describes “how parents were informed of, and participated in violence and drug prevention efforts,” Section 4116(b)(1).

- B. Emphasis on scientifically based prevention programs and activities (Section 4115). Clear guidance regarding “scientifically” based critical requirements is yet to be received by USDOE.

- C. Waiver. Section (1) (C) (3) of the “Principles of Effectiveness,” Section 4115, allows for “innovative activities or programs that demonstrate *substantial likelihood of success*.” MDE will expect a waiver program generally, or its component parts, to be the product of sound research, and have a substantial likelihood of success. Therefore, if MDE approves one of these programs, it fully expects the program to be implemented as designed and approved (fidelity).

- D. Supplant Provision. LEAs must assure that funds under this subpart will be used to increase the level of state, local, and other non-federal funds that would, in the absence of funds under this subpart, be made available for programs and activities authorized under this subpart, and in no case supplant such state, local, and other non-federal funds.

IV. CONTACT PERSONS

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TITLE V, PART A

STATE GRANTS FOR INNOVATIVE PROGRAMS

CFDA #84.298

- I. Federal Overview
- II. State Overview
- III. District Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

ATTACHMENT

- A. Title V, Part A Calculation of Non-public schools' "Equitable Participation"

Date of Last Change: 2010/2011

The United States Department of Education (USED) zeroed out Title V, Part A allocations in the 2008-09 school year. Districts eligible for the Small Rural Schools Grant program may transfer funds to title V, Part A and follow the intent and purpose of the legislation.

I. FEDERAL OVERVIEW

A. Federal Agency

School Support and Technology Programs, Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization

Title V, Part A, No Child Left Behind Act (NCLB) of 2001, Public Law 107-110

C. Beneficiary Eligibility

Local school districts providing innovative programs in a wide range of areas with the goal of supporting educational reform and improving student achievement. For more information, refer to the Catalog of Federal Domestic Assistance.

II. STATE OVERVIEW

A. Allocation of Funds

The Title V legislation provides for the distribution of Title V, Part A, funds to local educational agencies (LEAs) in the state for the benefit of school children, ages 5-17, enrolled in public and non-public schools for any of the 27 authorized innovative program areas. At least 85% of the funds received by the state must be allocated to school districts through a formula which takes into account factors that impose a higher than average cost per child. The remaining 15% of the Title V, Part A, funds are used for educational programs that are operated on a statewide basis. The high-cost factors used in Michigan's Title V, Part A, formula are:

1. Per Pupil – All public school districts and academies receive a basic per-pupil allocation computed on the basis of the district or academy's pupil membership. Fifteen percent of Michigan's Title V, Part A, funds that are distributed on a formula basis is allocated under this factor.
2. Sparsity – Public school districts and academies in which there are 6.5 or fewer students per square mile receive high-cost funds under this factor. Five percent of Michigan's Title V, Part A, funds that are distributed on a formula basis is allocated under this factor.
3. Low Income – Title I Factor – Public school districts and academies are eligible to receive high-cost funds under this factor when the percentage of students who meet the poverty criteria for funding under Title I of P.L. 107-110 exceeds the state average of students meeting the Title I poverty criteria. The number of eligible students is double weighted in districts where the percentage is more than double the state average. Forty percent of Michigan's Title V, Part A, funds that are distributed on a formula basis is allocated under this factor.
4. Low Income-Free Lunch – Districts receive high-cost funds if the percentage of students who qualify under federal income guidelines for the National School Lunch Act, 43 US 1751, for free lunch is greater than the state average. The number of eligible students is double weighted in public schools where the percentage is more than double the state average. Forty

percent of Michigan's Title V, Part A, funds that are distributed on a formula basis is allocated under this factor.

B. Innovative Assistance Program Areas

Title V, Part A, funds may be used for any of the following activities:

1. Establishment or enhancement of pre-kindergarten programs;
2. Programs to recruit, train, and hire highly qualified teachers to reduce class size, particularly in the early grades;
3. Programs to improve academic achievement of educationally disadvantaged students, including dropout prevention programs;
4. Academic intervention programs that are operated jointly with community-based organizations and that support academic enrichment and counseling for at-risk students;
5. Programs using research-based cognitive and perceptual development approaches and a diagnostic-prescriptive model to improve student learning of academic content;
6. Programs to provide for the needs of gifted and talented students;
7. Alternative education programs for expelled or suspended students, including reentry assistance programs;
8. Supplemental educational services by outside providers for students in Title I schools identified for school improvement, corrective action, or restructuring;
9. Programs for development or acquisition of instructional and educational materials tied to high academic standards as part of overall education reform programs;
10. Technology activities related to implementation of school-based reform efforts, including professional development on classroom use of technology;
11. Professional development activities in accordance with Title II, focused on student achievement of core academic standards;
12. Programs that use best-practice models to improve classroom teaching and learning;
13. Programs to establish smaller learning communities;
14. Title I school improvement programs or activities for identified schools;
15. Activities to encourage and expand district-wide improvements designed to advance student academic achievement;
16. Promising education reform projects, including magnet schools;
17. Activities to promote, implement, or expand public school choice;
18. Planning, design, and initial implementation of charter schools;
19. Programs to provide same-gender schools and classrooms (consistent with law);
20. Program to hire and support school nurses;
21. Expansion and improvement of school-based mental health services;
22. School safety programs, including transfer options for students in persistently dangerous schools;
23. Initiatives to generate, maintain, and strengthen parental and community involvement;
24. Programs to improve literacy skills of adults, especially parents, including adult education and family literacy programs;
25. Community service programs involving school personnel and students;

26. Service learning activities;
27. Activities to promote consumer, economic, and personal finance education;
28. Programs for cardiopulmonary resuscitation (CPR) training in schools.

III. DISTRICT CONSIDERATIONS

The following is provided to serve as a list of “basic” procedures to be performed and documented to assist you in complying with Title V, Part A, requirements.

A. Funding Periods

1. The Consolidated Application must be submitted to receive funds.
2. Applicants must complete a budget to show how Title V, Part A, funds will be used.
3. Title V, Part A expenditures may be incurred during a 15-month program period covering July 1, 2010, through September 30, 2011, provided that an application has been submitted to the MDE in substantially approvable form. Funds that are not expended by September 30, 2011, are available for use in a carryover period extending from October 1, 2011, through June 30, 2012.

B. Time Certification

Time Certifications: Time/salaries spent working on Title V must be documented for employees working on more than one activity or employees working on a single cost objective in compliance with OMB Circular A-87, Attachment B, Item 8h.

Working on More Than One Activity:

Acceptable methods for staff working on more than one activity include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person’s total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

Instructional staff may no longer use their lesson plans to confirm their written schedules. Districts using lesson plans to confirm written schedules must now use PARs.

Instructional staff may use their lesson plans as documentation to support PARS if:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
- The lesson plans account for the total time the employee is compensated
- The lesson plans are prepared at least monthly and coincide with one or more pay periods
- The completed lesson plans are signed by the employee.

The district must retain the lesson plans as documentation supporting timekeeping records.

Paraprofessionals may use their regular time sheets as long as they:

- Reflect an after-the-fact distribution of their actual activity
- Account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on
- Are prepared at least monthly and coincide with one or more pay periods
- Are signed by the employee

Single Cost Objective

OMB Circular A-87 requires that when employees work solely on a single federal award or cost objective, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees, each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

In determining whether an employee works on a single or multiple objectives, the significant factor is the number of cost objectives on which the employee *works*, not the number of sources supporting the employee's salary. For example, an employee may work 100 percent of the time on Perkins administration, but the employee is paid 50 percent from Perkins and 50 percent from non-federal funds, whereby the non-federal funds are used for a match. This employee works on a single cost objective (Perkins administration) and would prepare a semi-annual certification.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

C. Procurement

USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

D. Participation of Non-public Schools

Non-public schools must be provided with the opportunity to participate in the Title V, Part A, program on an equitable basis. Allocation amounts for non-public schools choosing to participate should be based on their enrollments. Funds must remain in the control of the district or other public agency. Refer to Attachment A: Title V, Part A Calculation of Non-public schools' "Equitable Participation."

E. Evaluation Reports

The data provided by applicants in their application for Title V, Part A, funds meets the evaluation reporting requirements for state purposes at this time. No further evaluation report is required.

F. Financial Reports

Districts that receive Title V, Part A, funds are required to file the "Final Expenditure Report" (Form DS-4044). Title V, Part A, is also subject to the single audit requirements that govern federal education programs.

G. Retention of Records

Federal regulations require schools to retain records related to Title V, Part A, for three years after the final expenditure report for the project is filed.

H. Inventory of Materials and Equipment

Federal regulations require LEAs to maintain a continuous inventory of the items acquired with federal funds. Fiscal agent local and intermediate school districts should include equipment that is placed on loan at participating non-public schools.

I. Budget Amendments

Budget amendments are required when the school is proposing a substantial change in the project or when expenditures in a new innovative assistance program area are added. Budget amendment forms are not necessary for line item adjustments in which the total budget does not change, unless the total of the upward adjustments exceeds 10% of the entire budget.

J. Monitoring

The MDE periodically monitors the use of Title V, Part A, funds by its subrecipients.

K. Supplement not Supplant

Title V, Part A, funds may only be used to supplement local eligible expenditures and may not be used to supplant any funds from non-federal sources (e.g., collective bargaining agreements, charter agreements, board policy, etc.).

L. Consultation

The Federal Title V legislation requires districts to consult with parents, teachers, and administrative personnel, and other appropriate groups such as librarians, school counselors, and other pupil services personnel, in the planning, design, and implementation of Title V, Part A, programs.

IV. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures are intended to help the auditor perform compliance tests in an efficient and effective manner in accordance with professional standards and federal guidelines.

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

A. Types of Services Allowed

1. Review the approved project application and budget for guidance on eligible expenditures.
2. Review the internal controls designed to ensure that the district or academy uses funds for innovative assistance program areas.
3. Review expenditure records and supporting documentation to determine if funds have been spent among the 27 authorized innovative assistance program areas and are in accordance with the district or academy's application.
 - a. Title V, Part A, funds may be used to purchase equipment if the use of the equipment fits into one of the innovative program areas.
 - b. Indirect costs are allowable under Title V, Part A, up to the restricted indirect cost rate approved for the district by the MDE.
4. Review indirect costs charged to the program to ensure that they meet the following criteria:
 - a. The correct rate category (restricted) was used according to grant guidelines; and
 - b. The rate applied was the MDE approved rate for the current year; and

- c. No indirect charges were applied to exclusions, such as equipment or flow-through dollars. (See General Audit Issues, Section F, Indirect Cost Rates for more information)
5. Review staff salaries to ensure that they are supported by contemporaneous documentation that schedules have been followed or time logs or certifications documenting time spent on Title V, Part A activities.

B. Special Reporting Requirements

1. Evaluate the adequacy of the policies and procedures established by the school to ensure that Title V, Part A, funds are used to supplement, and not supplant, non-federal funds.
2. Test the system to determine if the grantee used federal funds to supplant non-federal funds.

C. Time Certification

Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

D. Procurement

Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures.

1. Obtain the district's procurement policies/procedures.
2. Determine that they are in compliance with state and federal procurement requirements.
3. Determine that the district complied with bidding requirements.
4. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
5. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
6. Determine that payments to contractors and vendors were according to the contract or purchase order.
7. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
8. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

E. Cash Management

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients will be on a reimbursement basis only.

If a district is advanced more cash than is needed, the district must refund the excess federal funds

F. Special Tests and Provisions

1. Evaluate the adequacy of the policies and procedures used by the school for determining the number and needs of children in non-public schools to ensure that the services provided to children enrolled in non-public schools are equitable.
2. Determine whether the school followed these policies and procedures.
3. Review expenditures and determine whether funds were obligated within the appropriate time frame.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Public Law 107-110, Title V, Part A, Sections 5112, 5131, and 5133. No Child Left Behind Act of 2001.
2. Guidance for Title V, Part A, U.S. Department of Education.
3. Catalog of Federal Domestic Assistance, Section 84.298, Innovative Programs.
4. OMB Circular A-133 Compliance Supplement, Section 84.298, Federal, State, and Local Partnership for Educational Improvement.

B. Personnel

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TITLE II, PART D
OF THE ELEMENTARY AND SECONDARY
EDUCATION ACT
EDUCATION TECHNOLOGY STATE GRANTS

CFDA #84.318

- I. Federal Overview
- II. State Overview
- III. School Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

Date of Last Change: 2010/2011

I. FEDERAL OVERVIEW

A. Federal Agency

School Improvement Programs, Office of Elementary and Secondary Education,
U.S. Department of Education

B. Authorization

This program is authorized by Title II, Part D of the No Child Left Behind (NCLB)
Act of 2001.

C. Beneficiary Eligibility

The Enhancing Education Through Technology State Grants provides resources
for the implementation of statewide strategies designed to enable all schools,
both public and private, to integrate technology fully into school curricula so that
all students become technologically literate, with the academic skills essential for
their success in the 21st Century.

II. STATE OVERVIEW

State Education Agencies (SEAs) can retain up to 5 percent of their allotment for
technical assistance and administration. The remaining 95 percent is awarded as
competitive grants.

III. DISTRICT CONSIDERATIONS

The Education Department General Administrative Regulations in 34 Code of
Federal Register (CFR) Parts 76, 77, 80, 82, 85, and 86 apply to this program.
Other requirements in 34 CFR Part 299 also apply.

A. Funding Periods

Applicants that are awarded Enhancing Education Through Technology State
Grants funds are provided with a grant award letter specifying the fiscal
obligations period. The date on which funds can begin to be obligated generally
coincides with the date the grant award is made by MDE.

B. Participation of Non-Public Schools

The Enhancing Education Through Technology State Grants legislation requires
applicants to provide a meaningful opportunity for the equitable participation of
teachers and administrators from non-public schools. This opportunity for
equitable participation must occur during the planning stages of the application
so that the proposed initiative and the funding requested take into account the
needs of the non-public schools. Public schools and intermediate school districts
are required to document the planning activities that occur between the public
and non-public entities and to keep on file items such as copies of letters inviting
non-public participation. Grant funds can be used for:

C. Funding Focus

1. Instructional data systems that assist educators in making data driven decisions and differentiate instruction for all students.
2. Connectivity to assist districts whose internal and external connectivity (voice, video, and data) is either nonexistent or incomplete.
3. Content development/software purchase to assist applicants in developing teaching/learning materials and/or on-line instructional applications; and/or purchasing software, such as electronic textbooks, interactive multimedia, and computer courseware.
4. Professional development to assist applicants in conducting and sustaining professional development activities for educators, school administrators, and/or other personnel working with educators to increase the effective integration of technology across all curricular areas.
5. Types of Services Allowed:
 - a. The State Legislature has directed that \$1,000,000 of the Title II, D funds be awarded to support the Michigan Virtual High School (MVHS) to expand on-line learning opportunities for Michigan students. This was competitively awarded to an ISD to work with MVHS.
 - b. The State Legislature has directed that between \$750,000 and \$850,000 of the Title II, D funds be awarded to support the Center for Educational Performance and Information (CEPI) to develop the Education Data Portal providing educators and the public with real-time access to enrollment, assessment, staffing, finance, and school directory data at several levels in order to make informed instructional decisions. This was competitively awarded to an ISD to work with CEPI and MDE.
 - c. The remaining funds were awarded in seven different project categories.
 - d. Professional Development – All of the above grants must have at least 25% of their federal funds directed toward professional development. Many of the grants have more than 25% in professional development activities.

- D. Time Certifications: Time/salaries spent working on Title IID must be documented for employees working on more than one activity or employees working on a single cost objective in compliance with 2 CFR part 225.

Working on More Than One Activity:

Acceptable methods for staff working on more than one activity include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

Instructional staff may no longer use their lesson plans to confirm their written schedules. Districts using lesson plans to confirm written schedules must now

use PARs. Instructional staff may use their lesson plans as documentation to support PARs if:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
 - The lesson plans account for the total time the employee is compensated
 - The lesson plans are prepared at least monthly and coincide with one or more pay periods
 - The completed lesson plans are signed by the employee.
- The district must retain the lesson plans as documentation supporting timekeeping records.

- Paraprofessionals may use their regular time sheets as long as they:
 - Reflect an after-the-fact distribution of their actual activity
 - Account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on
 - Are prepared at least monthly and coincide with one or more pay periods
 - Are signed by the employee

Single Cost Objective

OMB Circular A-87 requires that when employees to work solely on a single federal award or cost objective, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees, each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

In determining whether an employee works on a single or multiple objectives, the significant factor is the number of cost objectives on which the employee *works*, not the number of sources supporting the employee's salary. For example, an employee may work 100 percent of the time on Perkins administration, but the employee is paid 50 percent from Perkins and 50 percent from non-federal funds, whereby the non-federal funds are used for a match. This employee works on a single cost objective (Perkins administration) and would prepare a semi-annual certification.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

E. Procurement

USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

F. Evaluation Reports

An evaluation report of each project is due to MDE from the subgrantee 30 days following the end of the project. As federal evaluation requirements are determined, additional information may be requested at a later date.

G. Financial Reports

Schools that receive Enhancing Education Through Technology State Grants funds are required to file a Final Expenditure Report. The Enhancing Education Through Technology State Grants is also subject to the single audit requirements that govern federal education programs.

H. Retention of Records

Federal regulations require schools to retain records related to Enhancing Education Through Technology State Grants for three years after the final expenditure report for the project is filed (EDGAR 34 CFR §74.53).

I. Inventory of Equipment

Federal regulations EDGAR 34 CFR §74.34 require LEAs to maintain a continuous inventory of the capital outlay items acquired with the federal funds. EDGAR 34 CFR §74.2 defines equipment as tangible non-expendable personal property charged directly to the award and having a useful life of at least one year and an acquisition cost of \$5,000 or more per unit. However, consistent with recipient capitalization policies, lower limits may be established. Fiscal agent local and intermediate school districts should include equipment that is placed on loan at participating non-public schools.

Note: Inventory of equipment should include the following information:

1. A description of the equipment
2. Manufacturer's serial number, model number, or other identification number
3. Source of the equipment, including the award number
4. Acquisition date
5. Location and condition of the equipment
6. Unit acquisition cost

A physical inventory of equipment should be taken and the results reconciled with the equipment records at least once every two years.

J. Budget Amendments

Budget amendments are required when the district is proposing a change in the project. School staff must discuss potential changes with the department program staff prior to implementing changes and are requested to notify the department in writing of such changes.

K. Monitoring

The MDE periodically monitors the use of Enhancing Education Through Technology State Grants funds by local and intermediate school districts and public school academies.

L. Supplement not Supplant

Enhancing Education Through Technology State Grants funds can only be used to supplement local eligible expenditures and can not be used to supplant any funds from non-federal sources.

M. Consortium Applications

An applicant serving as the fiscal agent for one or more additional eligible applicants often submits Enhancing Education Through Technology State Grants proposals. The fiscal agent maintains the responsibility for all fiscal and administrative actions through the duration of the project.

IV. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures are intended to help the auditor perform compliance tests in an efficient and effective manner in accordance with professional standards of federal guidelines.

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

A. Types of Services Allowed

1. Review the approved project application and budget for guidance on eligible expenditures.
2. Review the internal controls designed to ensure that the school used funds for activities approved in the grant proposal.
3. Review expenditure records and supporting documentation to determine if funds have been spent in accordance with the school's application.
 - a. Enhancing Education Through Technology State Grants funds may be used to purchase the equipment described in the approved grant application.
 - b. Indirect costs are considered to be administrative use of funds.
 - c. Indirect costs are allowable under the Enhancing Education Through Technology State Grants up to the restricted indirect cost rate approved for the district by the MDE, but in no case may the indirect costs exceed 5% of the total funds approved. In addition, indirect costs charged to the program must meet the following criteria:
 - (1) The correct rate category (restricted or unrestricted) is used according to grant guidelines; and
 - (2) The rate applied was the MDE approved rate for the current year; and
 - (3) No indirect charges were applied to exclusions, such as equipment or flow-through dollars. (See General Audit Issues, Section F, Indirect Cost Rates, for more information.)
 - d. Staff salaries are supported by contemporaneous documentation that schedules have been followed or time logs or certifications documenting time spent on Enhancing Education Through Technology State Grants activities.

B. Matching/Level of Effort

1. Evaluate the adequacy of the policies and procedures established by the school to ensure that funds are used to supplement and not supplant non-federal funds.
2. Test the system to determine if the grantee used federal funds to supplant non-federal funds.

C. Period of Availability of Federal Funds

Review expenditures and determine whether funds were obligated within the appropriate time frame.

D. Cash Management

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients will be on a reimbursement basis only.
2. If a district is advanced more cash than is needed, the district must refund the excess federal funds.

E. Time Certification

Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

F. Procurement

Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures:

1. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
2. Determine that the district complied with bidding requirements.
3. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
4. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
5. Determine that payments to contractors and vendors were according to the contract or purchase order.
6. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
7. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

G. Special Tests and Provisions

1. Test the adequacy of the policies and procedures used by the public school for insuring the participation of non-public schools in the development and implementation of the grant proposal.
2. Determine whether the school followed these policies and procedures.

H. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: equipment and real property management, procurement and suspension and debarment, reporting, and subrecipient monitoring.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Title II, Part D of the NCLB Act of 2001.

2. Catalog of Federal Domestic Assistance, Section 84.318, Enhancing Education Through Technology State Grants
3. OMB Circular A-133 Compliance Supplement, Section 84.298, Federal, State, and Local Partnership for Educational Improvement.
4. Compliance and Complaint Procedures Handbook, an MDE publication.

B. Personnel

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TITLE I, PART B, SUBPART 1, SECTION 1201
READING FIRST GRANT PROGRAM

PL 107-110, 115 STAT. 1425
NO CHILD LEFT BEHIND ACT OF 2001

Note: The United States Department of Education (USED) zeroed out the Title I, Part B subpart 1 Reading First Grant Program for the 2010-11.

CFDA #84.357

- I. Federal Overview
- II. State Overview
- III. School Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

ATTACHMENT

Permissible Uses of Reading First Funds

Date of Last Significant Change: 2010-11

I. FEDERAL OVERVIEW

A. Federal Agency

Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization

No Child Left Behind Act of 2001, Public Law, Title I, Part B, Subpart 1 Section 1201. See <http://www.ed.gov/policy/elsec/leg/esea02/pg4.html>.

C. Beneficiary Eligibility

Funds are available under the Reading First Grant Program. These funds will benefit students attending schools with high numbers of students scoring in the low categories on the English Language Arts Michigan Educational Assessment Program (MEAP) and with high poverty. Subgrantees are required to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. Subgrantees are also required to provide professional development for teachers of students in kindergarten through grade 3 and special education teachers of students in kindergarten through grade 12 in the essential components of reading instruction. Subgrantees are required to use comprehensive core program established on scientifically based reading research.

II. STATE OVERVIEW

The 2001 Reading First Grant Program statute provides for a competitive distribution of 80 percent of the funds received by the state to local school districts and public school academies. This is a grant program that provided for three rounds of funding. The third round of applications was due March 1, 2005.

III. DISTRICT CONSIDERATIONS

The U.S. Department of Education does provide guidance documents for the 2001 Reading First Grant Program. The guidance document for this program can be found at: <http://www.ed.gov/policy/elsec/leg/esea02/pg4.html>. Grant awards are subject to applicable provisions of the Department of Education General Administrative Regulations: 34 CFR Parts 76, 77, 79; EDGAR as applicable; and OMB Circular A-133.

A. Funding Periods

Applicants awarded program funds each year are provided with a grant award letter specifying the fiscal obligation period. The date on which funds may begin to be obligated generally coincides with the date the grant is made by the Michigan Department of Education.

B. Participation of Non-public Schools

The Reading First Grant Program statute requires applicants to provide a meaningful opportunity for the equitable participation of non-public schools. To

be eligible for participation, the non-public schools must be located within the attendance boundaries of eligible schools. This opportunity for equitable participation must occur during the planning stages of the application so that the proposed initiative and the funding requested take into account the needs of the non-public buildings. Public school districts are required to document the planning activities that occur between the public and non-public entities and to submit with their application copies of letters inviting non-public participation. It should be noted that non-public schools have the right to decline the invitation to participate in the Reading First Grant Program.

C. Time Certifications

Time/salaries spent working on Title IB (Reading First) must be documented for employees working on more than one activity or employees working on a single cost objective in compliance with OMB Circular A-87, Attachment B, Item 8h.

Working on More Than One Activity:

Acceptable methods for staff working on more than one activity or employees working on a single cost objective include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

- Instructional staff may no longer use their lesson plans to confirm their written schedules. Districts using lesson plans to confirm written schedules must now use PARs.

Instructional staff may use their lesson plans as documentation to support PARs if:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
 - The lesson plans account for the total time the employee is compensated
 - The lesson plans are prepared at least monthly and coincide with one or more pay periods
 - The completed lesson plans are signed by the employee. The district must retain the lesson plans as documentation supporting timekeeping records.
- Paraprofessionals may use their regular time sheets as long as they:
 - Reflect an after-the-fact distribution of their actual activity
 - Account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on
 - Are prepared at least monthly and coincide with one or more pay periods
 - Are signed by the employee

Single Cost Objective

OMB Circular A-87 requires that when employees work solely on a single federal award or cost objective, charges for their salaries **must** be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees, each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

In determining whether an employee works on a single or multiple objectives, the significant factor is the number of cost objectives on which the employee *works*, not the number of sources supporting the employee's salary. For example, an employee may work 100 percent of the time on Perkins administration, but the employee is paid 50 percent from Perkins and 50 percent from non-federal funds, whereby the non-federal funds are used for a match. This employee works on a single cost objective (Perkins administration) and would prepare a semi-annual certification.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

D. Procurement

USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a

compliance system to ensure that contractors comply with the terms and conditions of the contract.

E. Evaluation Reports

An evaluation report of each project is due to the Michigan Department of Education thirty days following the end of the project. As federal evaluation requirements are determined, additional information may be requested at a later date. Subgrantees are expected to participate in any Reading First Grant Program evaluation as it is implemented. The University of Michigan prepares the performance reports each year and provides all evaluation services for the Reading First Program.

F. Financial Reports

Schools that receive Reading First Grant Program funds are required to file the "Final Expenditure Report" (Form DS-4044) within 60 days of the end of the project. The Reading First Grant Program is also subject to the single audit requirements that govern federal education programs.

G. Retention of Records

Federal regulations require schools to retain records related to the Reading First Grant Program for three years after the final expenditure report for the project is filed.

H. Inventory of Equipment

Federal regulations require local educational agencies (LEAs) to maintain a continuous inventory of the materials and comprehensive program items acquired with federal funds.

I. Budget Amendments

Budget amendments are required when the district is proposing a change in the project. School staff must discuss potential changes with department program staff prior to implementing changes and are requested to notify the department in writing of such changes.

J. Monitoring

The Michigan Department of Education (MDE) periodically monitors the use of Reading First Grant Program funds by local school districts and public school academies. The Michigan Department of Education (MDE) provides the district a copy of the written report.

K. Supplement Not Supplant

Reading First Grant program funds can be used to supplement local eligible expenditures and cannot be used to supplant any funds from non-federal sources.

L. Consortium Applications

Consortium applications have not been funded.

IV. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures are intended to help the auditor perform compliance tests in an efficient and effective manner in accordance with professional standards and federal guidelines.

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

A. Types of Services Allowed

1. Review the approved project application and budget for guidance on eligible expenditures.
2. Review the internal controls designed to ensure that the school uses funds for activities approved in the grant proposal.
3. Review expenditure records and supporting documentation to determine if funds have been spent in accordance with the school's application.
 - a. Reading First Grant Program funds may be used to purchase a comprehensive core reading program. Additional attention needs to be given to ensure supplanting does not occur, especially in the area of district supervision of the project. See Permissible Use of Reading First Fund.
 - b. Indirect costs are allowable under the Reading First Grant Program up to the restricted indirect cost rate of 3.5% which also includes administrative costs.
 - c. Staff salaries for literacy coaches (one per building) and paraprofessionals working during the literacy block are supported by contemporaneous documentation that schedules have been followed or time logs or certifications documenting time spent on these activities. Literacy coaches are paid 100% by Reading First and, therefore, must work 100% for Reading First which serves K-3 classrooms. Literacy coaches do not provide direct service to students; rather, they work with teachers during the literacy block, conduct regular grade level meetings, oversee required assessment, enter data into the DIBELS website, and meet regularly with the Reading First facilitators hired by the state.

B. Timekeeping

Obtain a copy of the district's timekeeping procedures. Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

C. Procurement

Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures:

1. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
2. Determine that the district complied with bidding requirements.
3. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
4. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
5. Determine that payments to contracts and vendors were according to the contract or purchase order.
6. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
7. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

D. Period of Availability of Federal Funds

Review expenditures and determine whether funds were obligated within the appropriate time frame.

E. Cash Management

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients are on a reimbursement basis only.
2. If a district is advanced more cash than is needed, the district must refund the excess federal funds.

F. Special Tests and Provisions

1. Evaluate the adequacy of the policies and procedures used by the public school for insuring the participation of non-public schools in the development and implementation of the grant proposal.
2. Determine whether the school district followed these policies and procedures.

G. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: allowable costs/cost principles, eligibility, matching, level of effort, earmarking, procurement and suspension and debarment, reporting, and subrecipient monitoring.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Catalog of Federal Domestic Assistance, Section 84.357, Reading First Grant Program
2. OMB Circular A-133 Compliance Supplement
3. Compliance and Complaint Procedures Handbook, a Michigan Department of Education publication

B. Personnel

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Reading First Fund Uses

TITLE II, PART A
IMPROVING TEACHER QUALITY STATE GRANTS

CFDA #84.367

- I. Federal Overview
- II. State Overview
- III. District Considerations
- IV. Audit Considerations
- V. Reference Materials and Personnel

ATTACHMENT

- A. Title II, Part A Calculation of Non-public schools' "Equitable Participation"

Date of Last Change: 2010/2011

I. FEDERAL OVERVIEW

A. Federal Agency

Academic Improvement and Teacher Quality Programs, Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization

Title II, Part A, No Child Left Behind Act (NCLB) of 2001, Public Law 107-110

C. Beneficiary Eligibility

Local school districts implementing programs to improve teacher and principal quality and to reduce class size with the goal of improving student achievement.

II. STATE OVERVIEW

The Michigan Department of Education (MDE), Office of School Improvement, Field Services Unit, is responsible for state administration of the formula grant portion of the Title II, Part A, program. MDE activities include application approval, technical assistance to school districts, and on-site review. The MDE relies on the single audit to determine that Title II, Part A, funds are used only for approved activities within the correct project period and to verify reported expenditures.

Title II, Part A has three priorities. The first priority is to ensure the hiring and recruiting of highly qualified teachers and principals (not the salary and benefits of the teacher or principal once recruited and hired). The second priority is professional development to improve the teaching strategies of all teachers. The third priority is class size reduction.

Title II, Part A funds may be used for any of the following activities:

1. Costs associated with recruiting and retaining highly qualified teachers, principals, and pupil services personnel (not to include salary and benefits of recruited staff).
2. Costs associated with retaining highly qualified teachers and principals in schools with low achievement through (not to include salary and benefits of recruited staff):
 - a. Teacher mentoring from exemplary teachers, principals, or superintendents (not to meet the state requirement for non-tenure teachers)
 - b. Induction and support for teachers and principals in their first three years (not to meet the state requirements for non-tenure teachers)
 - c. Incentives to teachers and principals with record of success in improving achievement of low-achieving students
3. Costs associated with (not to include salary and benefits of recruited staff) recruiting and hiring highly qualified teachers in academic subjects where there is a shortage
4. Recruit, hire and pay salaries for highly qualified teachers (after all district recruiting is fulfilled) to reduce regular and special education class size, particularly in the early grades Title II, Part A, class size reduction:
 - Identified in Needs Assessment

- Research supports the following:
 - Only in grades K-3
 - Where adding teacher reduces class size to 17
 - Serving high-risk students
 - When sustained over multiple years
 - Instructional strategies are changed
 - Impact on achievement is measurable
 - See item J under “District Considerations”.
5. Costs associated with (not to include recruited teacher’s salary and benefits) training and hiring regular and special education teachers, including special education teachers to team-teach.
 6. Costs associated with (not to include recruited teacher’s salary and benefits) training and hiring teachers of special needs children and specialists in core academic subjects to individualize instruction
 7. Costs associated with (not to include recruited teacher’s salary and benefits) recruiting professionals from other fields and highly qualified paraprofessionals, and provide alternative routes to certification
 8. Costs associated with (not to include recruited teacher’s salary and benefits) providing increased opportunities in the teaching profession for minorities, individuals with disabilities, and other underrepresented individuals
 9. Provide professional development to improve knowledge of teachers, principals, and paraprofessionals in:
 - a. Core academic subjects, effective instructional strategies, and use of state standards and assessments
 - b. Instructional practices involving collaborative groups of teachers and administrators
 - c. Addressing needs of students with different learning styles and providing early and appropriate interventions
 - d. Improving student behavior in the classroom
 - e. Involving parents in their child’s education
 - f. Using data and assessments to improve teaching and learning
 10. Improve quality of teacher force through
 - a. Training to integrate technology into curricula and instruction
 - b. Cost-effective professional development, such as use of technology and distance learning
 - c. Tenure reform
 - d. Merit pay
 - e. Testing teachers in academic subjects
 11. Provide teacher advancement initiatives emphasizing multiple career paths and pay differentiation
 12. Improve quality of principals and superintendents, such as management and instructional leadership academies

Time/salaries spent working on Title II, Part A must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h. Refer to Part III, District Considerations, in this section, for more detail.

III. DISTRICT CONSIDERATIONS

The following is provided to serve as a list of “basic” procedures to be performed and documented to assist you in complying with Title II, Part A, requirements guidelines.

A. Funding Periods

1. The Consolidated Application must be submitted to receive funds.
2. Applicants must complete a budget to show how Title II, Part A, funds will be used.
3. Title II, Part A, expenditures may be incurred during a 15-month program period covering July 1, 2010, through September 30, 2011, provided that an application has been submitted to the MDE in substantially approvable form. Funds that are not expended by September 30, 2011, are available for use in a carryover period extending from October 1, 2011, through June 30, 2012.

B. Time Certification

Time/salaries spent working on Title IIA must be documented for employees working on more than one activity or employees working on a single cost objective in compliance with OMB Circular A-87, Attachment B, Item 8h.

Working on More Than One Activity:

Acceptable methods for co-funded staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.

Instructional staff may no longer use their lesson plans to confirm their written schedules. Districts using lesson plans to confirm written schedules must now use PARs.

Instructional staff may use their lesson plans as documentation to support PARs if:

- After-the-fact notes are made on those plans to indicate the completion of each scheduled activity
 - The lesson plans account for the total time the employee is compensated
 - The lesson plans are prepared at least monthly and coincide with one or more pay periods
 - The completed lesson plans are signed by the employee.
- The district must retain the lesson plans as documentation supporting timekeeping records.

Paraprofessionals may use their regular time sheets as long as they:

- Reflect an after-the-fact distribution of their actual activity

- Account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on
- Are prepared at least monthly and coincide with one or more pay periods
- Are signed by the employee

Single Cost Objective

OMB Circular A-87 requires that when employees work solely on a single federal award or cost objective, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees, each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.

In determining whether an employee works on a single or multiple objectives, the significant factor is the number of cost objectives on which the employee *works*, not the number of sources supporting the employee's salary. For example, an employee may work 100 percent of the time on Perkins administration, but the employee is paid 50 percent from Perkins and 50 percent from non-federal funds, whereby the non-federal funds are used for a match. This employee works on a single cost objective (Perkins administration) and would prepare a semi-annual certification.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

C. Procurement

USDE procurement requirements are addressed in 34 CFR 80.36 which can be found at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl+%2Findex.tpl>. Subgrantees are required to follow their own procurement procedures provided that they conform to state and federal laws and standards. Subgrantees must maintain a procurement and contract administration system which ensures that procurements are in accordance to procedures and contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

Procurement transactions must be conducted in a manner providing full and open competition. The district must have a system in place to ensure that it doesn't enter into a contract with a debarred party. Contracts must include requirements for comprehensive invoices. Contractor and vendor invoices must include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders. Payments to contractors and vendors must be according to the contract or purchase order. If the contract

or purchase order is renewed or extended, the same conditions must apply. If not, it must be rebid according to federal requirements. Districts must maintain a compliance system to ensure that contractors comply with the terms and conditions of the contract.

D. Participation of Non-public Schools

Non-public schools must be provided with the opportunity to participate in the Title II, Part A, program on an equitable basis. Equitable participation is based on the portion of Title II, Part A, funds used for professional development. The minimum amount required for professional development for non-public schools is equal to the funds available to them under Eisenhower Professional Development Program ESEA, Title II – Part B, 2001-02 Allocations:

http://www.michigan.gov/documents/MDE-P2_FS_02_Title2AllocRev4_11045_7.PDF.

Refer to Attachment A: Title II, Part A Calculation of Non-public schools' "Equitable Participation." Funds must remain in the control of the district or other public agency.

E. Financial Reports

Districts that receive Title II, Part A, funds are required to file the "Final Expenditure Report" (Form DS-4044). Title II, Part A, is also subject to the single audit requirements that govern federal education programs.

F. Retention of Records

Federal regulations require schools to retain records related to Title II, Part A, for three years after the final expenditure report for the project is filed.

G. Inventory of Materials and Equipment

Federal regulations require local educational agencies (LEAs) to maintain a continuous inventory of the items acquired with federal funds. Fiscal agent local and intermediate school districts should include equipment that is placed on loan at participating non-public schools.

H. Budget Amendments

Budget amendments are required when the school is proposing a substantial change in the project or when expenditures in a new innovative assistance program area are added. Budget amendment forms are not necessary for line item adjustments in which the total budget does not change, unless the total of the upward adjustments exceed 10 percent of the entire budget.

I. Monitoring

The MDE periodically monitors the use of Title II, Part A, funds by its subrecipients.

J. Supplement Not Supplant

Title II, Part A, funds may only be used to supplement local eligible expenditures and may not be used to supplant any funds from non-federal sources. To determine whether a teacher is supplementary, calculate the student-to-teacher ratio without the class size reduction funded teacher and determine if this teacher

is supplemental based on the documents that exist for that building or district, (e.g., collective bargaining agreements, charter agreements, board policy for class size, or in the absence of documents, the established historical class size number for a given grade span). Calculations are based on number of students in a school building, not by adding all students in a district by grade level.

K. Consultation

The Federal Title II legislation requires districts to consult with teachers, principals, other relevant school personnel, and parents in the planning of Title II, Part A, programs.

L. Teacher Qualifications

All teachers hired with Title II, Part A funds to reduce class size since beginning of the 2002-03 school year must meet the requirements for highly qualified teachers.

IV. AUDIT CONSIDERATIONS

The following suggested audit procedures are not to be considered all-inclusive or a substitute for professional judgment. Rather, these procedures are intended to help the auditor perform compliance tests in an efficient and effective manner in accordance with professional standards and federal guidelines.

Refer to the OMB Circular A-133 Compliance Supplement for federally mandated compliance testing. Part 4 includes specific compliance requirements and Part 6 includes specific internal control requirements. Following is additional guidance provided to assist in the audit of this program.

A. Activities Allowed or Unallowed

1. Review the final version of the approved project application and budget in the Michigan Education Grants System (MEGS) for guidance on eligible expenditures.
2. Review the internal controls designed to ensure that the district or academy uses funds for allowable activities.
3. Review expenditure records and supporting documentation to determine if funds have been spent on allowable activities and are in accordance with the district or academy's application.
 - a. Title II, Part A, funds may be used to purchase equipment if the use of the equipment fits into one of the allowable areas.
 - b. Indirect costs are allowable under Title II, Part A, up to the restricted indirect cost rate approved for the district by the MDE. Indirect costs charged to the program must meet the following criteria:
 - (1) The correct rate category (restricted) was used according to grant guidelines;
 - (2) The rate applied was the MDE approved rate for the current year; and
 - (3) No indirect charges were applied to exclusions, such as equipment or flow-through dollars. (See General Audit Issues, Section F, Indirect Cost Rates, for more information on indirect cost rates.)

B. Time Certification

1. Obtain a copy of the district's timekeeping procedures.
2. Review a sample of payroll charges to determine compliance with OMB Circular A-87, Attachment B, Item 8h.

NOTE: The program offices have requested that questioned costs be calculated for all periods of timekeeping violations. These questioned costs should include all wages, benefits and applicable indirect charges for the employee whose time and effort reports do not meet required documentation.

C. Procurement and Suspension and Debarment

Refer to OMB Circular A-133 Compliance Supplement, Part 6 for procurement and suspension and debarment internal control requirements.

If a payment on a contract, purchase order or other procurement is selected for testing, perform the following audit procedures:

1. Obtain the district's procurement policies/procedures. Determine that they are in compliance with state and federal procurement requirements.
2. Determine that the district complied with bidding requirements.
3. Determine that the district has a system in place to ensure that it doesn't enter into a contract with a suspended or debarred party.
4. Determine that vendor invoices include details of the service provided, for whom, when, how much and any other details required by the contracts or purchase orders.
5. Determine that payments to contractors and vendors were according to the contract or purchase order.
6. If the contract or purchase order is a renewal or extension, determine that the conditions are the same as the original contract or purchase order.
7. Determine that the district maintained a compliance system so that contractors complied with the terms and conditions of the contract.

D. Special Reporting Requirements

1. Evaluate the adequacy of the policies and procedures established by the school to ensure that Title II, Part A, funds are used to supplement, and not supplant, non-federal funds.
2. Test the system to determine if the grantee used federal funds to supplant non-federal funds.

E. Cash Management

1. Determine that cash was requested as a reimbursement of funds expended. Effective December 1, 2008, payments to districts and recipients are on a reimbursement basis only.
2. If a district is advanced more cash than is needed, the district must refund the excess federal funds.

F. Period of Availability

1. Review starting and ending transactions against the grant award letter.
2. Review expenditures to determine whether the funds were obligated within the appropriate time frame.

G. Special Tests and Provisions

1. Evaluate the adequacy of the policies and procedures used by the school for determining the needs of staff in non-public schools to ensure that the professional development services provided to non-public schools staff are equitable.
2. Determine whether the school followed these policies and procedures.
3. Review expenditures and determine whether funds were obligated within the appropriate time frame.
4. Review a sample of personnel files for teachers hired with Title II, Part A funds to reduce class size since the first day of the 2002-03 school year meet the requirements for highly qualified teachers.
5. Title II, Part A, funds may only be used to supplement local eligible expenditures and may not be used to supplant any funds from non-federal sources (e.g., collective bargaining agreements, charter agreements, board policy for class size, etc.). To determine whether a teacher is supplementary, calculate the student-to-teacher ratio without the class size reduction funded teacher and determine if it is reasonable based on documents that exist for that building or district.
6. See item J under "District Considerations".

- G. Refer to the Federal Compliance Supplement for testing compliance requirements for the following areas: equipment and real property management, matching, level of effort, earmarking, and subrecipient monitoring.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Public Law 107-110, No Child Left Behind Act of 2001, Title II, Part A
2. Title II, Part A, Non-Regulatory Draft Guidance, U.S. Department of Education
3. Catalog of Federal Domestic Assistance, Section 84.367, Improving Teacher Quality State Grants
4. OMB Circular A-133, Compliance Supplement, Section 84.367, Preparing, Training, and Recruiting High Quality Teachers and Principals

B. Personnel

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MEDICAID

CFDA #93.778

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Date of Last Change: 2010/2011

I. DEFINITIONS

- **AOP – Administrative Outreach Program** – A component of the state’s Medicaid School Based Services program. It provides Medicaid reimbursement to enrolled school districts that are working to inform students and families about the Medicaid program, how to access it, and provide application assistance and referral for eligibility determination. The outreach activities involve working with the entire student population regardless of their eligibility status for Medicaid or special education. It provides reimbursement to the districts that work to identify school children who are uninsured and may qualify for Medicaid coverage.
- **Claiming Entity** – One or more ISDs or Detroit Public Schools (DPS) that submits claims to the MDCH for reimbursement of Administrative Outreach Services.
- **Claims Development Software** – The name of the state’s RMTS and Claims Development software that is used for all School Based Services providers in Michigan to complete the Medicaid claims.
- **CMS** – (*Centers for Medicare and Medicaid Services*) – A federal agency within the U.S. Department of Health and Human Services, formerly the Health Care Financing Administration (HCFA). CMS administers the Medicare and Medicaid programs – two national health care programs.
- **DHHS** – (*U.S. Department of Health and Human Services*) – The federal government’s principal agency for protecting the health of all citizens and providing essential human services for those who are least able to help themselves.
- **Eligible Cost/Cost Pool Summary Reports** – A summary of the allowable expenditures (salaries/benefits, material and supplies, etc.) associated with the school district employees, contractors and support staff who provide Medicaid covered services.
- **EPSDT** – (*Early and Periodic Screening, Diagnosis and Treatment*)—A mandatory Medicaid benefit for children under the age of 21 which, at a minimum, must include screening services, vision services, dental services, hearing services, and other necessary diagnostic and treatment services within the Federal Medicaid statute whether or not the services are generally included under a State Medicaid Plan.
- **Fee For Service (FFS) School Based Services Program** – A component of the Michigan School Based Services Program that provides reimbursement for direct medical services, specialized transportation services, personal care services and targeted case management services to Medicaid eligible students under the age of 21. All 57 Michigan Intermediate School Districts (ISDs), Detroit Public Schools (DPS) and the Michigan School for the Deaf and Blind (MSDB) are enrolled Medicaid providers. Effective for dates of service on or after July 1, 2008 reimbursement for this program changed to a cost based methodology. Although claims are still submitted through the invoice processing system, payments are based on submitted annual cost reports. Interim estimated payments are adjusted each year and sent monthly to the ISDs to maintain cash flow and each year’s payments are reconciled after receipt of the actual cost reports. Specialized transportation was moved to the

FFS program effective July 1, 2008 and is no longer reimbursed as an administrative service.

- **FFP** – (*Federal Financial Participation*)—The amount of federal money a state receives for expenditures under its Medicaid program. For most administrative expenditures, states receive FFP at a rate of 50%. For medical assistance percentages (that is, payment for the cost of medical care and services), states receive FFP at a rate referred to as the Federal Medical Assistance Percentage (FMAP), and each state FMAP is unique and adjusted annually based on a formula that includes the state's *per capita* income. The American Recovery and Reinvestment Act of 2009," Public Law 111-5, provided temporary increased FMAP rates for almost all states based on, among other factors, the states' unemployment rates. This had a direct impact on some SBS during 2009-2010.
- **IDEA** – (*Individuals with Disabilities Education Act*)--The federal statute that regulates special education in the U.S. It requires public schools to determine whether a child has a disability, develop a plan that details the education and support services that a student will receive, provide the services, and re-evaluate the plan periodically.
- **IEP** – (*Individualized Education Program*)—A written plan for services to eligible children between the ages of 3 and 26, as determined by the federal IDEA statute, Part B. Medicaid funds are available to reimburse for certain health and medical services that are a part of a student's IEP.
- **IFSP** – (*Individualized Family Services Plan*)—A plan for services and supports for a child with a disability who is between the ages of birth and 3 years, as determined by the federal IDEA statute, Part C. It is developed jointly by the family and appropriate qualified personnel and is based on multidisciplinary evaluation and assessment of the child's unique strengths and needs, as well as on a family-directed assessment of the priorities, resources, and concerns. Medicaid funds are available to reimburse for health and medical services that are a part of a child's IFSP.
- **Indirect Cost Rate (ICR)**— Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and are not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Indirect costs are normally charged to federal awards by the use of an indirect cost rate. The local educational agency (LEA)/DPS indirect cost rate must be calculated using 2 CFR, Part 225, Office of Management and Budget Circular A-87, "Indirect Cost Allocation Principles". The methodology used to determine the indirect cost rate specific to each district has been approved by the federal cognizant agency, the U.S. Department of Education. In Michigan, the indirect cost rates are updated annually by the Michigan Department of Education using the approved methodology. The Medicaid SBS program indirect cost rate is referred to as the "Unrestricted ICR" which Medicaid has capped at 25%.
- **ISD** – (*Intermediate School District*) – A corporate body established by statute in the Michigan Revised School Code (PA 451 of 1976) that is regulated by an intermediate school board. Michigan has 57 intermediate school districts.

- **MDCH** – (*Michigan Department of Community Health*)—A department within the State of Michigan responsible for health policy and management of the state’s publicly-funded health service systems. It is also the State’s Medicaid Agency.
- **MDE** – (*Michigan Department of Education*)—A department within the State of Michigan responsible for improving, facilitating, and regulating public education in Michigan, that is administered by the State Board of Education.
- **Medicaid Eligibility Rate** – The percentage of students in the total school population, using the fall and winter pupil counts collected and published by the Center for Educational Performance and Information, who are eligible for Medicaid (i.e., Medicaid Eligible Students/Total Student Population). The rate is applied to certain activities in the Medicaid Administrative Outreach claim calculation formula, which results in an adjustment to Medicaid specific activities.
- **Medicaid Health-Related Eligibility Rate** – The percentage of the special education and Early On student population in an ISD/DPS/MSD that is Medicaid eligible and who receive health related services as documented in the Annual MDE Special Education and Early On Child Count Report. It is applied in the Medicaid expenditure report for direct health care services covered in the FFS SBS Program. (*Starting in 2010, the ‘count’ is conducted on the third Wednesday of November.*)
- **Provider/Staff Pool Listing** – A list of all personnel in the school district (both school district employees and contractors) who may perform Medicaid-covered activities for which reimbursement is allowed, and who are eligible to participate in periodic time studies. This listing is also known as the sample pool.
- **RMTS** – (*Random Moment Time Study*)—A process used to measure the work effort of a group of approved school staff who may perform Medicaid covered activities. The results are then used in a methodology that determines which costs are directly related to support of the Medicaid program. Costs are isolated and identified to calculate the amount claimed for reimbursement.
- **State Plan** – (*Medicaid State Plan*)—A formal agreement between the state and federal governments (Medicaid agencies) that details the scope of the Medicaid program in the state by listing the services offered, any applicable requirements and limitations, and the payment methodologies for those services.
- **Support Staff** – For purposes of the Medicaid SBS (Administrative Outreach Program), staff who provide assistance to the individuals identified on the provider/staff pool listing, who may have a direct reporting and/or supporting relationship (i.e., administrative or clerical personnel).

II. BACKGROUND

The Michigan Department of Community Health (MDCH) provides Medicaid School Based Services (SBS) reimbursement to school districts that provide Medicaid covered health and health-related services.

There are three components of the Medicaid SBS program. The three components are as follows:

- Medical Direct Services, or “fee-for-service” (effective 7/1/08 includes specialized transportation, personal care services and targeted case management service).
- Medicaid Administrative Outreach Program (AOP)
- Specialized Transportation (effective 7/1/08 this service became part of the “fee-for-service” component).

Details for each component of the program are provided in Subsections G, H and I below.

A. Authorization

The federal law that authorizes the Medicaid program is Title XIX of the Social Security Act (the Act), enacted in 1965 and subsequently amended (42 USC 1396, et. seq.). The Medicare Catastrophic Coverage Act of 1988 amended Section 1903(c) of the Act to allow for Medicaid payments for health services provided to Medicaid eligible children under the Individuals with Disabilities Education Act (IDEA). IDEA obligates schools to identify and provide special education and early intervention health related services that are required to help a child with a disability benefit from special education, transportation services, and school-based health services (i.e., physical, occupational, and speech therapy; and diagnostic, preventive, and rehabilitative services). Schools may also receive reimbursement for the cost of performing administrative activities related to Medicaid (Administrative Outreach Program) services under provisions of the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) (Section 1902(a) (43) of the Social Security Act). Administrative Outreach reimbursement is for activities not associated with a covered Medicaid medical service and includes activities such as: informing students and families about the Medicaid program and how to access it; providing application assistance and referral for eligibility determination; identifying school children who are uninsured and may qualify for Medicaid coverage.

B. Federal Agency

The U.S. Department of Health and Human Services (DHHS), Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration, is the federal agency responsible for administering the Medicaid program, and several other health-related programs. At the national level, CMS approves and monitors the various state School Based Services programs in accordance with applicable federal Medicaid laws and regulations.

C. State Pass-Through Agency

The MDCH-Medical Services Administration is responsible for developing Medicaid policy, establishing program requirements under the State’s Medicaid Plan, ensuring compliance with Medicaid claiming requirements, providing technical assistance, reimbursing providers of Medicaid covered direct services, and administrative activities in support of the Medicaid program, and submitting claims to CMS for reimbursement.

D. Eligibility

Those beneficiaries who are served by the Medicaid School Based Services (fee-for-services) program are individuals with physical and/or behavioral disabilities, ages 0-21, who meet the eligibility requirements of the Federal IDEA Statute and the Michigan Board of Education Administrative Rules for Special Education. Medicaid covers some medical services included in an Individualized Education Program (IEP) or Individualized Family Service Plan (IFSP) for Medicaid eligible students as follows:

1. Medically necessary services included in a Medicaid covered category (i.e., speech therapy, physical therapy, occupational therapy, etc.)
2. Services that are included in the State's Medicaid Plan.

For an enrolled school district to receive reimbursement, the services provided must meet all other Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

E. Matching Requirements

Medicaid is an entitlement program that requires a state match. In Michigan State Aid and local dollars expended on health and health-related activities provided by school districts are utilized as the non-federal share to obtain Medicaid reimbursement. In other words, schools are able to cover a portion of their health care costs through the federal match gleaned by providing some services to Medicaid eligible children. Because the state match is provided at the time that the services are provided, **100% of the funds received for the Medicaid Administrative Outreach** are considered **federal funds** subject to the single audit requirements. Transportation reimbursement for dates of service on or after July 1, 2008 is part of the fee-for-service component and considered **local source revenue**. Matching requirements for each component of the Medicaid SBS program are detailed in Subsections G, H and I

F. School Based Services Providers

- Medical Direct Services or “fee-for-service” – The 57 ISDs, DPS, and the Michigan Schools for the Deaf and Blind.
- Medicaid Administrative Outreach – The 57 ISDs and DPS.
- Specialized Transportation – The 57 ISDs, DPS, and the Michigan Schools for the Deaf and Blind.

G. Medical Services (Fee-for-Service)

School districts that provide direct **medical** services to special education students, and Early On Program infants and children, who have an individualized education program or individualized family service plan, **were reimbursed before July 1, 2008** on a state-wide fee screen basis. **Effective July 1, 2008, the Michigan Fee For Service (FFS) School Based Services program is reimbursed based on a cost-based, ISD-specific, annually reconciled and cost settled methodology.** The school districts are considered “vendors” rather than “subrecipients” for funds received under the “fee-for-service” component of the

Medicaid SBS Program (i.e., health care services provided in a doctor's office, clinic or hospital). Therefore, funds received for the "fee-for-service" component are not subject to the Single Audit Act and should be recorded as **local source revenue** by the district. According to the Michigan School Accounting Manual, the appropriate major class code is "181" or "519" if received through another public school.

Matching Requirement: The October 1, 2010, through September 30, 2011, fiscal year federal share of approved costs or Federal Medical Assistance Percentage (FMAP) rate for Michigan is 65.79% for most "fee-for-service" health services. The remaining 34.21% is the matching requirement provided by the Local Educational Agencies (LEAs) or ISDs.

H. Specialized Transportation (Fee-for-Service)

The Specialized Transportation component of the Medicaid School Based Services program for dates of service on or after July 1, 2008 are claimed at the annual FMAP rate and are not subject to the Single Audit Act requirements because the school district is considered a **vendor**. The funds received by the school district for "fee-for-service" specialized transportation should be recorded as **local source revenues** by the district using the appropriate major class code of "181" or "519" if received through another public school.

Matching Requirement: The FMAP rate for transportation dates of service October 1, 2010 through September 30, 2011 is the annual FMAP rate of 65.79%.

Allowable Activities: Specialized transportation services are covered for Medicaid eligible individuals who are receiving a Medicaid covered service on the same day. The need for specialized transportation must be specified in the individual's IEP or IFSP. Transportation services include transportation to and from the individual's pickup and drop-off site where Medicaid SBS are provided. It includes no more than one round trip on a date of service. Transportation must be delivered in a specially adapted motor vehicle (e.g., adapted bus, lift vehicle or van) for individuals who require accommodation for wheelchairs or other special equipment and/or assistance by a transportation attendant.

Unallowable Activities: Medicaid does not reimburse for transportation provided using a general education funded school bus.

I. Medicaid Administrative Outreach

The Medicaid Administrative Outreach component of the SBS program provides reimbursement to school districts based on administrative functions performed that support the Medicaid program. The Medicaid Administrative Outreach component of the SBS program is subject to the Single Audit Act requirements, because the school district is considered a "subrecipient" of the MDCH, and these administrative activities are not direct patient care services. The Medicaid Administrative Outreach reimbursement received by the school district should be recorded as **federal revenues** by the district using the appropriate federal major

class code from the Michigan School Accounting Manual (either “412” or “418” depending on how the funds are received by the district).

Please Note: School District’s financial statements should reflect the following guidance when accounting for the CMS Medicaid Administrative Outreach Program settlement:

A) Paying Back Revenue Recorded in a Prior Year

-If an ISD/district is simply paying back revenue that had been recorded in a prior year, the payback to MDCH should be recorded as a prior period adjustment in function “491” or “492” depending on the materiality.

B) Distribution of Revenue Previously Deferred and Subject to Repayment

- The Medicaid Administrative Outreach Program revenue should be recorded net of the amount the district is paying back to MDCH, for those instances where the fiscal agent ISD has disbursed the deferred revenue and also provided invoices to local school districts to pay a portion of the funding back to MDCH. (e.g., many ISDs held Medicaid Administrative Outreach funds pending settlement of the issue, and as a result the constituent districts didn’t actually receive the Medicaid revenue in a prior year). A note to the financial statements should be added, if considered material.

Matching Requirement:

The FFP for all Medicaid Administrative Outreach activities is 50%.

Allowable Activities:

Participants in the time studies that are conducted throughout the state are from ISD and local school districts. Those eligible to be randomly selected to participate are on the “staff pool lists.” There are only certain activities reimbursed, called ‘allowable’ activities that are performed by certain individuals who are placed on the Medicaid Administrative Outreach staff pool list. Those individuals selected for the time study then complete the RMTS form and turn them in to the State RMTS contractor, who employs one individual who codes the statements made on the RMTS form. **The auditor need only be concerned with whether the total salaries, less applicable offsets, were properly paid and reported to the sub-contracted claim preparer.**

The Medicaid Administrative Outreach activities considered **allowable** (reimbursable) are as follows:

Activity Code 1 - Medicaid Outreach and Public Awareness

Activity Code 3 - Facilitating Medicaid Eligibility Determination

Activity Code 5 - Program Planning, Policy Development and Interagency Coordination Related to Medical Services

Activity Code 7 - Referral, Coordination, and Monitoring of Medicaid Services

Activity Code 10 - Medicaid-Specific Training on Outreach, Eligibility and Services

Activity Code 14 - Transportation and Translation Services in Support of Medicaid-Covered Services

Activity Code 16 – General Administration

Unallowable Activities:

The activities that are considered **unallowable** (not reimbursable) are as follows:

Activity Code 2 – Non-Medicaid Outreach

Activity Code 4 – Facilitating Application for Non-Medicaid Programs

Activity Code 6 – Program Planning, Policy Development and Interagency Coordination Related to Non-Medical Services

Activity Code 9 – Referral, Coordination, and Monitoring of Non-Medicaid Services

Activity Code 12 – Non-Medicaid Training

Activity Code 13 – IEP/IFSP Direct Medical Services

Activity Code 13 (A) – IEP/IFSP Personal Care Services

Activity Code 13 (B) – IEP/IFSP Targeted Case Management Services

Activity Code 13 (C) – Other and Non-IEP/IFSP Direct Medical Services

Activity Code 15 – Transportation and Translation Services in Support of Non-Medicaid-Covered Services

Activity Code 17 – School-Related and Educational Activities

Activity Code 17 (D) – Non Returned Moments

Activity Code 18 – Not Scheduled to Work and Not Paid

Claiming Process:

Each ISD and DPS submits claims on a quarterly basis (quarters ending March 31, June 30, September 30, December 31), to the MDCH for reimbursement for Medicaid Administrative Outreach activities. The September 30th claim requires two cost reports to accommodate the effects of summer vacation on sample projections. The Claims Development Software is used by the contractor to generate claims. Public Consulting Group (PCG) is the MDCH contractor that implements and administers the random moment time study (RMTS) and claims development process for the contract period October 1, 2006 through September 30, 2011. School districts must utilize and share the contract costs with DCH for the statewide Claims Development Contractor.

III. AUDIT CONSIDERATIONS

According to Section 1903(a)(7) of the Social Security Act and the implementing regulations at 42 CFR 430.1 and 42 CFR 431.15, for the cost of any activities to be allowable and reimbursable under Medicaid, the activities must be “found necessary by the Secretary for the proper and efficient administration of the State plan.” Auditors should apply the principle of costs being necessary for the proper and efficient administration of the Medicaid State Plan in determining allowable and reimbursable costs. In addition, 2 CFR, Part 225, (OMB Circular A-87), which contains the cost principles for state, local and Indian tribal governments for the administration of federal awards, states that, “Governmental units are responsible for the efficient and effective administration of federal awards.” Under those provisions, costs must be reasonable and necessary for the operation of the governmental unit or the performance of the federal award.

OMB Circular A-133, Section 525(c) (2) provides that federal agencies may identify federal programs that are high-risk and OMB will identify such programs in the compliance supplement. The U.S. Department of Health and Human Services (DHHS) has identified the Medicaid Assistance Program as a program of higher risk. When a school district recognizes \$300,000 or more of expenditures for the Medicaid Administrative Outreach component of the SBS Program, when applying the risk-based approach for determining major and non-major programs, it would typically be considered a high risk Type A program. Local school district auditors also have the responsibility of testing the Medicaid Administrative Outreach component of the SBS Program similar to other Type A or B programs. However, they should consult with the ISD auditor to avoid duplication, if possible. This designation, however, does not preclude an auditor from determining that the Medicaid Cluster qualifies as a low-risk program (i.e., because prior audits have shown strong internal controls and compliance with Medicaid requirements).

The MDE, MDCH, and MDE A-133 Referent Group will continue to work proactively to determine a consistent, statewide approach to auditing the Medicaid Administrative Outreach program.

If the Medicaid SBS program is selected for testing, the following minimum procedures should be performed and documented. These suggested audit procedures are not to be considered all-inclusive and should not be used as a substitute for the auditor's professional judgment.

A. Medical Direct Services (Fee-for-Service):
Exempt from the Single Audit requirements.

B. Pupil Transportation (Fee-for-Service):
Exempt from Single Audit requirements.

C. Medicaid Administrative Outreach:

The expenditures that support the revenue currently being received and recognized in accordance with generally accepted accounting principles should be audited. Auditors should consider the following when testing this program:

1. **Eligible Cost/Cost Pool Summary Reports.** Auditors should audit, on a sample basis, the quarterly Eligible Cost/Cost Pool Summary Reports (cost reports) submitted by the school districts. This will require obtaining and testing intermediate and local district source data. Auditors should take a representative sample of cost reports and determine their accuracy by performing the following steps:
 - a. Compare the names of employees on the cost reports to the provider/staff pool listing. Verify that only the employees who are listed on the provider/staff pool listing are charged on the cost reports, along with their support staff.
 - b. Verify that costs comply with the cost allocation principles described in 2 CFR, Part 225, OMB Circular A-87, which require that costs be "necessary and reasonable" and "allocable" to the Medicaid program. For your audit, a cost should be considered "necessary" and "allocable" if it is (1) the

salary of a person on the AOP staff list (less any offset, as discussed in paragraph 1.e.) or, (2) a cost incurred to support that AOP staff person's work (i.e., salary). (The actual portion of the audited costs considered allocable to Medicaid will be determined by the RMTS performed by a state contractor.) The OMB Circular A-87 guidance should be used for determining reasonableness.

- c. Verify the reported amount of salaries and benefits of the school district employees (clinicians, teacher consultants, administrators, counselors, etc.) contractual employees, and support staff, to make sure that these costs are accurate. Example: verify the accuracy of the clinician payroll cost by confirming the quarterly payroll costs with the amounts reported on the federal quarterly 941s filed with the Internal Revenue Service. Budget estimates based on contracted salaries are not necessarily equal to the salaries paid during a claim period and can **not** be used for AOP cost reports. The financial data reported must be based on actual detailed expenditures from local educational agency payroll systems. Payroll data must be applied using generally accepted governmental accounting standards and principles, or applicable administrative rules. The expenditures accumulated must correlate to the claiming period.
- d. Verify that costs claimed as direct costs do not duplicate those costs reimbursed through the application of the approved indirect cost rate and that the correct indirect cost rate was used to prepare the claim. Claims for the school district's indirect costs are allowable when the entity has an approved indirect cost rate issued by the cognizant agency and costs are claimed in accordance with the rate. With respect to school-based administrative costs, the cognizant agency is the U.S. Department of Education or its delegate. The indirect cost rate is updated annually by the MDE using the approved methodology, and each district is notified of the **unrestricted indirect cost rate (ICR)**. The Michigan Medicaid Program has capped this rate for Medicaid SBS reimbursement purposes at 25% **"Medicaid Rate."**
- e. Verify that the cost claimed on the cost report is accurate, and that offset revenue has been applied when appropriate. Duplicate payment for the same cost is unallowable. Discounts and other expenditure offsets collected from non-governmental sources must be offset against claims for Medicaid funds. Cost reductions and/or offsets of revenue are required whenever a Medicaid **administrative activity** is claimed for reimbursement or as matching costs under another federal grant or contract. By definition, direct medical services are **not** administrative activities. The entire salary of employees on the Administrative Outreach staff list **who** provide direct medical services may, therefore, be reported without any offset for the reimbursement received for their medical services. Any salary earned while performing the non-administrative activity will be identified in the RMTS and the unallowable costs will be removed by a reduced allocation rather than a reduction of the cost pool.
- f. Verify that the amounts charged for materials and supplies, purchased services, training, and other costs are accurate. The financial data reported must be based on actual detailed expenditures from local

educational agency financial systems. Financial system data must be applied using generally accepted governmental accounting standards and principles, or applicable administrative rules. The expenditures accumulated must correlate to the claiming period.

- g. Verify on a test basis that the cost reports are signed by the appropriate individual (i.e., chief financial officer, superintendent of the district, or their designee), and the reported costs were used to prepare the claim.
 - h. Verify that the cost reports were filed within 120 calendar days after the end of the school district's reporting quarter.
2. **Claims Development.** Auditors should determine if the proper methodology to develop the Medicaid Administrative Outreach claims was applied. When a contracted service organization is involved in the claims development, the auditor should gain an understanding of internal controls over the service organization's processes. The auditor should determine the significance of the internal controls of the service organization to the internal control structure of the school district. If the auditor determines that the internal control policies and procedures at the service organization are significant to the internal control structure at the school district, the auditor should gain a sufficient understanding of those controls to plan the audit, as required by Statements on Auditing Standards (SAS) No. 109, (*Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*), and SAS No. 110 (*Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*).

Auditors may rely on a SAS No. 70, (*Reports on the Processing of Transactions by Service Organizations*), as amended by SAS No. 88, (*Service Organizations and Reporting Consistency*), report issued by the service organization's auditors. When relying on a SAS No. 70 report, auditors should determine the impact of the report's findings on the nature and extent of the audit procedures required at the school district. If not relying on a SAS No. 70 report, the auditor should contact the service organization to make arrangements to review their process to determine that adequate internal controls exist and that the claims were accurately calculated.

In accordance with the *Medicaid Provider Manual, School Based Services Random Moment Time Study*, the State Contractor is required to have a Type II Statements on Auditing Standards (SAS) 70 audit to provide the necessary assurances that the claiming process (e.g., methodology, time studies, cost allocations, etc.) have been properly applied. The State Contractor must undergo a SAS 70 audit annually. The SAS 70 audit must cover, at a minimum, the most recent six months. The SAS 70 audit must be submitted within 90 days after the end of the examination period.

3. **Schedule of Expenditures of Federal Awards Reporting.** Auditors should make sure that all transactions related to Medicaid Administrative Outreach claims are recorded properly in the Schedule of Expenditures of Federal Awards (SEFA).

The expenditures reported on the SEFA should equal the Medicaid Administrative Outreach revenues received and recognized. School districts should report only the federal Medicaid Administrative Outreach revenue that is recognized in accordance with generally accepted accounting principles in the SEFA. ISDs should report all of the federal revenue that is recognized in accordance with generally accepted accounting principles in the SEFA, including the revenue that is forwarded to local school districts.

The expenditures reported on the SEFA will not agree with the expenditures reported on the Eligible Cost/Cost Pool Summary Reports for the Medicaid Administrative Outreach program, because the time study results, Medicaid Eligibility Rate, and the FFP are applied to the allowable costs to determine the reimbursement amount that is reported on the SEFA. Consideration should be given to including a footnote to the SEFA pertaining to the Medicaid Administrative Outreach program expenditures reported in the schedule (i.e., Eligible Cost/Cost Pool Summary Reports reflect the financial accounting records for Medicaid Administrative Outreach activities. However, the amounts that are reimbursed and reported as both revenue and expenditures reflect the application of the time study results, the Medicaid Eligibility Rate and the FFP.)

(Please Note: Medicaid Administrative Outreach Program funding that is currently being recognized by the ISD's and/or distributed to local school districts that was previously deferred due to uncertainties resulting from the CMS Settlement is considered Federal funding, and should be reported on the SEFA, with a corresponding note disclosure).

4. **Pass Through of Funds and Subrecipient Monitoring.** For approximately half of Michigan ISDs, Medicaid funds may pass through ISDs to local school districts (subrecipients). Auditors should consider the following when auditing under these circumstances:
 - a. Verify that the agreement was followed in those instances when an agreement exists for Medicaid Administrative Outreach funds distribution.
 - b. Verify that the internal controls over the pass-through process are adequate.
 - c. Verify that the ISD has implemented adequate subrecipient monitoring procedures. Subrecipient monitoring is applicable regardless of whether the Medicaid funds are passed through to local school districts. Given the nature of the program, it is imperative that the ISD implement procedures to monitor the local districts for the purpose of gaining the necessary assurances that the financial information provided to the State Claims Development Contractor is accurate. This can be accomplished through a review of the district's single audit report (if the Medicaid Administrative Outreach program was selected as a major program), site visits, limited scope audits, or other means as deemed appropriate.

IV. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Title XIX of the Social Security Act, enacted in 1965, as amended (42 USC 1396, et. seq.)
2. Medicare Catastrophic Coverage Act, as amended in 1988
3. Individuals with Disabilities Act Amendments of 1997 (Idea 97, P.L. 105-17)
4. Single Audit Act Amendments of 1996 (USC 7501 et seq. of title 31)
5. 2 CFR, Part 225, (OMB Circular A-87), *Cost Principles for State, Local, and Indian Tribal Governments*
6. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, issued October 14, 1994, with amendments through August 29, 1997
7. OMB Circular A-133 *Compliance Supplement*
8. OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, as amended
9. *Government Auditing Standards and Circular A-133 Audits – AICPA Audit Guide*
10. State Medicaid Plan for School Based Services
11. *Medicaid and School Health: A Technical Assistance Guide*, August 1997
12. *Medicaid Provider Manual, School Based Services Administrative Outreach Program, Claims Development*
13. *Medicaid Provider Manual, School Based Services, random Moment Time Study*
14. CMS, *Medicaid School Based Administrative Claiming Guide*, May 2003

B. Personnel

For further guidance on programmatic issues pertaining to Medicaid School Based Services, please contact:

Penny Dipple, Specialist
School Based Services, Administrative Outreach
Program Policy Division
Medical Services Administration
Michigan Department of Community Health
400 South Pine Street, P.O. Box 30479
Lansing, Michigan 48909-7979
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Linda Sowle, Specialist
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Program Policy Division
Medical Services Administration
Michigan Department of Community Health
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John A. Hannah Building, 608 West Allegan Street, P.O. Box 30008
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Auditing questions may be referred to:

Debra Hallenbeck, Manager
Quality Assurance and Review Section, Office of Audit
Michigan Department of Community Health
Capital Commons Center, 400 S. Pine, or, P.O. Box 30479
Lansing, Michigan 48933 or, 48909-7979
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AN OVERVIEW OF THE
MICHIGAN DEPARTMENT OF EDUCATION
GRANTS SYSTEM

- I. Objective
- II. Overview
- III. Description of the Michigan Electronic Grants System (MEGS)
- IV. Description of the Cash Management System (CMS)
- V. CMS System Components
- VI. CMS Vendor File
- VII. CMS and MEGS Security
- VIII. Contact Persons

ATTACHMENTS

- A. Cash Management System (CMS)
- B. Grant Award Notification
- C. Final Expenditure Report
- D. Grant Auditor Report

Date of Last Change: 2010/2011

I. OBJECTIVE

To provide information to public schools and independent auditors on the Michigan Department of Education (MDE) grants process, including information on the Michigan Electronic Grants System (MEGS) and the Cash Management System (CMS).

II. OVERVIEW

MDE provides funding to Michigan educational organizations through a variety of state and federal grants. The U.S. Department of Education (USDE) is the largest federal grantor agency. For federal grants, MDE serves as the state education agency (SEA) and is responsible for the management of all federal awards. MEGS is the grant management system and is used to review grants and then, when appropriate, make award recommendations. CMS is used to process grant award approvals and is used by grantees to request their funds. CMS is also used to process state grants; however, the majority of state grants payments are processed through the State Aid Management System. The Department of Labor and Economic Growth and Department of Community Health also use MEGS and/or CMS for certain Adult Education and Safe and Drug Free funding.

III. DESCRIPTION OF THE MICHIGAN ELECTRONIC GRANTS SYSTEM (MEGS)

The Michigan Electronic Grants System (MEGS) was initiated in 2001 by the MDE. MEGS is a comprehensive web-based grant application that provides a centralized means to manage and control grant programs administered by MDE.

The purpose of MEGS is to address three main objectives:

- Provide grant applicants with a streamlined, consistent grants application process.
- Provide state program offices with effective grants management system that will allow them to efficiently manage the grant application process.
- Provide access to grant application information and reporting data that is stored centrally, allowing department-wide access to grant-related data.

In order to improve the flow of information in the grants process, MEGS interacts with a variety of other State of Michigan applications. These systems include Michigan Education Information System (MEIS), the CMS, the Education Entity Master (EEM), Single Record Student Database (SRSD), and Registry of Education Personnel (REP). SRSD will be replaced by the Michigan Student Data System (MSDS) in FY 2009.

See the MEGS website at <http://megs.mde.state.mi.us/megsweb/> for complete information on MEGS, including security requirements.

IV. AUDITOR ACCESS TO MEGS

Auditors will be able to use MEGS to view and/or print applications for federal grants that have been submitted in MEGS. Budgets can be downloaded into spreadsheets and PDFs can be printed of the Final Expenditure Reports without having to go through the Cash Management System.

Please note that not all MDE grants are available in MEGS. A limited number of federal grants may be processed outside of MEGS. All MDE awarded federal grant approvals and final expenditure reports are in CMS.

Detailed instructions for MEGS including login information can be found at:

[Auditors Guide to Using MEGS](#)

V. DESCRIPTION OF CASH MANAGEMENT SYSTEM (CMS)

The Cash Management System (CMS) was initiated in 2006 by MDE. CMS is a comprehensive web application to support federal and state cash management processes related to grants. The Cash Management System objectives include, for grants utilizing CMS, to:

- Control cash reimbursements and requests
- Paying Recipients (interface to MAIN to trigger payments to recipients)
- Final Expenditure Reporting
- Fiscal Monitoring

For grants with applications in MEGS, CMS accesses MEGS data for project approvals and budgets. Payments approved within CMS are sent to MAIN (Michigan Administrative and Information Network) for generation of payment warrants.

CMS can be accessed from the following website <https://mdoe.state.mi.us/cms/> . Log in is allowed if access has been granted. Recipient training information is also available from this link. (Attachment A)

VI. CMS SYSTEM COMPONENTS

A. CMS Accounting Functions

- VI. Expenditure Accounting
- VII. Project/Program/Grant Accounting
- VIII. Payment Processing
- IX. Cash Monitoring
- X. Financial Reporting
- XI. Cost Accounting and Allocation
- XII. Appropriation Accounting
- XIII. Inter-Agency Grant Accounting

XIV. Budget Control/Monitoring

B. Grant Identification

1. *Grant Award.* For federal funds, MDE starts with a grant award document that lists the amount of the award, the length of the grant, the federal law governing the grant, and the Catalog of Federal Domestic Assistance (CFDA) number.
2. *CFDA Number.* Catalog of Federal Domestic Assistance (example 84.010). This is a federally issued number used to identify federal grants and must be used to identify funding on the Schedule of Expenditures of Federal Awards for single audit reports. Therefore, the CFDA number is of great interest to public school staff and to independent auditors. MDE includes this number on forms that flow to public schools. **NOTE:** Programs with reference numbers starting 99.XXX are non-federal (or state funded) programs. The format is the same as CFDA numbers, but these are non-federal programs.
3. *Recipient Code.* Recipient agencies are identified by a recipient code. The recipient code is a code designed to identify the sub-grantee. All Michigan public schools have five digit codes starting with the first two digits being the county number (for example, Ingham County is 33). The third digit for public school academies is a 9 or a 7. Sub-grantees that are not public schools have codes longer than five digits, but which still start with the appropriate two digit county code.
4. *Grant Numbers.* A federal grant award is assigned one or more six-digit alpha/numeric “grant number” code to permit tracking the funds through the grant cycle. Similarly, each state-funded grant appropriation is assigned a grant number. The relative positions of the six digits and the numbers themselves have significance to users. XXYYYY, where XX is the last two digits for the fiscal year and YYYY is the program code.
5. *Project Number.* Project numbers are assigned with different schemes, depending upon the needs of the particular Program Office/Service area.
6. The combination of Grant Number, Project Number and Recipient Code uniquely identify a particular project.

C. Grant Award Notification

MDE program offices send a notification letter to the public school stating all the terms and conditions of the award. The letter and the grant award notification are contained in MEGS for some grants. (Attachment B)

D. Requesting Funds

School districts and other sub-grantees are able to request funds via the Internet using CMS. The system is secure and provides school districts and other sub-grantees with the project number, approved amount, amount previously paid, and the balance remaining displayed on-line. The system requires school districts and other sub-recipients to enter project-to-date expenditures on-line. School districts and other sub-recipients are provided the details explaining their payment via e-mail.

E. Cash Management

The Federal Cash Management Information Act requires that neither the state nor any sub-grantee may accumulate interest earnings from drawing federal cash in advance of needs. MDE is required by the Federal Cash Management Improvement Act (CMIA) to manage federal cash so that excess balances do not accumulate in public schools' accounts. The on-line cash request form requires school districts and other sub-recipients to enter project-to-date expenditures on-line to meet this requirement.

F. Final Expenditure Report

A final expenditure report is required on each project and is due 60 days after the end of the grant. The system provides the capability for any sub-recipient to report final expenditures to the MDE after a project ending date or after all grant funds have been expended. The sub-recipient has the capability to enter actual expenditures incurred by Bulletin 1022 function code, on-line and transmit to MDE via the Internet through the CMS. MDE program staff, as well as financial staff, has the functionality to access this report on-line. The sub-recipients authorized official must sign (on-line) to certify the expenditures. (Attachment C)

G. Grants Auditors Report

The MDE provides this report as a service to CPA firms in confirming the amount of cash received by recipients. CMS produces this report, which lists the CFDA number, project name, project number, amount approved, current payment, cumulative payment, and balance remaining. (Attachment D) (Now available on the Office of Audits webpage) or at:
<https://mdoe.state.mi.us/cms/grantauditorreport.aspx>.

H. Grants Management Report

This report contains a variety of basic information about the subgrant, such as: awards based on spending plans, allocations, approved amounts, payments to date and several balances. It is for internal use of the MDE grants accounting section and the MDE program staff.

I. CMS provides information sufficient for the MDE grants accounting staff to complete the “Biannual Data Collection Report” required by GEPA (General Education Provisions Act).

J. CMS Functionality

For recipient agencies, primary functionality in CMS includes:

- Requesting funds for projects in process based upon interim cumulative expenditures;
- Reporting Final Expenditures after the completion of a project (by function code and object code, as defined in the MDE Accounting Manual and allowable for the funding source)
- Controlling Access of users within the recipient agency (by users with appropriate authority)
- Viewing Data: users, project approvals, payment ledgers, disbursements, Grant Auditor reports, and overpayments.

VII. AUDITOR ACCESS TO CMS

CMS has security requirements utilizing the Michigan Education Information System (MEIS) security identification framework. For access to CMS, a user must first obtain a MEIS identification number, username and password.

To access MEIS, go to: <http://cepi.state.mi.us/MEISPublic/>. Access MEIS User Management by clicking on the MEIS user management box and follow the instructions given. Due to security requirements, MEIS account numbers are not transferrable. Therefore, each person within a school district or accounting firm is required to have their own account number.

Give your MEIS number to the agencies you are auditing and request that you be assigned as a Level 1 for their agency.

VIII. CONTACTS

A. CMS Contacts

Debby Roberts (517) 335-0534, RobertsD4@michigan.gov

Office of Financial Management
Grants Cash Management and Reporting
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909

B. MEGS Contact

Andy DeYoung (517) 373-4583, deyounga@michigan.gov

Office of Grants Coordination and School Support
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909

Grants - Cash Management System

MICHIGAN PUBLIC SCHOOL EMPLOYEES

RETIREMENT SYSTEM

PREPARED BY THE

DEPARTMENT OF MANAGEMENT AND BUDGET

OFFICE OF RETIREMENT SERVICES

- I. Audit Requirements
- II. MPSERS Definition of Reportable Compensation
- III. Testing Requirements
- IV. Reportable and Non-Reportable Compensation
- V. Tax-Deferred Payment (TDP)
- VI. Office of Retirement Services Contact Information

Date of Last Change: 2010-2011

I. AUDIT REQUIREMENTS

Public Act 300 of 1980, as amended, requires each school district, community college, and seven of the universities to pay a percentage of their gross reportable compensation to the Michigan Public School Employees Retirement System (MPERS) to fund employee retirement benefits. MPERS funding is an actuarial determination set at 16.54% for the 2008-09 state fiscal year. Rate changes are on October 1 of each year.

All public school districts, except the seven universities, must contribute 16.72% of their gross reportable payroll. The following universities each contribute varying amounts and percentages for all reportable compensation: Central Michigan, Eastern Michigan, Michigan Technological, Northern Michigan, Western Michigan, Ferris State, and Lake Superior State.

Since wages and fringe benefits are a significant portion of the school budget, it becomes extremely important to review retirement costs as part of the financial statement audit. To ensure retirement costs are accurate, it is necessary to review the compensation reported to MPERS to determine if the compensation is reportable or non-reportable for retirement purposes. The statutory definition of reportable compensation for retirement purposes differs from the IRS statute; therefore, a definition of reportable compensation for retirement purposes is provided below.

II. MPERS DEFINITION OF REPORTABLE COMPENSATION

- A. Remuneration earned by a member for services performed as a public school employee. Compensation includes, on a current basis, investments made in a tax-sheltered annuity for a public school employee as remuneration for service under this Act. The remuneration shall be valued at the amount of money actually paid into the annuity. Compensation includes amounts deducted from the pay of a public school employee, including amounts deducted pursuant to the Member Investment Plan (MIP).
- B. Compensation includes longevity pay regularly paid to all employees, overtime pay, vacation pay when the employee is absent from work, sick leave pay while absent from work (including FMLA paid out of a sick leave bank), holiday pay while absent from work, and items of deferred compensation exclusive of employer contributions to the retirement system. Merit pay that can be measured and documented (and is open to other employees), weekly workers' compensation, professional services leave wages (if the district is reimbursed), and cafeteria plans (flexible spending accounts only) are all considered reportable compensation. Short-term disability (STD) is also reportable compensation provided the following are met:
 - 1. The payment(s) must be for personal illness or injury as defined under the district's STD policy.
 - 2. The STD must be sponsored by the employer.
 - 3. The STD payments must have the usual payroll taxes and contributions withheld.
 - 4. Hours must be reported in the proportion the STD compensation bears to the compensation that would otherwise have been received.
- C. Compensation does not include terminal payments, payments for unused vacation or annual leave, payments for unused sick leave, bonus payments, hospitalization or life insurance premiums, other fringe benefits paid by and from the funds of employers of public school employees, early retirement incentive payments, expense payments, long-term disability payments, service credit purchased by the employer, sabbatical leave payments, super longevity payments, perfect attendance payments, awards and settlements unless approved by MPERS, remuneration paid for the specific purpose of

increasing the final average compensation, and annuities or cash payments made in lieu of excluded fringe benefits.

- D. Reportable compensation may not include an amount over the compensation for the preceding year except increases provided by the normal salary schedule for the reporting unit. Member's wages are audited for any significant increases in salary that may not be recognized for retirement purposes. The retirement board may require a sworn affidavit from the member that final compensation does not include remuneration paid either directly or indirectly for actual or anticipated expenses.

III. TESTING REQUIREMENTS

Three steps must be used to test the financial statements for appropriate payments to MPSERS.

- A. Ensure all covered employees are reported to MPSERS. All employees of a school district are members of MPSERS, except for full-time students employed by a district while enrolled in and attending classes at the same district or any employee under the age of 19 in a temporary, intermittent or irregular seasonal or athletic position; some employees who are working through certain training programs; and community college or university employees who qualify for and have elected the Optional Retirement Plan. Retirees from MPSERS are reported, but no contributions are paid for retirees. Some schools attempt to classify employees as independent contractors in order to avoid paying employee benefits. This impacts reports and payments to MPSERS as well as to the Social Security Administration. When errors are found, MPSERS requires the school to correct the report and may assess interest and penalties. The Social Security Administration does assess significant fines and penalties for improper reporting.
- B. Ensure that only reportable compensation is reported to MPSERS. A detailed breakdown of reportable and non-reportable compensation is provided in Part IV below.
- C. Ensure that retirement costs for federally funded employees are paid from the federal grant.

NOTE: MPSERS no longer requires a copy of the audited financial statements be sent to its office.

IV. REPORTABLE AND NON-REPORTABLE COMPENSATION

- A. Reportable Compensation
 1. Remuneration earned for services performed as a public school employee
 2. Wages earned and placed in a tax-sheltered annuity or a deferred compensation plan
 3. Longevity payments regularly paid to all employees
 4. Overtime pay
 5. Holiday pay while absent from work
 6. Vacation or annual leave pay while absent from work
 7. Sick leave pay while absent from work
 8. Weekly workers' compensation payments while absent from work
 9. Wages paid to an employee while on professional services leave or professional services released time when retirement costs are reimbursed to the district
 10. Merit pay as established by a district for the purpose of achieving specific performance objectives and open to other employees

11. Wages earned and placed in a cafeteria plan (flexible spending accounts only)
 12. Short-term disability payments
 13. Awards and settlements if approved by MPSERS
- B. Non-Reportable Compensation
1. Payments for unused vacation or annual leave
 2. Payments for unused sick leave
 3. Bonus payments
 4. Hospitalization and life insurance premiums or cash payments in lieu of premiums
 5. Payments received directly or indirectly, for actual or anticipated expenses, such as an automobile or housing allowance
 6. Fringe benefits paid by and from the funds of employers of public school employees
 7. Terminal payments
 8. In-kind compensation
 9. Early retirement incentive payments
 10. Payments made for the specific purpose of increasing the final average salary
 11. Wages paid over and above the preceding year except those increases that are part of the normal salary schedule and/or received by other employees at the same school
 12. Cash payments made in lieu of excluded benefits
 13. Long-term disability payments
 14. Service credit purchased by the employer on behalf of the employee
 15. Sabbatical leave payments
 16. Cafeteria plans (flexible benefit plans)
 17. Super longevity
 18. Payments for services as a school board member
 19. Perfect attendance pay

V. TAX-DEFERRED PAYMENT (TDP)

The Tax-Deferred Payment (TDP) program was implemented for the purpose of allowing MPSERS members the ability to purchase additional years of service credit on a tax deferred basis. The reporting unit must adopt a resolution before employees can participate in the program. Upon receipt and approval of this resolution, the Office of Retirement Services (ORS) will send payroll authorization/agreement forms, reporting instructions, and other information to the reporting unit.

VI. FOR FURTHER INFORMATION CONTACT:

Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671

800-381-5111 or 517-322-5103

Or visit the ORS website at:
<http://www.michigan.gov/ors>

STATE REQUIREMENTS

- I. The State School Aid Act of 1979
- II. The Michigan School Accounting Manual
- III. The Michigan Administrative Rules
- IV. School Bond Loan
- V. Act 2 of 1968, as amended by Act 621 of 1978
- VI. The School Code of 1976
- VII. The Municipal Finance Act
- VIII. Economic Development Tax Incentive Programs
- IX. Property Taxable Values
- X. Universal Service Fund – USF (a.k.a. E-RATE)

ATTACHMENT

Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan

Date of Last Change: 2010/2011

I. THE STATE SCHOOL AID ACT OF 1979

(P.A. 94 of 1979, as amended) OR (MCL 388.1601, 388.1772). This is amended every year.

A. Section 11e-I-*Durant*-Related Payments

P.A. 152 of 1997 amended 1351a (2) of the Revised School Code. The act states, in part, "For bonds issued under Section 11i of the State School Aid Act...the independent audit required under this subsection may be conducted and submitted with the annual report..."

- Bond proceeds must be used for 1351a purposes.
- Districts receiving lump sum payments must use funds for purposes specified in Section 11f (6).
- Districts electing 15-year payments must use funds for purposes specified in Section 11g (4).
- The 10 annual payments must be used for purposes specified in Section 11f (6).

B. Section 17a(1) – Withholding Payments for Outstanding Obligations in Default

C. Section 18(1) – Application of Money Received under the Act

The act states, in part, "Except as provided in another section of this act, each district or other entity will apply the money received by the district or entity under this act to salaries and other compensation of teachers and other employees, tuition, transportation, lighting, heating, ventilation, water service, the purchase of textbooks which are designated by the board...other supplies, and any other school operating expenditures defined in Section 7. However, not more than 20% of the total amount received by a district under Article 2 or intermediate district under Article 8 may be transferred by the board to either the capital projects fund or the debt retirement fund for debt service..."

D. Section 18(2) – Budget Posting to the District's Website

Language in Section 18(2) of the State School Aid Act now requires local districts, intermediate districts and public school academies to post their annual operating budget and subsequent amendments on their websites. The budget postings should include the General Appropriation Resolutions or budgets with notation indicating when they were adopted by the local school board within 30 days from adoption. This should be done for all funds for which the board adopts a budget. Michigan Public School Accounting Manual Change Notice 14 contains further details.

E. Section 18 (3) – Audit Requirements

The act states, in part, "For the purpose of determining the reasonableness of expenditures and whether a violation of this act has occurred, the department will require that each district and intermediate district have an audit of the district's or intermediate district's financial and pupil accounting records conducted at least annually at the expense of the district or intermediate district, as applicable, by a certified public accounting or by the intermediate district superintendent, as may be required by the department..."

Public school academies/charter schools are operational under Public Act No. 360. These schools are subject to the financial audits under Section 18(3) of the State School Aid Act and Single Audit Act of 1984, as amended. When these schools expend \$500,000 or more in federal funds, they are also required to meet the requirements of the Federal Single Audit Act of 1984, as amended. A school will file the audit reports with the intermediate district not later than 120 days (October 28) after the end of each

school fiscal year, and the intermediate district will forward the audit reports for its constituent schools and for the intermediate district to the department not later than November 15 of each year.

F. Section 20 – Foundation Allowance per Membership Pupil

For information regarding pupil membership issues, see the compliance supplement entitled “Pupil Membership” of this manual and also the MDE Pupil Accounting Manual.

G. Section 31a – At Risk

Provides funds for instructional programs and direct non-instructional services for at-risk pupils. It prohibits the use of funds for administrative costs or to supplant other funds used for at-risk pupils. It does not require submission of an application, except for newly eligible districts and public school academies. It requires a program report by July 15 of the current fiscal year. It requires access to all program records for audit purposes and reimbursement of disallowed amounts. If the Section 31a funds are tested, the auditor should:

1. Determine if the Section 31a funds were spent only for instructional programs and direct non-instructional services for at-risk pupils. Allowable costs are limited to:
 - a. Salaries and benefits for instructional staff
 - b. Salaries and benefits for staff providing direct non-instructional services
 - c. Purchased services, supplies, and materials for instructional and direct non-instructional services
 - d. Operation, maintenance, and pupil transportation costs for programs provided outside of the regular school day or year
 - e. Costs for school lunch and breakfast programs
 - f. Capital outlay necessary for the provision of instructional and direct non-instructional services, such as computers and other instructional equipment
2. Verify that Section 31a funds were not used to supplant funds from other sources used for at-risk pupils.
3. Verify the information submitted in Part II of the Section 31a Program Report (EC-4731-B).

H. Section 58 – Specialized Transportation Services

If testing this, the auditor should:

1. Review the “Pupil Transportation Financial Report” (SM-4094) for accuracy and completeness. The report data must solely reflect pupil transportation expenditures.
2. Trace the report data to the supporting documentation. Determine that split-funded personnel, shared equipment and facilities costs are appropriately prorated between federal, state, and local sources for pupil transportation.
3. Review the procedures for preparing the report and evaluate for adequacy.

I. Section 61(a)(1) – Added Cost for Career and Technical Education (CTE) Programs

The act states that, “...the allocation of funds must be based on the type of vocational-technical programs provided, the number of pupils enrolled, and the length of the training period provided, and shall not exceed 75% of the added cost of any program.” State policy requires that:

1. Ninety percent of the added cost funds allocated to local education agencies are spent in program improvement expenditure categories for state approved programs. If testing this, the auditor should determine that 90% of Section 61(a)(1) funds were spent for allowable costs:
 - Local Travel
 - Equipment Rental and Maintenance
 - Supplies, Materials, and Other Expenses

- Career Guidance – Pupil
 - Student Organizations – Pupil
 - Career Placement and Follow-Up Survey – Pupil
 - Professional and Curriculum Development – Improvement of Instruction
 - Planning, Research, Evaluation, and Marketing – Central Services
 - Advisory Committees – Community Services, Other
 - Equipment Instruction – Capital Outlay
 - Equipment Support – Capital Outlay
 - Summer Agriculture Production Salaries
 - Summer Coop Coordination Salaries
2. Each fiscal agent must expend local funds greater than or equal to the difference between the amounts of added cost funding received (75% of the added cost) and added cost funding at 100%. If testing this, the auditor should examine procedures/records for education agency added cost annual final expenditure report development. Each fiscal agent must also expend funds for its CTE programs that reflect a cost comparable to “regular” education programming. This is referred to as the Non-Vocational Cost of running a program. The Department uses one-sixth of the foundation allowance, i.e., one hour, as the Non-Vocational Cost per student hour. Then, this cost is multiplied by the number of reimbursed student hours to determine the total Non-Vocational Cost for the fiscal agency. Testing would require an examination of the foundation allowance financial records, cost records, and student records.

J. Section 61(a) (2) – Career and Technical Education (CTE) Administrator Reimbursement.

The act states that, “...districts and intermediate districts shall be reimbursed for local vocational administration, shared time vocational administration, and career education planning district vocational-technical administration. The definition of what constitutes administration and reimbursement shall be pursuant to guidelines adopted by the superintendent....”

State Procedures for Eligible Reimbursement:

1. **Eligible Reimbursement** – Approved regional CTE administrators and local vocational districts will be funded based on 40 percent of a maximum salary of \$45,000. Reimbursement, therefore, is limited to a maximum of \$18,000. Reimbursement will come from State Aid Added Cost Funds (Section 61[2] for vocational administration). Approved half-time administrator’s reimbursement is prorated to correspond to the percentage of time devoted to CTE functions as a CTE administrator. The exact reimbursement amount will depend upon the actual number of approved administrators.
2. **Eligible Agencies Reporting CTE Administrative Costs** – Only school districts with approved and/or qualified administrators, who meet the requirements established by the Office of Career and Technical Preparation, will be eligible to report administrator expenditures on the Expenditure Revenue Report. Added cost funds allocated from Section 61(a) (1) may not be used to reimburse CTE administrative costs.

K. Section 102(1) – Deficit Districts

The act states, in part, that, “A school or intermediate district receiving money under this act will not adopt or operate under a deficit budget, and a school or intermediate district will not incur an operating deficit in a fund during a school fiscal year.” Any deficit incurred in a fund other than the general fund is netted against the general fund balance.

If the result is a negative amount, the public school will be required to submit a deficit elimination plan to MDE. If it is probable that a school will incur a deficit in its general fund during the school's fiscal year, it should notify the MDE. A school reporting a general fund deficit must notify the MDE Office of State School Aid and School Finance as soon as the deficit is confirmed and not wait until the FID is filed. This notification must be in a written form and mailed to Office of State Aid and School Finance, P.O. Box 30008, Lansing, Michigan 48909. The MDE will mail the school a deficit elimination plan Form DS-4511C. MDE staff will work with the public school to ensure that a realistic plan to eliminate the deficit is established. The school will be required to submit monthly budgetary control reports (DS-4848) after a deficit elimination plan is approved by the MDE. If a deficit exists for more than two years or if the deficit increases after the first year the deficit is incurred, the school is subject to Subsection (5) of Section 102.

L. Section 107(14) – Commingling of Adult Education Funds

The act states, in part, that, "A district shall not commingle money received under this section or from another source for adult education purposes with any other funds of the district. A district receiving adult education funds shall establish a separate ledger account for those funds. This subsection does not prohibit a district from using general funds of the district to support an adult education or community education program."

There is a common misconception that adult education funds can be used to fund early childhood programs **and high school alternative education programs**. The State School Aid Act does not allow this.

If Section 107 funds are tested, the auditor should:

1. Determine if the district has a separate ledger account to track adult education funds to ensure that adult education funds are only used to serve adult education participants.
2. Determine if all adult education funds, regardless of the source, are spent only for instructional programs for adult education participants, with any excess funds clearly set aside for future adult education participants.

Contact person: Diane Duthie, Director, Adult Education Office, Michigan Department of Career Development, (517) 373-8800.

II. THE MICHIGAN SCHOOL ACCOUNTING MANUAL – BULLETIN 1022

This manual provides information regarding laws, rules, policies, and accounting and reporting requirements for Michigan public schools. The manual is patterned after the "Financial Accounting for State and Local School Systems," 2003, which is a national standard for reporting financial data by state departments of education and public schools. The purpose of the national handbook and the accounting manual is to assure that educational fiscal data will be reported in a uniform, comparable, and comprehensive manner. Auditors should test for appropriate classification with regard to account code dimensions (fund, function, major class object code). Transactions should be recorded in accordance with Generally Accepted Accounting Principles (GAAP) and the Michigan School Accounting Manual. Questions relating to the Michigan School Accounting Manual, Bulletin 1022, may be directed to Glenda Rader at (517) 335-0524.

III. THE MICHIGAN ADMINISTRATIVE RULES

The Michigan Administrative Rules governing Financial Accounting Systems for Public Schools:

A. R 340.851 Applicability

Rule 1. All local public schools and intermediate districts, commencing July 1, 1976, shall maintain complete financial accounting records in accordance with these rules.

B. R 340.852. Use of Charts of Accounts

Rule 2. The charts of accounts prescribed and published by the MDE shall be used by all local and intermediate school districts except that locally devised charts of accounts may be used when specific approval is granted by the MDE. (The MDE has granted no approvals to date.)

C. R 340.853. Accrual System of Accounting

Rule 3. A system of modified accrual accounting shall be adopted by each school district to ensure that services and materials purchased for a given fiscal year are booked in the accounting system for that year. **Note:** It is the intent of the Michigan School Accounting Manual that the transactions accounted for and funds used on the financial statements and on FID should be in accordance with Generally Accepted Accounting Principles (GAAP).

IV. SCHOOL BOND QUALIFICATION AND LOAN PROGRAM

P.A. 92 of 2005 prescribes the procedures, terms, and conditions for the qualification or approval of school bonds and authorizes the loans to school districts for the payment of debt service on qualified bonds. Following are the requirements for borrowing from/repayment to the School Loan Revolving Fund (SLRF):

A. Loans Made to School Districts (MCL 388.1929, Section 9):

Except as otherwise provided in the act, a school district may borrow from the state an amount not greater than the difference between the proceeds of the school district's computed millage and the amount necessary to pay principal and interest on its qualified bonds, including any necessary allowances for estimated tax delinquencies.

"Computed millage" means the number of mills in any year, not less than 7 mills and not more than 13 mills, determined on the date of issuance of the order qualifying the bonds or on a later date if requested by the school district and approved by the state treasurer, that, if levied by the school district, will generate sufficient annual proceeds to pay principal and interest on all the school district's qualified bonds plus principal and interest on all loans related to those qualified bonds no later than the date specified in the note and repayment agreement entered into by the school district under this act

For school districts having qualified loans outstanding as of July 20, 2005, the payment date shall be not later than 72 months after the date on which the qualified bonds most recently issued by the school district are due and payable. For qualified loans related to qualified bonds issued after July 20, 2005, the loans shall be due not later than 72 months after the date on which the qualified bonds for which the school borrowed from the state are due and payable.

A school district shall continue to levy the computed mills until it has completely repaid all principal and interest on its qualified loans.

Except as otherwise provided in the act, loans shall bear interest at the greater of 3% or the average annual cost of funds computed annually on the basis of all state general obligations issued for the purpose of making loans to school districts plus 0.125%.

B. Repayment of Loans to the State (MCL 388.1933, Section 13[5]):

When a school district's computed millage is sufficient to pay principal and interest on its qualified bonds, a school district shall file a loan activity statement with the state treasurer. Within 30 days of the receipt of the loan activity statement, the state treasurer shall send an invoice to the school district for the amount of repayment the school district owes on its outstanding loans. This amount shall be the difference between the debt services payable or paid to bondholders and the funds on hand, less a reasonable amount to cover minimum balance requirements or potential tax disputes. The school district shall remit the amount specified in the invoice within 30 days after the dated date of the invoice.

However, because the repayment depends upon any balance that may be available, it is indefinite and uncertain as to the amount and time of repayment to the state. Therefore, material amounts of interest may be outstanding and continue to accrue from year to year. The interest and principal should be reported in the Long-Term Debt and the notes to the financial statements.

The note disclosure should be adequate and should include the pertinent provisions of the law and its effect on the financial statements. The note should indicate that the State of Michigan makes loans to school districts to assist the districts in the payment of debt service on their outstanding general obligation bonds. These loans carry variable interest rates and are to be repaid whenever the school district's property tax levies, dedicated to service general obligation bonds, result in funds in excess of those requirements. Based on the flow of current financial resources approach and generally accepted accounting principles, the accrued interest should not be reported as expenditure because it is not due on any certain date and it is not considered an "other financing source." These requirements may be considered relevant to the accounting standards and for compliance with laws, rules, and department policy, etc.

In the past, school districts reported accrued interest on general obligations in various ways due to the nature of the transaction and because there was no government accounting and reporting standard that provided appropriate guidance. The MDE obtained guidance from the Government Accounting Standards Board (GASB) whose views are as follows:

1. "Disagree with simply disclosing accrued interest in notes to the financial statements (no financial statement effect)."
2. "We do not believe it is appropriate to recognize accrued interest expenditures (offset by another financing source) in a flow of current financial resources operating statement. The amounts so recognized are neither increases nor decreases in expendable available financial resources. Further, this reporting results in double counting of interest, once when annually accrued and again when actually paid. Finally, under current generally accepted accounting principles, interest on general long-term debt is usually required to be reported as expenditure when payment is due. Because repayment in your situation is not based on any definitive, established due dates, but rather on the availability of whatever excess property taxes remain after satisfaction of bonded debt service, we believe interest is best recognized when payment is made."
3. "Therefore, we believe the preferable method of reporting accrued interest on school bond loans is...to report the annual accrual as a GLTDAG liability."

C. For audit requirements, refer to Attachment A at the end of this supplement.

D. Use of Remaining Bond Proceeds (MCL 388.1938, Section 18):

If a school district has completed the projects approved by the school electors of the school district to be funded from proceeds of qualified bonds, a school district may use any remaining proceeds of the qualified bonds as follows:

1. To pay for enhancements to the projects by the school electors as described in the ballot proposing the qualified bonds.
2. To pay debt service on the qualified bonds.
3. To repay the state.

V. ACT 2 OF 1968, AS AMENDED BY ACT 621 OF 1978

This is also known as the Uniform Budgeting and Accounting Act (MCL 141.421 to 141.440a or Section 1 to 20a). Violations of this act may be considered significant or material to the financial statements. Following are the essential requirements:

- A. The recommended budgets and informational summaries have been prepared and include the recommended content [Sec. 15(1)].
- B. The limitation on total estimated expenditures must comply with the law. The school district cannot budget a deficit in a fund [Sec. 15(2)] except as otherwise permitted by Section 102 of the State School Aid Act of 1979.
- C. The recommended budgets have been adopted by a general appropriations act, and the general appropriations act must comply with requirements of Section 16.
- D. The general appropriations act was amended in a timely fashion and in a manner described by Section 17. Also, the magnitude of the deviations and period during the year in which the deviations occurred should be considered when determining whether there are material instances of non-compliance.

VI. THE REVISED SCHOOL CODE (1976 PA 451)

Non-compliance with Revised School Code could have a material effect on the financial statements or a significant effect on a fund or fund type. Following are the essential requirements;

- A. Part 16 – Board of Education, Powers and Duties Generally
 1. Section 380.1211 – **Mills levied for school operating purposes; limitation; reduction of mills from which homestead**, qualified agricultural property, qualified forest property, supportive housing property, and industrial personal property **are exempt; effect of insufficient mills allowed to be levied under Subsection (1); additional mills; number of mills school district may levy after 1994; approval by school electors; excess tax revenue; shortfall; allocation under property tax limitation act; definitions.**
 2. Section 380.1212 – **Sinking fund; creation; purpose; tax levy; audit; submission of proposition to school electors; election; ballot; approval.**
 3. Section 380.1215 – **Accounting for monies, fund designations.**
 - a. Operating taxes shall be accounted for under the title of “General Fund.” The state board may establish other fund designations to clarify further the expenditure classifications for which general fund monies may be used.
 - b. Library money shall be accounted for under the title of “Library Fund.”

- c. Building and site money shall be accounted for under the title of “Building and Site Fund.” **Note:** This fund has been renamed the “Capital Projects Fund.” Refer to the Michigan School Accounting Manual.
- d. Taxes collected for retiring bonded indebtedness shall be accounted for as required by the Revised Municipal Finance Act, 2001 PA 34, MCL 141.2101 to 141.2821.
4. Section 380.1216 – **Use of money raised by tax.**
Except as provided by the Revised Municipal Finance Act, 2001 PA 34, MCL 141.2101 – 141.2821, money raised by tax shall not be used for a purpose other than that for which it was raised without the consent of a majority of the school electors of the district voting on the question at an annual or special meeting or election.
5. Section 380.1223 – **Investment of funds; commingling prohibited, exceptions; earnings.**
 - a. Money in the several funds of a school district shall not be commingled for the purpose of making an investment authorized by this section except that (a) the board of a school district may establish and maintain one common debt retirement fund for issues of bonds of similar character, (b) the board of a school district, by resolution, may authorize the treasurer to combine money from more than one fund for the purpose of making an investment authorized by Subsection (1) (h)*.
 - b. Earnings of an investment shall become a part of the fund for which the investment was made. When money of more than one fund of a single district or money of more than one district are combined for an investment pool authorized by Subsection (1) (h)*, the money shall be accounted for separately, and the earnings from the investment shall be separately and individually computed, recorded, and credited to the fund or district, as the case may be, for which the investment was acquired.

* (1)(h) – Investment pools, as authorized by the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 120.111 to 129.118, composed entirely of instruments that are legal for direct investment by a school district.

6. Section 380.1274 details procurement of supplies, materials, and equipment; written policies; competitive bid; approval of purchase; adjustment of maximum amount; local policy giving preference to Michigan-based business; items purchased through cooperative bulk purchasing program; acquisition of equipment; payment; purchase of heating and cooking equipment; “Michigan-based business” defined.

Auditors should study the purchasing of public school districts to assure:

- Procurements by small purchases are properly documented.
- Procurements in excess of \$20,998 receive a sealed bid, formal advertisement, and a reasonable bid specification is used.
- Procurement base for Section 1267 pertaining to construction, renovation, repair, or remodeling is \$20,998.
- That the public school did not use a “cost plus a percentage of cost or cost plus percentage of income” method.
- If bids were accepted which allow price adjustments for changes in the base price of a product, assure that the districts validated those adjustments using the standard(s) specified in the bid.
- Bid specifications used by the district cannot limit the supplier companies’ operation or structure on geographic preference. Open and fair competition must be maintained.

Any person who develops or drafts specifications, requirements, statement of work, invitations for bid, requests for proposals, contract terms and conditions, or other documents is excluded from competing for contract awards resulting from that procurement.

B. Part 17 – Bonds and Notes

1. Sections 380.1351 through 380.1372 **Bonds and Notes.**
2. Section 380.1363 – School districts subject to revised municipal finance act; handling moneys received to discharge indebtedness.

VII. THE MUNICIPAL FINANCE ACT (Act 34 of 2001, effective March 1, 2002)

- A. Section 141.2701 – Disposition of Money Remaining in or on Account with Debt Retirement Fund. Money remaining in a debt retirement fund from the levy of a tax or an account within a debt retirement fund from the levy of a tax after the retirement of all municipal securities payable from that fund shall be used in the following order or priority:
1. To pay other outstanding unlimited tax full-faith and credit municipal securities
 2. To pay other outstanding limited tax full-faith and credit municipal securities
 3. To be deposited in the general fund
- B. Section 141.2705 – Separation and Use of Debt Retirement Funds
Debt retirement funds, except in the case of a common debt retirement fund maintained by a school district pursuant to Section 1223 of the Revised School Code, shall be accounted for separately and, debt retirement funds, except as provided in Section 701(5), shall be used only to retire the municipal securities of the municipality for which the debt retirement fund was created.

VIII. ECONOMIC DEVELOPMENT TAX INCENTIVE PROGRAMS

Several state laws enable municipalities to attempt to stimulate economic growth and commercial and industrial expansion in Michigan. These laws either cut property taxes or allow tax revenue to be diverted or “captured” from other taxing units, such as school districts, often at the discretion and initiative of local municipalities seeking to influence business location or expansion in their communities. School districts annually lose substantial amounts of tax revenue from these programs. When faced with this situation, the best course of action available to a school district is to become knowledgeable of the government statute and exercise whatever options may be allowed under the law.

A. Discussion of the Issue:

State laws provide two distinct approaches to stimulate economic development through the property tax system: Tax Increment Financing (TIF) and Tax Abatements.

3. Tax Increment Financing: Tax increment financing is used by local governments to finance infrastructure improvements. It allows public projects in a designated area to be financed by diverting or “capturing” revenue derived from increases in property value as compared with an established base valuation. An example of how this works is shown below:

| | |
|-----------------------------------------------------|--------------|
| Initial Assessed Value of Tax Increment Area | \$10,000,000 |
| Assessed Value of new private development | \$1,500,000 |
| Inflationary Increase in value of existing property | \$500,000 |
| Total Assessed Value | \$12,000,000 |

| | |
|--------------------------------|--------------------|
| LESS: | |
| Initial Assessed Value | \$10,000,000 |
| Captured Assessed Value | \$2,000,000 |

In the above example, all taxes generated from millage levied by local taxing units such as school districts on the \$2,000,000 of “captured” assessed value is diverted to the use of whatever Tax Increment Financing (TIF) authority is in place in the area. A school district levying 18 mills could lose at least \$36,000 in tax revenue on the increased value of “captured” property within the TIF authority for each year of the life of the authority. Ten state laws authorize tax increment financing in Michigan: the Downtown Development Authority (DDA) Act, P.A. 197 of 1975; the Tax Increment Finance Authority (TIFA) Act, P.A. 450 of 1980; the Local Development Financing (LDF) Act, P.A. 281 of 1986; the Brownfield Redevelopment Financing (BRF) Act, P.A. 381 of 1996, the Tax Reverted Clean Title Act, P.A. 260 of 2003, the Historical Neighborhood TIFA Act, P.A. 530 of 2004; the Corridor Improvement Authority Act, P.A. 280 of 2005; the Neighborhood Improvement Authority Act, P.A. 61 of 2007; the Water Resource Improvement TIFA Act, P.A. 94 of 2008, and the Nonprofit Street Railway Act, P.A. 35 of 1867, as amended by P.A. 486 of 2008. Each authority has specific powers and limitations. For a detailed analysis of each, the individual statute should be consulted. Only the following six laws allow capture of school taxes:

- a. **Downtown Development Authority (DDA) Act, P.A. 197 or 1975:**
 The DDA Act may be used by a city, township or village in an area of the downtown of a municipality zoned and used principally for business. The purpose of a DDA is to prevent deterioration and promote economic growth within a business district by developing, adopting, and implementing development plans. The Authority may construct, rehabilitate, equip, improve, maintain, or operate any building within the downtown district for public or private use. To support these activities, the Authority may obtain revenue from several sources, including:
 - Incremental tax revenue on “captured” property. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)
 - Tax revenue generated from up to 2 mill taxing authority.
 - Proceeds from revenue bonds.
 - Leased or owned property rented for profit.
 - Loan proceeds from the governing municipality.
 - Proceeds from state and federal grants or public/private contributions.
- b. **Tax Increment Finance Authority (TIFA) Act, P.A. 450 or 1980:**
 The TIFA Act authorized cities to create a TIFA district, with specific boundaries, anywhere in the city, not just downtown. The TIFA is governed by a 7-13 member board of directors appointed by the city council. The purpose of a TIFA is to halt a decline in property values and promote growth within an area designated as a TIFA district. A TIFA has broad powers to plan and implement projects within the boundaries of the TIFA district. To support its activities, a TIFA may:
 - “Capture”: all taxes levied by any taxing authority within the TIFA district on incremental property values above those established at the inception of the TIFA. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay

obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)

- Plan, development, acquire and control property.
- Borrow from the governing city council.
- Issue revenue bonds to finance large projects.
- Receive public and private contributions as well as state and federal grants.

P.A. 280 of 1986 amended the Tax Increment Finance Authority Act to prohibit the establishment of a new authority or expansion of an existing authority district after December 31, 1986. Existing authorities were not eliminated under this legislation and will continue to function indefinitely or until they are dissolved by their governing body.

c. **Local Development Financing (LDF) Act, P.A. 281 of 1986:**

The LDF Act succeeds P.A. 450 and is an attempt to improve on the previous legislation. Unlike either P.A. 197 (DDA) or P.A. 450 (TIFA), Public Act 281 (LDF) can only be used to provide public facilities for manufacturing and agricultural processing activities. The authority may, however, be created by a city, village or urban township, not just by a city as under P.A. 450. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993, and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.) P.A. 281 attempted to remedy other deficiencies by:

- Not allowing for the capture of a facility's taxes if the construction of the facility has the effect of transferring 50 or more jobs from another municipality unless permission is given by the affected community.
- Excluding debt millage.
- Requiring Board of Control to consist of one representative appointed by the county board of commissioners, one representative of any local community college or junior college whose revenues are affected by the plan, two representatives of any unit of government levying at least 20 percent of total *ad valorem* property taxes in the development area (school district), and not less than seven members appointed by the chief executive officer of the city, village or urban township creating the authority.

The reduction in school operating millage resulting from the adoption of Proposal A created an uncertainty for LDFs, DDAs, and TIFAs to meet their obligations. The legislature passed Acts 280, 281, 282, P.A. 1994, to help reduce the impact of the school finance reform on DDAs, TIFAs, and LDFs respectively. The new amendments provide authorities, with eligible obligations, a three-step process to fund the related debt. If the first step does not provide sufficient funding, the authority goes to the next step.

The three steps are: 1) captured school revenues; 2) captured revenues from non-school millage; and 3) the state will provide reimbursement to the authorities up to the amount that would have been captured if the 1993 school millages were still being levied.

d. **Brownfield Redevelopment Financing (BRF) Act, P.A. 381 of 1996:**

The BRF Act may be used statewide to capture taxes from a site of environmental contamination in order to pay for clean-up costs of the site. The act may also be used to pay for infrastructure improvements in certain "qualified local governmental units." A plan may capture local school district operating taxes and the SET without state approval to pay for limited environmental assessments and planning, but otherwise may capture school taxes only if the work done at the property is consistent with a work plan approved by the

Department of Environmental Quality (DEQ) before January 1, 2013, or by the Michigan economic growth authority.

e. **Smart Zones Act, P.A. 248 of 2000:**

Smart Zones expanded the LDF Act to allow the creation of up to 10 “Certified Technology Parks,” a type of high technology industrial park. Subsequent legislation allowed the MEDC to designate an additional eight Smart Zones. The Smart Zones may capture ½ of local school operating taxes and SET, with approval of the state treasurer.

f. **Tax Reverted Clean Title Act, P.A. 260 of 2003**

For five years after a land bank authority sells property, 50% of the specific tax on the property is retained (captured) by the authority as provided in the Land Bank Fast Track Act, P.A. 258 of 2003. No ad valorem tax is captured under this act.

g. **Corridor Improvement Authority Act, P.A. 280 of 2005:**

Allows an authority to capture taxes in a development area that is by either an arterial (major) highway, or a collector road that connects local roads to an arterial road. In a city with a population of 700,000 or more on land owned by the state of Michigan on December 31, 2003 and subsequently sold, a plan may capture school taxes and SET, if approved by Michigan Economic Growth Authority. (This provision was written for the State Fairgrounds property in Detroit.) Otherwise, plans under this act may not capture school taxes.

2. Tax Abatements:

Tax abatements were designed to provide a stimulus in the form of significant property tax reductions to industrial and commercial interests to renovate and expand aging plants and commercial facilities in Michigan. There is one primary instrument for providing tax abatement incentives: The Plant Rehabilitation and Industrial Development District Act, P.A. 198 of 1974.

Other tax incentives have more recently been permitted in an effort to revitalize economically distressed areas of the state, both urban and rural; these include the Michigan Renaissance Zone Act, Neighborhood Enterprise Zones, the Commercial Rehabilitation Act, the Obsolete Property Rehabilitation Act and personal property tax waivers.

a. **The Plant Rehabilitation and Industrial Development District Act, P.A. 198 or 1974:**

The legislative body of a local governmental unit (city, township or village) is authorized under P.A. 198 of 1974 to issue an industrial facilities exemption certificate to a replacement facility (including a restored facility), a new facility or a speculative building. A facility issued an exemption certificate is exempt from *ad valorem* taxation but is subject to the industrial facilities tax. Industrial property eligible for an exemption certificate includes land improvements, buildings, structures, and other real property and machinery, equipment, furniture, and fixtures used in the manufacturing and processing of goods or materials. Recent legislation now includes creation and synthesis of biodiesel fuel, high technology activity, qualified start-up businesses and logistical optimization centers as types of activities that qualify for an IFT exemption. The duration of the exemption is left to the discretion of the local legislative body but may not extend beyond 12 years after the completion of the facility.

The manner in which the industrial facilities tax is calculated and the amount of the tax is dependent on the type of facility qualifying for the exemption. For a

new facility or speculative building, the total taxable value of the facility (excluding land) each year is multiplied by one-half of the total mills levied by all taxing jurisdictions in the district, except that the Michigan Economic Development Corporation may require the facility to pay 0, 3, or all 6 of the State Education Tax Mills. The net effect is that the industrial facilities tax is about 50% of what taxes would be if the facility were subject to general *ad valorem* property taxation. For a replacement or restored facility, the taxable value of the obsolete facility (excluding land) in the year preceding the issuance of the industrial facilities exemption certificate is multiplied by the total mills levied by all taxing jurisdictions in the district. The industrial facilities tax, in effect, exempts from taxation the increased value of the replacement or restored facility for a period of up to 12 years. Industrial facilities tax receipts are distributed among the taxing jurisdictions in the same manner as *ad valorem* property taxes, except that the share of the tax attributable to local school operating mills is paid to the school aid fund. The share of IFT attributable to special education and vocational education mills levied by "in-formula" ISDs is also paid to the state school aid fund (see A(p) below). Upon expiration of the certificate, the abated facility is placed on the *ad valorem* property tax roll.

b. Michigan Renaissance Zone Act, P.A. 376 of 1996:

The state administrative board with recommendations from the president of the Michigan Strategic Fund is authorized under P.A. 376 of 1996 to designate 11 areas in Michigan as Renaissance Zones. Effective January 1, 1997, an individual living in or a business located in a Renaissance Zone will receive an exemption, deduction or credit from certain state and local taxes for up to 15 years. Enabling legislation which was passed after P.A. 376 exempts individuals and businesses in a Renaissance Zone from various taxes including, but not limited to, the following state and local taxes: Michigan Business Tax; Michigan Income Tax; Michigan's 6-mill State Education Tax; local personal and real property tax, other than sinking fund mills, ISD enhancement mills, debt mills, and special assessments (The Court of Appeals has ruled that RZ property is exempt from school debt mills. The ruling will likely be appealed.); City Income Tax; and Utility Users Tax. The obvious impact to schools is a reduction in local tax revenue; however, school operating tax revenue lost as a result of exempting property under this act is reimbursed by the state to the schools via Section 26a of the State Aid Act. State school aid calculations use districts' taxable values including the value of renaissance zone property.

P.A. 259 of 2000 and subsequent legislation created 20 Agricultural Processing Renaissance Zones that provided tax breaks for specific areas that meet the agricultural processing requirements.

P.A. 512 of 2002 created one Alternative Energy Renaissance Zone for a term not longer than 20 years that promotes research, development and manufacturing of alternative energy technology.

P.A. 266 of 2003 created tool and die renaissance recovery zones to allow eligible tool and die businesses to qualify for tax breaks associated with renaissance zones. These recovery zones are industry-based and are company specific. The boundaries of the zone may include more than one local unit.

Other legislation created renaissance zones for renewable energy and forest product processing zones.

c. **Neighborhood Enterprise Zone Tax Abatements, P.A. 147 of 1992:**

This abatement provides for the development, rehabilitation of residential housing located in eligible distressed communities. In lieu of general property taxation for up to 15 year after rehabilitation or completion of a facility that is granted an exemption, certificate holders pay a specific tax known as the Neighborhood Enterprise Zone Tax. For the Neighborhood Enterprise Zone Tax, the ISD millage for in-formula districts is paid to the School Aid Fund. Applications are filed, reviewed and approved locally while the State Tax Commission is responsible for final approval.

There are different tax rates and bases depending on the type of facility that qualifies for the NEZ exemption. The most common type is a new facility that is a principal residence where the tax rate on the property is one-half the statewide average on principal residence property from the preceding year. In 2010, the NEZ millage rate on a principal residence new facility was 15.665 mills.

A rehabilitated facility has a frozen value and pays no taxes on the improvements. A recent legislative change creates a homestead facility which provides a 50 percent tax exemption on local unit and county operating millage.

A homestead facility must be located within an established NEZ and be purchased or transferred to the owner after December 31, 1997. Please see the State Tax Commission website for further information.

d. **Michigan State Housing Development Authority (MSHDA) Act, P.A. 346 of 1966**

Housing projects financed with a federally-aided or authority-aided mortgage and owned by a nonprofit housing corporation, consumer housing cooperative, or a limited dividend housing corporation, receiving benefits under the MSHDA Act is exempt from ad valorem property taxation and is subject to a specific tax of up to 10% of rent, as determined by the local government. The specific tax is distributed based on ad valorem millage rates; the local school operating share is calculated using the 1993 rate less six mills and is paid to the school aid fund. All ISDs receive their share of the MSHDA specific tax.

Note the MSHDA specific tax provisions are entirely separate from MCL 211.7d that requires the State Treasurer to make a payment in lieu of tax for certain housing facilities for the elderly and disabled. The 211.7d property remains on the tax roll, and the state payments are simply distributed like a property tax. The state does not make a payment for SET, and starting in 2010, will not make a payment for school operating tax. Therefore the 211.7d property should be classified as 100% PRE, beginning in 2010.

e. **Commercial Forest Program, MCL 324.51105 (formerly PA 94 of 1925**

Land enrolled in the commercial forest program is exempt from ad valorem taxation. Landowner and State each pay \$1.20 per acre. For FY 2010 and FY 2011, the state payment is prorated. The payments are distributed like IFT, except that all ISDs receive their share of the first 15 cents of landowner tax and the first 25 cents of state payment, and the local school operating share is calculated using the district's 1993 rate less six mills.

- f. **Mobile Home Trailer Coach, P.A. 243 of 1959, MCL 125.1041**
Occupied trailer coaches (including mobile homes) in licensed trailer coach parks pay a \$3 per month specific tax; \$2 is paid to the school aid fund; 50 cents to the county; and 50 cents to the municipality.
- g. **DNR-Purchased Lands, MCL 324.2154**
On land purchased by DNR after 1932, the state pays a specific tax based on the 2004 taxable value of the property (adjusted for inflation after 2008) and the local millage rates (not to exceed the 2004 rates); SET and special assessments are not paid. Property is classified as qualified agricultural property, so the state does not pay school operating mills. Beginning in 20007, the property is listed on a separate tax roll, but must still be included in districts' reported taxable values.
- h. **DNR-Tax Reverted, Recreation, and Forest Lands, MCL 324.2150**
On lands held by DNR, except land purchased after 1932, the state pays a specific tax of \$2 per acre, one-half going to the county and one-half going to the township.
- i. **Low-grade Iron Ore Specific Tax, P.A. 77 of 1951.**
Low-grade iron ore mining property pays a specific tax based on the price of ore extracted and the five-year average production. The specific tax is distributed like a property tax, with the school operating share calculated using the 1993 rate less six mills and the school operating share paid to the school aid fund. Currently two mines in Marquette County are subject to the tax. Because Marquette ISD receives no special ed. millage equalization funding under section 56 (and levies no voc. ed. millage), it receives its full share of the iron ore tax.
- j. **Tax Reverted Clean Title Act, P.A. 260 of 2003:**
For five years after property is sold by a land bank fast track authority, the property remains exempt from ad valorem property tax but is subject to the eligible tax reverted property specific tax (ETRPST). One-half of the specific tax is paid to the land bank authority; the other half is paid to the taxing units based on their millage rate. The local school operating share is paid to the school aid fund. The ISD share is distributed as described in E2 below.
- k. **Commercial Rehabilitation Act, P.A. 210 of 2005:**
This act offers owners of certain rehabilitated commercial facilities in certain districts property tax abatement for up to 10 years. The property must meet the required obsolescence of the act as determined and certified by the local unit assessor. A property must receive final approval from the State Tax Commission. The property taxes are based on prior year's taxable value for millage other than school related millages. There are no tax cuts for school millages.
A certificate holder remits a commercial rehabilitation tax in lieu of the *ad valorem* property tax. For the commercial rehabilitation tax, the local school operating millage and ISD millage for in-formula districts are remitted to the School Aid Fund.
- l. **Obsolete Property Rehabilitation Act, P.A. 146 of 2000:**
This act provides commercial and commercial housing property tax exemptions for 1 to 12 years from the *ad valorem* property tax. The property that is rehabilitated must meet obsolescence requirements as provided by the act and be located in a qualified governmental unit.
The exemption from *ad valorem* property taxes does not include land or personal property. Certificate holders pay a specific tax known as the Obsolete Properties Tax. The value of the property before rehabilitation is frozen and is subject to the full millage rate of the local unit in which it is located. The increased value of the facility from rehabilitation is exempt from all local unit millage. The State Treasurer can grant an exemption of one-half of the local school operating

millage and the SET for up to 25 certificates a year. For the obsolete properties tax, the local school operating millage and ISD millage for in-formula districts are paid to the School Aid Fund.

m. **Personal Property Tax Waiver, P.A. 328 of 1998:**

This act provides a 100 percent personal property tax exemption for specific businesses (primarily engaged in manufacturing, mining, research and development, wholesale trade or office operations) located in eligible distressed communities. The exemption is for all new personal property placed in a district established by a local unit of government which also determines the number of years granted for the exemption. The State Tax Commission is responsible for final approval. See the State Tax Commission website for approved exemptions.

n. **Commercial Redevelopment Act, Public Act 255 of 1978:**

Public Act 227 of 2008 reauthorized use of this act to provide a property tax abatement for a mixed-use development that includes high-density residential use in a qualified downtown revitalization district.

o. **Summary of specific tax distributions affecting local school districts:**

- 1) Except for IFT, obsolete properties tax, ETRPST, 211.7d, DNR-purchased lands, DNR-tax-reverted lands, and mobile home tax, the local school operating share of the specific taxes is calculated using the district's 1993 operating millage rate less six mills.
- 2) The local school operating share of specific taxes is paid to the school aid fund.
- 3) Local school districts keep the share of specific taxes attributable to debt, sinking fund, and recreation mills.

p. **Summary of specific tax distributions affecting ISDs:**

- 1) For IFT, NEZ, OPRA, Commercial Forest Tax, Commercial Rehabilitation Tax, Commercial Facilities Tax, ETRPST, and Iron Ore Tax only:
 - i) The share of the tax attributable to ISD special ed. mills is paid to the school aid fund if the ISD receives special ed. millage equalization funding under section 56 (ICD 450); and
 - ii) The share of the tax attributable to ISD vocational ed. mills is paid to the school aid fund if the ISD receives voc. ed. millage equalization under section 62 (ICD 510).
- 2) Otherwise, the ISD share of specific taxes is paid to the ISD.

B. Impact of Tax Increment Financing:

Although school districts and other local governmental taxing units are thought to be most heavily impacted by Tax Increment Financing, the State of Michigan is a major contributor through the school aid fund. Normally, when taxable value increases, school aid payments decrease proportionately. However, the School Aid Act has been amended to exempt increased taxable value captured by a tax increment plan from the calculation of state aid. School aid payments to these districts are, therefore, increased from the levels that they would otherwise be. Thus, state school aid fund monies are diverted to replace monies captured by the TIFs. Similarly, the state school aid fund replaces monies lost as a result of exempting property within renaissance zones.

Tax increment financing affects the state budget in another manner also. When property tax abatements are used as an inducement for industrial and commercial development, the business that receives the abatement pays a specific tax in lieu of the property tax. For example, the specific tax under P.A. 198 of 1974 is known as the industrial facility tax (IFT). The portion of IFT due to a school district for operating millage is paid instead to the school aid fund. However, if the IFT revenues are captured by a tax increment finance plan, the revenues flow to the TIF authority instead of the state.

Districts faced with the implementation of a Tax Increment Financing plan should contact the Michigan Department of Education, State Aid and School Finance Office, to assure that any taxable value adjustments are properly noted.

C. Cautions:

If the amount of school taxes captured by a TIF plan exceeds the eligible obligations, refunds are to be made from the TIFAs to the school districts. These amounts must be reported to the Michigan Department of Education, State Aid and School Finance Office, so that state aid can be recalculated.

School districts should be aware there are differences in the way that tax collecting treasurers handle the distribution of current and delinquent tax collections within their respective communities.

Tax levy adjustments (board of review, tribunal, etc.) and charge-backs are to be made in total against the payments made to the tax increment financing authority until those amounts equal the amount of taxes previously distributed to the tax increment financing authority. School districts concerned with the method of distribution used by their local or county treasurer may contact the Michigan Department of Treasury, Local Government Audit Division for guidance.

“Out of Formula” ISDs (ISDs not receiving Section 56 or 62 State Aid) should ensure they are receiving their full share of specific taxes since it is possible the local unit treasurer may be remitting the ISD taxes to the state. It would be wise to notify all local unit treasurers that you are an “out of formula” ISD and, as such, are entitled to receive all specific tax amounts.

D. Suggested Audit Procedure for Tax Increment Financing Plans:

1. Check the Form 2604 to determine if there are TIF plans (DDA, LDFA, or TIFA) operating in the district, which might be capturing school taxes. If there are no TIF plans that might be capturing school taxes from the school district, skip audit step 2a and go to audit step 2b.
2. a. For DDA, LDFA, TIFA: For each of the TIF plans that might be capturing school taxes from the school district, ask the school district for:
 - Michigan Department of Treasury Form 2604, entitled, “Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount,” OR
 - Michigan Department of Treasury Form 2967, entitled, “Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount for Plans Capturing Taxes from Two or More School Districts.”

The 2604 and 2967 forms are prepared by the DDA, LDFA, and TIFA authorities, and the authority should send a copy to the school district each year. The due date for the form is July 31. There should be one form for each TIF plan reported as capturing school taxes from the school district. Compare the captured assessed values (CAV) on the 2604 and 2967 forms (step 5, line 27) to the value reported by the county to the Michigan Department of Education via the web at <http://mdoe.state.mi.us/taxvalue> (Form DS-4410-B).

Additional information for DDAs, LDFAs, and TIFAs: Forms 2604-2967 also report the amount of school taxes that the plan may capture (in tax dollars) in

step 5, line 12. Line 12, column A is the amount the authority has calculated as the allowable capture. Column B is the amount the authority is reporting it DID capture. Columns C and D are the adjustments the authority is reporting (the difference between the allowable amount and the amount it DID capture). Line 12 includes school operating mills from *ad valorem* property and school debt mills from all property. Step 5, worksheet A shows the detail of all calculations.

- b. For TIF plans under the Brownfield Redevelopment Finance (BRF) Act: BRF authorities do not file Form 2604/2967. If there is a BRF authority, contact the authority or the local treasurer to determine the amount, if any, of *ad valorem* Commercial Personal and Other Non-homestead local school operating taxes captured by the BRF authority. For 2010 (FY11), the amount of Other Non-homestead captured assessed value equals the 2010 Other Non-homestead local school operating taxes captured divided by the Other Non-homestead school operating millage rate (e.g., 0.018). For commercial personal property, use the rate levied (e.g. 0.006). Add any non-homestead captured value for school operating taxes under the BRF Act to the DDA, LDFA, and TIFA captured values under a), and compare the total to the values reported to the MDE at <http://mdoe.state.mi.us/taxvalue>. For questions regarding the BRF Act, please contact Jim Mills, Michigan Department of Treasury, and (517) 335-4669.
3. The auditor should note any discrepancies in the management letter with instructions for the district to notify the county treasurer. If there is a discrepancy, the auditor should send a copy of the management letter to Phil Boone, MDE.
 4. If a school has received revenue from a TIF plan, verify that the reported captured value has been reduced to reflect the payment to the school district. If the captured value has not been properly reduced, note the discrepancy in the management letter with instructions for the district to notify the county treasurer. If there is a discrepancy, the auditor should send a copy of the management letter to Phil Boone, MDE.
- E. Suggested Audit Procedures for Tax Abatements
- 1, For local school districts:
 - a. Verify the districts have received their share of specific tax payments for debt mills, sinking fund mills, and recreation mills.
 - b. Verify the districts' share of specific tax payments for operating mills has been paid to the school aid fund, not the local school district.
 2. For ISDs:
 - a. Verify the districts have received their share of specific tax payments for debt mills and enhancement mills.
 - b. For ISDs receiving funding under section 56, verify that the special ed. mills share of specific tax payments specified in A(p) above has been paid to the school aid fund.
 - c. For ISDs receiving funding under section 62, verify that the vocational ed mills share of specific tax payments specified in A(p) above has been paid to the school aid fund.
 - d. For "out-of-formula" ISDs, verify that the share of specific tax payments for special ed and voc. ed mills has been paid to the ISD.
- F. Suggested Audit Procedures for Renaissance Zone (RZ) Payments (section 26a)
RZ payments reimburse for property taxes not collected due to the RZ program. The RZ payments should be considered part of a district's foundation allowance payments. The RZ payment is not in addition to a district's foundation allowance revenues, and should not be budgeted or treated as "extra" revenue.

G. Suggested Audit Check for Combined State and Local Revenue

The following per pupil amounts should total to a district's per pupil foundation allowance:

- a) property tax revenue (current year)
- b) delinquent tax revolving fund pay-out (before charge-back deduction)
- c) uncollected personal property tax
- d) Proposal A obligation payment
- e) Discretionary payment
- f) Renaissance Zone payment

If the sum of (a) – (f) is materially different than the district's foundation allowance totals, the auditor should note any material discrepancy in the management letter and send a copy of the management letter to Phil Boone, MDE.

IX. PROPERTY TAXABLE VALUES

1. "Taxable value" means the taxable value of property as determined under Section 27a of the General Property Tax Act, 1893 PA 206, MCL 211.27a (the State School Aid Act of 1979, Act 94 of 1979, Article I, 338.1606[17]).

The Office of State Aid and School Finance is responsible for generating state school aid payments, an amount in excess of \$11 billion this current fiscal year. The taxable value of property and pupil counts are the two main components of the foundation formula which regulates how much each school district, public school academy, and intermediate school district is paid each year. Determination of taxable value is covered in the State School Aid Act of 1979, Act 94 of 1979, Article 12, 388.1721, Sec. 121, 122, and 124, Reporting of Value. Requirements of reporting are also found in the State School Aid Act of 1979, Act 94 of 1979, Article 15, 388.1751, Sec. 151.

2. Suggested Audit Procedures
 - a. Reconcile the total non-PRE and commercial personal taxable value on the taxable value website to the State Aid Status Report. The taxable value website reports a district's taxable value by local unit within a county. Note: A district may have more than one unit and may be in more than one county. However, the data on the website is aggregated by district and includes the values from all counties and units.
 - b. Inquire of the school district whether there are any taxable value adjustments that have been reported to them but are not reported by the county to the state.
 - c. Any discrepancies should be noted in the management letter with instructions for the district to notify the county treasurer and Phil Boone, MDE.
3. Contact Persons:

Phil Boone
Office of State Aid and School Finance
Michigan Department of Education
(517) 335-4059
BooneP2@michigan.gov

Bond Construction and Sinking Funds

X. UNIVERSAL SERVICE FUND

FEDERAL OVERVIEW

Federal Agency

Federal Communications Commission
Universal Service Administrative Company (Administrator)

Authorization

The Federal E-Rate Program was created by 47 U.S.C. § 254 (the Act), in which Congress directed the Federal Communications Commission (“FCC”) to implement regulations designed for the preservation and advancement of “universal service.” Those regulations are published at 47 C.F.R., Part 54 (§§ 4.1 to 54.904). The Universal Service program is administered by the Universal Service Administrative Company, with the Schools and Libraries Division administering the schools and libraries portion. 47 CFR §54.701.

Beneficiary Eligibility Requirements

In general, a school is eligible for Schools and Libraries support if it meets the following eligibility requirements

(<http://www.usac.org/sl/applicants/step01/eligibility-requirements.aspx>):

Schools must provide elementary or secondary education as determined under state law.

- Schools may be public or private institutional day or residential schools, or public charter schools.
- Schools must operate as non-profit businesses.
- Schools cannot have an endowment exceeding \$50 million.

In many cases, non-traditional facilities and students may be eligible.

- Eligibility of Head Start, Pre-Kindergarten, Juvenile Justice and Adult Education student populations (<http://www.usac.org/sl/applicants/step01/non-traditional-k-12/>) and facilities depends on state law definitions of elementary or secondary education.
- An Educational Service Agency [aka ISD, RESA, RESD] (<http://www.usac.org/sl/applicants/step01/esa-guidelines/>), which may operate owned or leased instructional facilities, may be eligible for Schools and Libraries support if it provides elementary or secondary education as defined in state law.

The Act requires that: all telecommunications carriers serving a geographic area shall, upon a bona fide request for any of its services that are within the definition of universal service under subsection (c)(3) of this section, provide such services to elementary schools, secondary schools, and libraries for educational purposes at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the Commission ... determines is appropriate

and necessary to ensure affordable access to and use of such services by such entities.

STATE OVERVIEW

The Michigan Department of Education (MDE), Office of Grants Coordination and School Support, Education Technology Unit, is responsible for state administration of the USF program. State activities are not required by law, but include technical assistance to schools, districts, and ISDs on Technology Planning, application completion, Program Integrity Assurance, and Invoicing. Activities also include Train-the-Trainer sessions in Washington DC, on-site and two-way interactive video outreach and training, website and listserv maintenance, and technical assistance on audits and appeals.

| <u>Forms Description</u> | <u>Due Date</u> |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <u>Technology Plan</u> | <u>Three year cycle – July 1 to June 30 (written before filing 470, Approved before Service Start Date)</u> |
| <u>Form 470</u> | <u>28-days before the close of the Form 471 Window</u> |
| <u>Form 471</u> | <u>Based on published date in the Federal Register of the Eligible Services List</u> |
| <u>Form 486</u> | <u>120 days from Start of Services or Funding Commitment Decision Letter, whichever is later</u> |
| <u>Form 472/474</u> | <u>120 days from last date to receive services</u> |

The Universal Service Administrative Company website contains general and specific information regarding Funding Year submission deadlines, eligible entities and services, rural and urban designations. The technology plan website, techplan.org (www.techplan.org) contains general and detailed information and instructions on filing, reviewing, amending, and final tech plan approval.

DISTRICT CONSIDERATIONS

Technology Planning

Schools, school districts, and libraries that want to apply for Schools and Libraries support, commonly referred to as "E-rate," must first prepare a [technology plan](#). An approved technology plan sets out how information technology and telecommunications infrastructure will be used to achieve educational goals, specific curriculum reforms, or library service improvements. **NOTE: Applicants that seek Schools and Libraries Program support only for [basic telephone service](#) do not need a technology plan.**

A technology plan designed to improve education or library services should cover the entire funding year (July 1 to June 30) but not more than three years. The plan must contain the following five elements:

- Goals and realistic strategy for using telecommunications and information technology
- A professional development strategy

- An assessment of telecommunication services, hardware, software, and other services needed
- Budget resources
- Ongoing evaluation process

The technology plan must be approved by a USAC-certified technology plan approver before discounted services can begin. The MDE is the certified technology plan approver for public schools (www.techplan.org). Non-public schools and other entities that do not secure approval of their technology plan from MDE may locate a USAC-certified technology plan approver (<http://www.usac.org/sl/tools/search-tools/tech-plan-approver-locator.aspx>) here, or they may use the Michigan Department of Education MEGS system to file.

Open a Competitive Bidding Process (Form 470)

Applicants must file a new [Form 470](#) each funding year for requests for tariffed or month-to-month services and for new contractual services. When the Form 470 is filed, USAC will make it available to interested service providers by posting it to the USAC website. A new Form 470 is **not required** if an applicant intends to seek discounts on services provided under a multi-year contract executed under a posted Form 470 in a prior funding year. The Form 470 must be completed by the entity that will negotiate for eligible products and services with potential service providers. A service provider that participates in the competitive bidding process as a bidder cannot be involved in the preparation or certification of the entity's Form 470.

Applicants **must**:

- [Describe specific services](#) or functions for support
- Identify the correct [category of services](#): telecommunications, Internet access, internal connections, or basic maintenance of internal connections
- Identify recipients of services for support
- Follow all applicable state and local procurement laws
- Wait 28 days after the Form 470 is posted to the USAC website or after public availability of your Request for Proposals (RFP), whichever is later, before selecting a vendor or executing a contract ([see: Select the Most Cost-Effective Service Provider](#))

Applicants **may**:

Use RFPs or other solicitation methods tailored to specific needs and circumstances **in addition to** the required Form 470.

Select the Most Cost Effective Service Provider

Applicants must select the most cost-effective provider of the desired products or services eligible for support, with price as the primary factor.

- **Waiting Period.** At the conclusion of the [28-day waiting period](#) after the *Description of Services Requested and Certification Form* (Form 470) is posted on the USAC website, the applicant may select a vendor for tariffed or month-to-month services or execute a contract for new contractual services.
- **Bid Evaluation.** Applicants must [construct an evaluation](#) for consideration of bids received in response to the posting of the Form 470 that makes price the primary factor in the selection of a vendor.
- **Contract Guidance.** Applicants may also choose vendors from a State Master Contract, execute multi-year contracts pursuant to a Form 470, and enter into voluntary contract extensions, but certain additional [contract requirements](#) apply. In all cases, applicants must comply with state and local procurement laws.
- **Document Retention.** Applicants must save all documentation pertaining to the competitive bidding process and vendor selection for five years. Applicants must certify and acknowledge on the Form 470 and the *Services Ordered and Certification Form* (Form 471) that they may be audited and that they must retain all records that can verify the accuracy of information provided.

Calculate the Discount Level

An applicant that applies for Schools and Libraries Program support for eligible services must calculate the discount percentage that it and the schools or libraries it represents are eligible to receive.

Applicants use the [Services Ordered and Certification Form \(Form 471\)](#) to calculate the discount and begin by listing the recipients of services for support. FCC rules include a [discount matrix](#) that takes into consideration poverty level and the [urban or rural location](#) of the participating entity. For detailed information about how to calculate the percentage discount and complete the Block 4 Worksheet of Form 471, read [Form 471 Instructions](#) for the Block 4 Worksheet.

Schools

- The primary measure for determining Schools and Libraries support discounts is the percentage of students eligible for free and reduced lunches under the National School Lunch Program (NSLP), calculated by individual school.
- A school district applicant calculates its shared discount by calculating a weighted average of the discounts of all individual schools included in the school district.

Consortia

- A consortium calculates its shared discount by calculating the average of the discounts of all eligible libraries and schools that are included in its membership.

Urban or Rural

- Every school or library in the United States is located in either a rural or an urban area, based on Metropolitan Statistical Area (MSA) data.
- The applicant must determine if the individual school or library is [rural or urban](#) to properly calculate its percentage discount.

Non-instructional Facilities

- Non-instructional facilities (<http://www.usac.org/sl/applicants/step05/non-instructional-facilities.aspx>) that serve educational purposes may be eligible to receive discounts on telecommunications and Internet access services (Priority 1 services).

The Discount Matrix

- An applicant for discounts on eligible services must calculate the percentage discount that it (and the entities it represents) is eligible to receive. For detailed information on how to calculate the percentage discount for particular types of entities (schools, school districts, library outlet or branch, library system, or consortium), see the [Form 471 Instructions](#) for the Block 4 Worksheet.

| INCOME Measured by % of students eligible for the National School Lunch Program | URBAN LOCATION Discount | RURAL LOCATION Discount |
|------------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| If the % of students in your school that qualifies for the National School Lunch Program is... | ...and you are in an URBAN area, your discount will be... | ...and you are in a RURAL area, your discount will be... |
| Less than 1% | 20% | 25% |
| 1% to 19% | 40% | 50% |
| 20% to 34% | 50% | 60% |
| 35% to 49% | 60% | 70% |
| 50% to 74% | 80% | 80% |
| 75% to 100% | 90% | 90% |

Determine Your Eligible Services

Applicants may request discounts for eligible products and services delivered to eligible entities for eligible purposes. Applicants file a Services Ordered and Certification Form (Form 471) to request discounts on the cost of eligible services

to be delivered to eligible schools, libraries, and consortia of these entities. Eligibility for discounts requires that the product or service is eligible and that it is put to an eligible use at an eligible location by an eligible entity. Four categories of eligible services have been established by the Federal Communications Commission (FCC):

- Telecommunications Services
- Internet Access
- Internal Connections
- Basic Maintenance of Internal Connections

Services and products may be eligible, not eligible, or conditionally eligible for support. The schools and libraries Eligible Services List (<http://www.usac.org/sl/tools/eligible-services-list.aspx>) provides details about eligible equipment and services and the conditions under which they are eligible. Eligibility is based on criteria established by statute and FCC rules.

Submit Application for Support (Form 471)

The Services Ordered and Certification Form (Form 471) is the key form used to assure that schools and libraries receive appropriate Universal Service Fund support, comply with eligibility requirements, and take steps to use the supported services effectively.

Form 471 - Services Ordered and Certification Form

- May be filed online or on [paper](#)
- Must be certified by an authorized person to be considered complete
- Must be postmarked or submitted online prior to the close of the application filing window for the funding year to be considered as filed within the window

Form 471 Item 21 Attachment

- Services and products for which discounts are requested must be described on the Item 21 Attachment (<http://www.usac.org/sl/applicants/step07/form471-attachments.aspx>).
NOTE: Beginning with Funding Year 2006, the Item 21 Attachment may be created and submitted online.

Form 471 Item 25 Certification

Applicants must certify that they have secured access to the resources necessary to pay for:

- The non-discounted portion of the costs for requested eligible services within the funding year
- The ineligible products and services necessary to make effective use of the eligible services requested

Receipt Acknowledgement Letter

- USAC will issue a Form 471 [Receipt Acknowledgment Letter](#) (RAL) to both the applicant and service provider upon successful data entry of the Form 471 and certification. Applicants should review the RAL and submit allowable corrections to USAC.

Undergo Application Review

Each application is reviewed to ensure that Universal Service Fund support is committed only for eligible products and services as well as eligible uses by eligible entities.

Review of All Applications

USAC reviews all *Services Ordered and Certification Forms* (Forms 471) to verify the accuracy of discount percentages and ensure that support is committed only for eligible products and services. USAC is committed to issuing timely Funding Commitment Decision Letters but its ability to meet that goal depends on efficient processing of application reviews.

Applicants can help speed up application reviews by:

- Submitting a complete Form 471 including required certifications and Item 21 Attachments for each funding request
- Responding to requests for additional or clarifying information within 15 days (<http://www.usac.org/sl/applicants/step08/deadline-for-information-requests.aspx>)
- Verifying that USAC has correct contact information (<http://www.usac.org/sl/about/update-contact-information.aspx>)

Selective Reviews

USAC selects some applicants for a Selective Review (<http://www.usac.org/sl/applicants/step08/undergo-selective-review/default.aspx>) to ensure that they are following certain FCC program rules. Applicants are asked to provide the following information covering all of the billed entity's Forms 471 for the funding year:

- Documentation regarding their competitive bidding and vendor selection process
- Documentation of their ability to pay their share of the cost of the products and services eligible for schools and libraries program support
- Proof that they have obtained the (ineligible) hardware, software, professional development, electrical capacity or other retrofitting, and maintenance necessary to make effective use of the requested discounts

View a sample (<http://www.usac.org/sl/applicants/step08/undergo-selective-review/selective-review-info-request.aspx>).

NOTE: Service providers may not provide responses to Selective Review

Information Requests.

The result of a Selective Review may be that funding is approved or denied. The applicant may also receive a [Resource Deficiency Advisory](#) that explains the areas USAC finds to be deficient. Applicants should consider increasing their level of investment in identified areas since USAC may follow up in subsequent years regarding the necessary resources.

Applicants may not receive direct or indirect help from service providers to pay their non-discounted share.

Receive Your Funding Decision

Following application review, USAC issues one or more Funding Commitment Decision Letters, FCDLs (<http://www.usac.org/sl/applicants/step09/funding-commitment-decision-letter.aspx>) to both the applicant and the service provider(s).

Program funding commitment decisions are issued in "waves," or regular cycles. Generally, funding year commitment waves will run on a regular bi-weekly schedule until such time that the only remaining applications are those held for heightened scrutiny.

For all certified, in-window applications, FCC rules of priority are observed in processing funding requests:

- Priority One - all eligible telecommunications and Internet access services are fully funded first
- Priority Two - eligible requests for internal connections and basic maintenance of internal connections from applicants with highest discount levels receive next priority

Applicants should carefully review their FCDL for details of approved or denied requests. Prior to the start of services for which Universal Service Fund support is approved, the applicant should review its technology plan status and its status concerning compliance with the Children's Internet Protection Act, CIPA (<http://www.usac.org/sl/applicants/step10/cipa.aspx>).

If an applicant believes that its funding request has been incorrectly reduced or denied, the applicant can appeal (<http://www.usac.org/sl/about/appeals/default.aspx>) the decision to USAC or to the FCC.

Begin Receipt of Services

Before USAC can pay invoices, the billed entity must confirm: the start date of services, approval of the technology plan, and compliance with the Children's Internet Protection Act (CIPA).

To help USAC ensure that Universal Service Fund support is paid only for

services that have actually been delivered, applicants must verify the start date of services (<http://www.usac.org/sl/applicants/step10/form486-deadlines.aspx>) and submit a Receipt of Service Confirmation Form, Form 486.

Technology plans must be approved before services start and before the applicant submits the Form 486. Applicants must be able to provide a technology plan approval letter issued by a USAC-certified technology plan approver. If the approval letter is posted on a website, the applicant should print and retain a copy.

CIPA certifications are made on either Form 486 or the Certification by Administrative Authority to Billed Entity of Compliance with the Children's Internet Protection Act (Form 479) depending on whether the applicant is the billed entity.

- If the applicant is the billed entity, it must certify on Form 486 that it is in compliance with CIPA or that CIPA does not apply because funding requests are only for telecommunications services.
- If the applicant is not the billed entity, it must submit Form 479 to the billed entity; the billed entity, as the Administrative Authority, then submits Form 486 to USAC with the CIPA certification. Applicants that are not the billed entity do not submit Form 479 to USAC.

Applicants should read [Form 486 Filing Information](#), [Form 486 Instructions](#), and [Form 479 Instructions](#) for further information including required filing dates.

Invoice USAC

After eligible services have been delivered, service providers and school and library applicants may submit invoices for Universal Service Fund (USF) support. FCC rules require USAC to pay universal service support to service providers and not directly to applicants. However, two invoice methods and program forms exist:

Service Provider Invoice (SPI) - Form 474

Service providers may submit Form 474 to USAC seeking payment for services:

- After the service provider provides the services or equipment to the applicant
- After the billed entity submits the Receipt of Service Confirmation Form, Form 486, verifying the service start date
- After the service provider has provided a discounted bill to the billed entity

Billed Entity Applicant Reimbursement (BEAR) - Form 472

The billed entity and the service provider must jointly submit the BEAR form: Following the receipt of discounted eligible services

- After the billed entity submits the Form 486

- After the billed entity has paid the total amount (including the applicant's non-discount share and the amount of USF support to be paid by USAC) to the service provider

Determining Invoice Method

Applicants should work with service providers to include a provision in contracts or service agreements specifying whether customer bills will be the total cost of services or only the customer's non-discount share. Service providers may provide applicants with discounted bills and submit the SPI to request payment from USAC for the amount of USF support to be paid. Service providers and applicants may jointly submit the BEAR when the applicant has paid the entire cost of services to the service provider. In all cases, USAC pays support to the service provider.

Service Delivery and Invoice Deadlines

The date of the Funding Commitment Decision Letter determines deadlines for service delivery and invoices. Under certain conditions, applicants may request extensions of program deadlines.

Audit Considerations

USAC urges beneficiaries to incorporate these practices in their participation in the Schools and Libraries Program.

1. Verify that there is a Technology Plan, a creation date, and approval letter. The plan should include, but not be limited to, the following:
 - Clear goals and a realistic strategy for achieving those goals
 - A professional development strategy to ensure that staff know how to use these new technologies to improve education or library services
 - An assessment of the telecommunications services, hardware, software, and other services that will be needed to improve education or library services
 - A detailed budget which supports the plan and features the acquisition and maintenance of equipment, staff training, and other needs addressed in the plan
 - Methods for evaluating the progress of the plan and for making changes or corrections to the strategy outlined in the original plan in response to new developments and opportunities including a description of the approval process for such changes and corrections
2. Verify that there is a specific individual to be responsible for oversight of the application process in order to take accountability and responsibility to ensure that it is accurate and that the equipment and services are eligible for funding. Ideally, this person should also be the contact person listed on forms filed with USAC.
3. Verify that there is a file of the *Description of Services Requested and Certification Form* (Form 470) and the *Services Ordered and Certification Form* (Form 471) applications. This file should include, but not be limited to, the following:

- A copy of the Form 470 application
- A copy of the Form 471 application
- Request For Proposal, if applicable
- Copies of all bids
- Documentation on the award process and the rationale for the bid award
- Copies of all related contracts
- Copies of all service provider invoices
- Copy of the board resolution for any contract award

4. Verify that there is a log of all communications with USAC. This includes communication between USAC and any contact person who is not the responsible individual. Each entry should include the name of the person who placed the call, the time of the call, the name of the person who responded, and the substance of the communication.

5. Verify that there is an updated list or file of the status of all work, in order to monitor both the progress of the project and the expenditure of approved funds related to the project.

6. Verify that there is a detailed asset registers (including make, model, serial number, and location), and any updated registers, for all sites to facilitate the tracking of equipment purchased with USF support. In addition, verify the diagrams that clearly show how equipment is actually connected and used. Diagrams should become part of the registers if those diagrams are available.

7. Verify reimbursement methodology:

- If the applicant seeks reimbursement via the *Billing Entity Applicant Reimbursement (BEAR) Form* (Form 472), review the form to ensure that the work has been completed, that the service provider's bill has been paid in full, and that the reimbursement amount requested is correct.
- Alternatively, if not filing Forms 472 for reimbursement, review the Quarterly Disbursement Report provided by the Schools and Libraries Program to ensure any payments to service providers are consistent with work actually performed and discounts provided on bills received.

8. Verify that there is a file for each Form 472 (BEAR) submitted to USAC. This file should contain a completed copy of the Form (including the signature of the service provider) and all supporting documentation.

9. Verify that there is a spreadsheet which tracks either the Form 472 (BEAR) requests for reimbursement or the discounts (in the form of discounts on bills, checks, or credits) provided by the service provider to ensure the committed amount on the FRN(s) has not been exceeded.

10. Verify - either through an approved internal process or by an independent third party-- that all work has been completed and that all equipment is operating properly.

USAC has created a suggested Compliance Documentation Checklist (<http://www.usac.org/res/documents/sl/pdf/CompDocChecklist.pdf>) that applicants can use to track their collection of documentation about the process of applying for, using, and invoicing of Schools and Libraries support.

Reference Material and Personnel

The Goal of Universal Service

The Act describes two levels of “universal service.” First, there is the basic level of universal service, which is “an evolving level of telecommunications services that the Commission shall establish periodically under this section ... [considering] the extent to which such telecommunication services

- (A) are essential to education, public health or public safety;
- (B) have ... been subscribed to by a substantial majority of residential customers;
- (C) are being deployed in public telecommunications networks; and
- (D) are consistent with the public interest, convenience and necessity.” 47 U.S.C. § 254(c) (1).

Currently, this includes only a fairly basic level of telephone service for qualifying low income customers. 47 C.F.R. § 54.101(a).

- a single party telephone line,
- access to 911,
- operator services,
- access to interexchange (long distance) services ,
- access to directory assistance,
- and toll limitation (the ability to block outgoing toll calls)

Next are “special services,” which are “additional services for such support mechanisms for schools, libraries, and health care providers for the purposes of subsection (h) of this section.” 47 U.S.C. 254(c) (3). For schools and libraries, this includes

- “all commercially available telecommunications services in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes.” 47 CFR § 54.502.
- This specifically includes
- “Internet access, and installation and maintenance of internal connections,” 47 CFR § 54.503, and, effective July 1, 2004,
- voice mail (47 CFR §54.503 (amended)).

Funding

Universal support is funded by contributions from telecommunications carriers. 47 USC § 254(d) provides:

- Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service.
- \$2.25 billion per funding year (July 1 to June 30) is allocated to provide support for school and library services. 47 CFR §54.507(a).
- Amounts not used in one funding year are carried over to the next year. 47 CFR §54.507(a).

Eligible Services – Schools and Libraries

The Act requires that:

- All telecommunications carriers serving a geographic area shall, upon a bona fide request for any of its services that are within the definition of universal service under subsection (c)(3) of this section, provide such services to elementary schools, secondary schools, and libraries *for educational purposes* at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the Commission ... determines is appropriate and necessary to ensure affordable access to and use of such services by such entities. 47 USC § 254(h) (1) (B) (emphasis added).
- “Educational purposes” means activities that are “integral, immediate, and proximate to the education of students, or in the case of libraries, integral, immediate and proximate to the provision of library services to library patrons... Activities that occur on library or school property are presumed to be integral, immediate, and proximate to the education of students or the provision of library services.” 47 CFR § 54.500(b).
- “Internal connections” qualify only if they are “necessary to transport information within one or more instructional buildings of a single school campus or within one or more non-administrative buildings that comprise a single library branch.” 47 CFR §54.506.
- Internal connections in non-instructional buildings of a school or school district, or administrative buildings of a library, do not qualify *unless* they are “essential for the effective transport of information to an instructional building of a school or to a non-administrative building of a library.” 47 CFR §54.506.

The Procurement Process

- Schools and libraries are required to seek competitive bids for all services eligible for federal support under the e-rate program. 47 CFR §54.504(a).

- They do this by submitting a form FCC 470 to the Schools and Libraries Division, which posts it on its website. 47 CFR §54.504(b).
- They must “carefully consider all bids submitted” and must “select the most cost-effective service offering. 54 CFR §54.511(a).
- While they may consider non-price factors, “price should be the primary factor considered.” 54 CFR § 54.511(a).
- Service providers are prohibited from charging a price above the “lowest corresponding price,” which is the lowest price a service provider charges to non-residential customers who are similarly situated to the particular school or library. 47 CFR §§ 54.511(b), 54.500(f).
- Schools, libraries, and service providers can appeal to the Commission if they believe the “lowest corresponding price” is too high or too low. 47 CFR §54.504(e).
- Once a school or library has signed a contract for eligible services, it submits a form FCC 471 to the Schools and Libraries Division. ***This form, submitted by the school or library, is the request for federal money.*** 47 CFR §54.504(c).
- If 30 percent or more of the requests made in a FCC 471 are for ineligible services, the request will be denied in its entirety. 47 CFR 54.504(d).
- The school or library is eligible for a discount of between 20 and 90 percent of the price offered by the service provider. The discount amount is based on two criteria: whether the school or library is urban or rural, and the percentage of students eligible for a free or reduced price lunch under the national school lunch program (which the e-rate program uses as a proxy for the poverty level of the school or library). 47 CFR §54.505.

ATTACHMENTS

Guide to **E-Rate Binder Table of Contents** There have been many requests for USAC to provide guidance with respect to what documents should be retained. Here is a guide that may be helpful. In addition, retaining this type of information will be very helpful if USAC requests this information in the future. This guide is not mandatory or intended to serve any other purpose than to respond to requests for guidance.

1. USAC Forms & Certifications

- 1.1. [Form 470 & delivery confirmations](#)
- 1.2. [Form 471 & delivery confirmations](#)
- 1.3. [Form 472 & delivery confirmations](#)
- 1.4. [Form 479 \(Consortium members & consortium leaders only\)](#)
- 1.5. [Form 486 & delivery confirmations](#)
- 1.6. [Form 500 & delivery confirmations](#)

2. USAC Letters

- 2.1. [Form 470 Receipt Notification Letter \(RNL\)](#)
- 2.2. [Form 471 Receipt Acknowledgment Letter \(RAL\)](#)
- 2.3. Form 471 Out Of Window Letter (OOW)
- 2.4. [Funding Commitment Decision Letter \(FCDL\)](#)
- 2.5. [Form 486 Notification Letter](#)
- 2.6. [Form 500 Notification Letter](#)
- 2.7. [BEAR Notification Letter](#)
- 2.8. Quarterly Disbursement Reports (QDR)
- 2.9. Other USAC letters

3. Technology Plan & Approval Letter

- 3.1. Written Technology Plan with Creation Date
- 3.2. Approved Technology Plan
- 3.3. Approved Technology Plan updates
- 3.4. Certified Technology Plan Approver Letter (or screen print if approval is maintained online)
- 3.5. Professional Development Training Log **(Sample Available)**
- 3.6. Technology Plan Training Sign In Sheet **(Sample Available)**

4. Competitive Bidding, Vendor Evaluation & Contracts

- 4.1. State and Local Procurement Regulations (printout or website reference)
- 4.2. RFP/ Public Notice/ Advertisement
- 4.3. All Vendor responses & Bids received (winning and losing)
- 4.4. [Bid Evaluation criteria, Evaluation Matrix & Bid ratings](#) **(Sample Available)**
- 4.5. Notice of Award letters
- 4.6. Miscellaneous documents (memorandums, board minutes, notes to file)
- 4.7. [Signed and Dated Contracts/ Service Agreements/ Notice of Award Letters](#)
- 4.8. Contract Amendments/Addendums/Extensions
- 4.9. [State Master Contracts \(printout or website reference\)](#)
- 4.10 Vendor Correspondence

5. PIA Review

- 5.1. [Letter of Agency \(LOA\) consortium](#) **(Sample Available)**
- 5.2. [Consultant agreement or LOA](#)
- 5.3. Responses to PIA inquiries (email, faxes, case numbers)
- 5.4. [Entity eligibility documentation \(state website printout, matching records, etc.\)](#)
- 5.5. [Discount eligibility calculation documentation](#) **(Sample Available)**
- 5.6. [Item 21 Attachment](#) (online or paper) **(Samples Available)**

- 5.7. [Product Service Eligibility \(warranties, product descriptions, network diagrams etc.\)](#)
- 5.8. Budget (Final approved, Superintendent Letter, draft budget, Grant Letters)
- 5.9. Request to Cancel Services

6. [CIPA \(Children's Internet Protection Act\)](#)

- 6.1. Undertaking Actions to comply with CIPA (e.g., public notice, public meeting or hearing minutes, etc.)
- 6.2. Filtering Documentation (purchase, installation, use)
- 6.3. Internet Safety Policy

7. [Service Delivery & Inventory Management](#)

- 7.1. [Inventory/Asset Registry \(Sample Available\)](#)
- 7.2. Schematic of equipment
- 7.3. Receipt of service/ product and installation log (work orders)
- 7.4. Replacement Log (replacement or upgrades)
- 7.5. Maintenance Log
- 7.6. Equipment transfer log

8. [Invoicing & Payments](#)

- 8.1. Customer Bills
- 8.2. Reconciliation Worksheet
- 8.3. Service Certifications
- 8.4. Proof of Payment of discount and non-discount amounts (cancelled checks, bank statements)
- 8.5. Reimbursement from vendor verification (BEAR only)
- 8.6. Miscellaneous (memos to vendors, notes to file, emails)

9. Change Requests & Appeals

- 9.1. [Appeal Request \(Checklist Available\)](#)
- 9.2. Appeals Delivery Receipt (proof of postmark, fax confirmation)
- 9.3. [Service Substitution Request \(Sample & Checklist Available\)](#)
- 9.4. [SPIN Change Request \(Checklist Available\)](#)
- 9.5. Documentation of Funds Returned to USAC
- 9.6. [Invoice Deadline Extension Request](#)
- 9.7. [Service Deadline Delivery Request](#)
- 9.8. [Transfer of Equipment Notification](#)

10. Miscellaneous

- 10.1 PIN mailer (For the authorized user)
- 10.2 Site Visit documentation
- 10.3 Audit documentation

PUPIL MEMBERSHIP

- I. Objectives
- II. Overview
- III. Audit Considerations
- IV. Reference Materials
- V. Contact Person

ATTACHMENT

Confirmation Request Form

Date of Last Change: 2010/2011

I OBJECTIVES

- A. To determine that state revenue reported in the general purpose financial statements:
 - 1. Meets the measurable and available criteria for the fiscal year;
 - 2. Meets the compliance requirements related to the pupil count included in the State School Aid Act, the Pupil Accounting Manual, and other authoritative sources that could have a material effect on the general purpose financial statements; and
 - 3. Is accurately stated on the financial statements.
- B. To assess the adequacy of the district's internal controls related to its pupil membership accounting and reporting process.

VII. OVERVIEW

State School Aid, which approximates \$13 billion annually, is allocated to school districts based on a formula. One of the primary components of the formula is the number of full-time equivalent (FTE) memberships as of the "count date" and the "supplemental count date." Statewide, the State School Aid Fund provides approximately 74% of a district's operating revenue. Section 18 of the State School Aid Act indicates that the MDE shall require each district and ISD to have a pupil membership audit performed by either the ISD or a certified public accountant (CPA). The MDE has traditionally allowed the districts to obtain pupil membership audits from either ISDs or CPAs, and the districts traditionally have chosen to have their pupil memberships audited by ISDs. Because a substantial portion of the school districts' operating revenue comes from the State School Aid Fund, public accounting firms, within the scope of their financial audits, should consider the impact of the reported pupil memberships on the financial statements. In their consideration of the pupil memberships reported, public accounting firms may be able to rely on ISDs' pupil membership audits. However, this reliance should be based on an assessment of the school district's internal control structure and an assessment of the ISD's independence and competence and the scope of the ISD's pupil membership audits in accordance with Statement on Auditing Standards No. 73 (Using the Work of a Specialist).

VIII. AUDIT CONSIDERATIONS

The following are recommended procedures related to pupil memberships. It is expected that public accountants deviating from these procedures will document their reason.

- A. Review the State School Aid Act and other reference materials to determine the pupil membership requirements that could have a material effect on the state revenue reported in the general purpose financial statements.
- B. Obtain the pupil membership audit reports for the count date and the applicable supplemental count date from the local school district. Based on the report results, audit scope and nature of the student population; make a preliminary assessment of the likelihood of a material misstatement.
- C. Based on the inherent risks of the student population, identify potential areas that are high risk for material misstatement.
- D. Obtain information from the ISD auditor to assess the competency of the ISD auditor performing the audit and the scope of the audit performed for each pupil count. An optional "Confirmation Request" form is provided for your consideration. (See copy attached)

Note: Section 81 of the State School Aid Act specifies that in order to receive funding under the act, an ISD shall demonstrate to the satisfaction of the MDE that the ISD employs at least one person who is trained in pupil counting procedures, rules, and regulations.

- E. Obtain from the local district, a summary of the significant control procedures used by the district to ensure that the revenue resulting from its pupil counts is materially accurate. Determine if the risk of material misstatement has been adequately addressed by the district and the pupil count auditor.
- F. If risks have not been adequately addressed, determine what additional audit procedures are necessary to achieve the audit objectives. Such audit procedures could include analytical procedures, substantive procedures, and testing of controls required to assess control risk below maximum.
- G. Perform analytical procedures on the count data to determine if the revenue generated from the count meets expectations.

IX. REFERENCE MATERIALS

- A. Pupil Accounting Manual. This is available from the local district, ISD, or at: <http://www.michigan.gov/mde> (Enter Pupil Accounting Manual in the search box in the upper right-hand corner and click on the green “go” button.)
- B. Pupil Auditing Manual. This is available at: <http://www.michigan.gov/mdeaudit>
- C. The State School Aid Act of 1979 (amended annually). The compiled law is also available on-line at: <http://www.michiganlegislature.org>.
- D. Statement on Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit.
- E. Statement on Auditing Standards No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55.
- F. Statement on Auditing Standards No. 73, Using the Work of a Specialist.

X. CONTACT PERSON

Questions may be directed to:

Kathy Weller
Director, Office of Audits
(517) 335-6858
WellerK@michigan.gov

CONFIRMATION REQUEST

_____ School District

Pupil Auditing Procedures Completed by _____ ISD

Count Dates _____

Purpose – This form provides standard information for the public accountant who is auditing this district. The work done by ISD auditors and the results of the audit are considered by the public accountant when designing his/her audit procedures. This optional form is provided by the Michigan Department of Education at the request of several ISD representatives who wanted a standard reporting form.

1. Please identify the individual(s) who audited the pupil membership counts for the count dates identified above. Please also include their years of experience, education, and any recent pupil membership training they have attended.

| <u>Auditor</u> | <u>Years of Experience</u> | <u>Education</u> | <u>Training (Date, Title)</u> |
|----------------|----------------------------|------------------|-------------------------------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

2. Please indicate any relationships the pupil membership auditors may have with the local school district or its employees that may impair the pupil membership auditor's independence.

3. Desk audits were performed for the following buildings/programs for the:

February Count: _____

September Count: _____

4. Field audits were performed for the following buildings/programs for the:

February Count: _____

September Count: _____

5. Please report the number of state aid memberships:

| | General Ed K-12 | Special Ed K-12 Sec. 52 | Special Ed K-12 Sec. 53 | Total |
|-----------|--------------------|----------------------------|----------------------------|-------|
| February | _____ | _____ | _____ | _____ |
| September | _____ | _____ | _____ | _____ |

6. Did the ISD use the MDE audit process? Yes No. If not, did the ISD use a standardized approach to the audit process? Yes No. Please describe the audit process used and include a copy of the audit program (not the work papers) if the MDE audit program was not used.

7. As part of your audit procedures, was the district's compilation of the individual building pupil counts into the district-wide total for the SRSD (Form DS-4061) reviewed for reasonableness? Yes No. If no, please explain.

8. Did the local district provide required supporting records for verification of the count? Yes No. If no, please discuss which significant records were missing.

9. Did the ISD auditor perform a building risk assessment and perform sampling based on the risk assessment? Yes No. Please describe the risk factors considered and the sampling method used.

10. Were higher risk programs and issues considered in the scope of the audit? (Examples include: alternative education, adult education, postsecondary enrollment, reduced schedule, non-public shared-time, work-based education.) Yes No. If no, please explain.

11. For pupils absent on the count day, did the audit scope include procedures to verify that pupils included in the count properly returned to school within the 10- or 30-day periods? Yes No. If no, please explain.

12. Were any building error rates greater than 5%? Yes No. If yes, describe the results of the expanded audit procedures.

13. Were any building error rates greater than 10%? Yes No. If yes, describe the actions taken.

14. Was the most recent DS-4168 reviewed? Please indicate any exceptions or shortages of days or hours. Yes No.

Although the current year's DS-4168 is not due until August, did you review (as a matter of assistance to the local district) the current school year calendar for compliance with the current year minimum days and hours? If yes, please explain any potential shortages noted. Yes No.

Results

1. Were all pupil accounting adjustments included in the pupil auditor's narrative report? Yes No. If no, please explain.

2. Based on the result of the ISD pupil count audit, in the ISD auditor's opinion, does the local school district have an adequate process for computing a substantially accurate membership count in accordance with the Pupil Accounting Manual? Yes No.

3. Does the ISD auditor have any reason to believe that significant errors might exist that were not detected in the audit? Yes No. If yes, please explain (including the amount of the potential adjustment).

4. Please indicate any additional information concerning pupil membership which you feel would be helpful in completing the financial audit.

Completed by: _____ Date: _____

Title: _____

PROCUREMENT

Federal grant recipients procuring goods and services must follow specific requirements to ensure the transactions are managed properly. Procurement is one of the core compliance requirements cited in the OMB Circular A-133 Compliance Supplement. The following requirements are included in both OMB Circular A-102 and 2 CFR §215 (also known as Circular A-110), and require the recipient to do the following:

- Develop and maintain a written procedure for procurement transactions.
- Develop and maintain a written code of conduct for employees responsible for procurement transactions.
- Ensure that procurement procedures provide for full and open competition to the extent practicable.
- Conduct some type of cost or price analysis and include the analysis in the grant file.
- Include in all contracts any specific provisions identified in the administrative requirements.
- Maintain a compliance system so that contractors comply with the terms and conditions of the contract.

For purchases with federal funds subject to EDGAR, recipients must also comply with 34 CFR part 80.36.

ACRONYMS

The following is a list of abbreviations and acronyms commonly used in this manual:

| | | |
|--------|---|----------------------------------------------------|
| ADP | - | Average Daily Participation |
| AICPA | - | American Institute of Certified Public Accountants |
| CEV | - | Commodity Entitlement Value |
| CFDA | - | Catalog of Federal Domestic Assistance |
| CFR | - | Code of Federal Register |
| CPA | - | Certified Public Accountant |
| CRE | - | Coordinated Review Effort |
| DDA | - | Downtown Development Authority |
| FFP | - | Federal Financial Position |
| FID | - | Financial Information Database |
| FNS | - | Food and Nutrition Services |
| GAAS | - | Generally Accepted Auditing Standards |
| GAGAS | - | Generally Accepted Government Auditing Standards |
| GAO | - | General Accounting Office |
| GAS | - | Government Auditing Standards |
| GASB | - | Governmental Accounting Standards Board |
| GCMRS | - | Grants Cash Management and Reporting System |
| GLTDAG | - | General Long Term Debt Account Group |
| IASA | - | Improving America's Schools Act |
| IDEA | - | Individuals with Disabilities Education Act |
| IEPC | - | Individualized Educational Planning Committee |
| ISD | - | Intermediate School District |
| LDFA | - | Local Development Financing Act |
| LEA | - | Local Educational Agency |
| MAIN | - | Michigan Administrative Information Network |
| MDE | - | Michigan Department of Education |
| MEGS | - | Michigan Electronic Grants System |
| MEIS | - | Michigan Education Information System |
| MPSERS | - | Michigan Public School Employees Retirement System |
| NCLB | - | No Child Left Behind |
| NCP | - | National Commodities Processing |
| NSLP | - | National School Lunch Program |
| ODCP | - | Office of Drug Control Policy |
| OMB | - | Office of Management and Budget |
| OVS | - | Offer vs. Serve |
| PAL | - | Planned Assistance Level |
| SAS | - | Statement on Auditing Standards |
| SDFSCA | - | Safe and Drug Free Schools and Communities Act |
| SEFA | - | Schedule of Expenditures of Federal Awards |
| SFA | - | School Food Authorities |
| SFQC | - | Schedule of Findings and Questioned Costs |
| TIFA | - | Tax Increment Financing Act |
| USDA | - | United States Department of Agriculture |
| USDE | - | United States Department of Education |
| WIA | - | Workforce Investment Act |

AUTHORITATIVE LITERATURE

AICPA Audit Guide: Audit Guide, Audits of State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards

Catalog of Federal Domestic Assistance (CFDA)

Code of Federal Regulations (CFR)

Codification of Governmental Accounting and Financial Reporting Standards, Promulgated by Governmental Accounting Standards Board (GASB)

Cost Principles for State and Local Governments (OMB Circular A-87)

Education Department General Administrative Regulations (EDGAR),
Published by USDE

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Auditing Standards (GAAS)

Governmental Auditing Standards (GAS) (2007 Revision), or Yellow Book, published by General Accounting Office (Stock #020-000-00284-1)

Grants and Cooperative Agreements with State and Local Governments
(Common Rule) (OMB Circular A-102)

Pupil Accounting Manual

Michigan Administrative Code

Michigan School Accounting Manual (Bulletin 1022)

Michigan School Auditing Manual

Michigan State School Aid Act (PA 94 of 1979, as amended)

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

OMB Circular A-133 Compliance Supplement

Single Audit Act of 1984, Public Law 98-502, as amended by Public Law 104-156 of 1996

Statement on Auditing Standards (SAS)

The School Code of 1976 (Act 451 of 1976, as amended)

U.S. Auditing Standards, Promulgated by AICPA (AU)

Low-Risk Audit Waiver Requests

The following guidelines were established by the United States Department of Education (USDE) for the purpose of processing and analyzing requests for waiver of OMB Circular A-133 Single Audit Requirements based on Low-Risk Auditee status:

1. Entities (where the USDE is the cognizant or oversight agency) seeking waivers will be requested to obtain the concurrence of their pass-through entities**; i.e., the non-federal entity that provides a federal award to a subrecipient to carry out a federal program. The USDE Office of Chief Financial Officer (OCFO) and the USDE Office of Inspector General (OIG) will coordinate with any other federal agencies that awarded direct funds to the entity to obtain their input or comments prior to taking action on waiver requests.
2. Requests for waivers should include copies of the entity's Single Audits for the prior two fiscal years along with the written concurrence** of the pass-through entities that provide \$100,000 or more in federal funding.
3. The waiver request, including any required concurrence and supporting information, must be submitted to the Deputy, Chief Financial Office, in the OCFO. The OCFO will forward a copy of the request and the supporting information to the OIG. The OCFO will provide acknowledgment of its receipt to the requesting entity.
4. The OIG will try to review the request within 20 working days to determine whether it satisfies the criteria for low-risk audited as defined in OMB Circular A-133 and provide a recommendation for approval or denial of the request to the OCFO.
5. The OCFO will evaluate the request for its potential impact on the Department's financial statements, if any, along with any monitoring results, comments from program offices, and the Office of the General Counsel. The OCFO will provide a response to the requesting entity within 30 working days after receiving the OIG's recommendation, with a copy to the pass-through entity.
6. The OCFO will maintain log-in records to track the receipt and ensure the timely response to waiver requests and to monitor the effectiveness of the procedures for handling the requests. Barring any other deviations from low-risk criteria, the waiver does not expire.

Please note: The USDE OCFO has informed the Michigan Department of Education that requests should be made well in advance of the actual audit process. The later the request is received, the greater the chance that the approval or denial will arrive too late for use in the current audit cycle.

Requests for a waiver should be sent to the following address:

Mr. Randy Prindle
Office of Chief Financial Officer
United States Department of Education
830 First Street NE
Washington, D.C. 20202

**MDE's concurrence letter follows this page. This letter is not an approval for a low-risk waiver. It only informs the USDE that MDE does not object to a waiver being issued for a material weakness related to school district personnel's lack of expertise or knowledge to prepare financial statements according to GAAP.

USEFUL INTERNET ADDRESSES

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| AICPA | www.aicpa.org |
| Catalog of Federal Domestic Assistance | www.cfda.gov/ |
| Federal Audit Clearinghouse | http://harvester.census.gov/sac/ |
| General Accounting Office (GAO) | www.gao.gov/ |
| Governmental Accounting Standards Board | www.gasb.org |
| Michigan Department of Education | www.michigan.gov/mde |
| US Office of Management and Budget | www.whitehouse.gov/OMB |
| US Department of Education | www.ed.gov |
| Association of School Business Officials International | www.asbointl.org |
| MDE GASB 34 Guidance (under Programs and Offices, State Aid and School Finance) | www.michigan.gov/mde |
| President's Council on Integrity and Efficiency (PCIE) Quality Control Review (QCR) | www.ignet.gov/single/qcrreview.doc |
| List of Parties Excluded From Federal Procurement or Non-Procurement Programs | http://epls.arnet.gov |

MDE A-133 REFERENT GROUP

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