MICHIGAN SCHOOL AUDITING MANUAL

Michigan Department of Education
2002/03

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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 that 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, 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 requirements, 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:

Office of Audits
Michigan Department of Education
P.O. Box 30008
Lansing, Michigan 48909
(517) 373-4591
http://www.michigan.gov/mde

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 Compliance and on Internal Control 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 Applicable to Each Major Program and 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 <u>all</u> 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
   4. For each major program:
      a. No material weaknesses or reportable conditions 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
   5. Waivers of the above requirements may be obtained from the dominant federal funding source only. (See appendix for USDOE waiver request instructions)

   **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. At least two of the high-risk Type B programs (total need not exceed the number of low-risk Type A programs excluded) 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 reportable conditions 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, 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).
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 SOP 98-3 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 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/index.htm)
   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 GAS
   4. Reports on Compliance with Requirements Applicable to Each Major Program and 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 (which includes public school academies) must have a financial audit in accordance with GAGAS.
   2. Public schools expending $300,000 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 $300,000 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 only 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 do 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 a copy to MDE, Michigan Department of Treasury, and other pass-through entities that request a copy (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 (1994 Yellow Book Revision), issued by the Comptroller General of the United States.

B. AICPA Audit Guide – Statement of Position 98-3, "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards."

C. 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 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 61 as amended by SAS 89 and 90, 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 89, if issued.
2. Reports on Finding of Suspected Fraud and/or Embezzlement—During the course of an engagement, the independent certified public accountant should be constantly aware of the possibility of fraud and/or embezzlement. SAS 54 and 82 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 promptly followed up by a written report to the Director disclosing the certified public accountant's findings. If the school fails to report, then the CPA is required to report the information to the Department. The independent certified public accountant, 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 certified public accountant pertaining to the client relationship, the district should give written permission to the independent certified public accountant 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, IDEA P.L. 101-476 and Title VI received through the ISD or another school district acting as a fiscal agent.
4. Payments in kind, such as USDA Donated Commodities. The MDE Recipient Entitlement Balance Report should be used to determine distribution of commodities to the school district during the year.
5. Energy grants (ECM and TA grants).
6. Loan amounts received from the 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 and Pupil Transportation Costs for School Based Services.
8. Various other sources.

B. The following items must be included for each active award:
1. Approved amount of the award/grant
2. 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.

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 Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
      Guidance: Differences between current payments reported in the R7120 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, 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 USDA Donated Commodities in the National Commodities Processing (NCP) Program may be netted against expenditures in the financial statements. However, for Form B 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 GAGAS. For information, refer to Chapter 7, "Reporting Standards for Performance Audits" of 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. Reportable conditions in internal control over major programs. Also, identify if any of these reportable conditions 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.
   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 (provide type of grant – regular or carryover, etc.), 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. <u>For funding passed through the MDE</u>: If costs are unallowable, undocumented, unapproved, or unreasonable, or cash was received in advance and not expended within the grant time limits,

repayment of these funds is required, unless these conditions can be resolved so as to meet the requirements of the grant. For USDA funding, the MDE will deobligate/reduce a future payment by the amount of questioned costs. However, for all other programs, a check payable to the Michigan Department of Education, with project and source codes reported on the stub, should be mailed to the following address:

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

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]) findings, including reportable conditions (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 do not warrant further action, the reasons for this position should be described.

Sample School District Schedule of Expenditures of Federal Awards

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 two copies of the reporting package and a management letter, as discussed in Part II of this section, on or before October 28 of each year. In turn, the ISD should forward one copy of this package to the MDE by November 15 of each year. **Note:** Some schools or their auditors choose to file the reports directly with the MDE. It is expected that the schools file reports with MDE via their ISDs because MDE contacts the ISD contact person if reports are not received by the due date.

B. Michigan Department of Education
The ISD must file one copy of the reporting package and management letter with the MDE by November 15 of each year at the following address:

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 Clearinghouse
Each school should submit one copy of the reporting package to the Federal 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. These reports should be filed at the following address:

Single Audit Clearinghouse
1201 East 10th Street
Jeffersonville, Indiana 47132

D. Michigan Department of Treasury
One copy of the audit (only the General Purpose Financial Statements and any bond audits) and a management letter must be filed with the Michigan Department of Treasury at the following address not later than 120 days after the close of the fiscal year:

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

E. Michigan Department of Community Health
The lead ISDs (Berrien, COOR, Genesee, Ingham, Kent, Macomb, Montcalm, Oakland, and Wayne) and the City of Detroit Public Schools should submit one copy of the reporting package and management letter to the Michigan Department of Community Health within nine months of the district's fiscal year-end*.

School districts that are not required to have a single audit, and receive $300,000 or more of total direct funding (state and federal) from the Michigan Department of Community Health are also required to file a copy of their financial audit prepared in accordance with generally accepted auditing standards, with the Department.

A copy of the audit reporting package or financial audit should be forwarded to:

Michigan Department of Community Health
Office of Audits
P.O. Box 30479
Lansing, Michigan 48909-7979

**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 report. 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 sign different statements to 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 Clearinghouse (http://harvester.census.gov/sac/) and can be filed on-line. (On-line filers are still required to mail a signed copy along with their reporting package.) Schools should contact the Federal Clearinghouse at the above address to obtain a current copy of this form.
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. Public schools expending less than $300,000 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), and the Michigan Department of Treasury.

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 of 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 <u>less than</u> $800,000 in direct funding; and
2. The total of both direct and indirect funding provided to the district by the DOE is <u>greater than</u> 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. 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 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 $300,000 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 reportable condition 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 reportable condition.

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 $300,000 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 $300,000 of federal financial assistance to procure an audit made in accordance with generally accepted auditing standards (GAAS) and GAS, issued by the Comptroller General of the United States. The MDE requires districts, including public school academies, which expend $300,000 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 Financial Management and Administrative Services 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 Form B Report. For example, the 2001-2002 indirect cost rates were based on data collected on the 1999-2000 Form B 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 ISDs, the information is compiled on Form DS-4524 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, 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:

Direct Costs + Indirect Costs = Total Grant Award
Indirect Costs = (Direct Costs) * (Indirect Cost Rate)

Step 1: We know the total grant award is $10,000, so:
Direct Cost + Indirect Cost = $10,000

Step 2: We know that the Indirect Cost is 5% of the Direct Cost, so:
Indirect Costs - .05(Direct Cost)

Step 3: Substitute .05(Direct Cost) for Indirect Costs in the equation in Step 1:
Direct Cost + .05(Direct Cost) = $10,000

Step 4: Solve the equation:
1.05(Direct Cost) = $10,000
Direct Cost = $10,000/1.05
Direct Cost = $9,524

Step 5: Substitute the $9,524 for Direct Costs in the equation in Step 1:
$9,524 + Indirect Cost = $10,000

Step 6: Solve for Indirect Costs:
$9,524 + Indirect Cost = $10,000
Indirect Cost = $10,000 - $9,524
Indirect Cost = $476

Step 7: Prove your results:
Direct Costs + Indirect Costs = Total Grant
$9,524 + $476 = $10,000
Indirect Costs = (Direct Costs) * (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

X. PERSONNEL

Lori Schomisch, Acting Director
Office of Financial Management and Administrative Services
Michigan Department of Education
(517) 335-0539
schomischl@michigan.gov

USDA DONATED FOOD COMMODITIES

CFDA #10.550

I. Introduction

II. Certification

III. Identification and Value of USDA Donated Commodities

IV. Revenue Recognition Criteria

V. Transfers of USDA Donated Commodities Between School Districts

VI. Findings

VII. Excessive Inventory for USDA Donated Food Commodities

VIII. Contact Person

ATTACHMENT

Sample Commodity Value Listing

Date of Last Significant Change: 2002/03

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, NSL snack reimbursements, USDA donated commodities, discounts and rebates for USDA donated commodities included in processed items. Federal Regulations 7 CFR, Part 210. Food distribution is reported under CFDA #10.550. Under the state 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, Summer Feeding CFDA #10.559 – Includes reimbursement for meals and USDA donated commodities, discounts and rebates. Federal Regulations 7 CFR, Part 225.
   3. Summer Camp Program, CFDA #10.556 – Reimbursement for milk or USDA commodities. Federal Regulations 7 CFR, Part 215. The commodity portion of the Summer Camp Program has been significantly reduced due to a lack of food currently available.
   4. USDA Donated Food Commodities, CFDA #10.550 – Food Distribution for National School Lunch or Breakfast Programs. Federal Regulations 7 CFR, Part 250.

II. CERTIFICATION

Commodity eligibility for the National School Lunch Program (NSLP) is based upon the total claimed lunches served, divided by the number of serving days for a given month. This figure is the same as the Average Daily Participation (ADP). The computation for all schools is performed in January based on October claim data. The only exception to this is either as requested by a school due to increased participation, or as a new participant requesting first time certification to receive USDA donated food. This information is used by the warehouse for allocating and issuing available commodities to SFAs.

The date of certification and the formula for computing eligibility for other USDA commodity programs may differ from the NSLP. For an extended school year, certification is based on the anticipated ADP for the summer months. This figure is usually lower than the school year eligibility figure.

III. IDENTIFICATION AND VALUE OF USDA DONATED COMMODITIES

The value of entitlement (non-bonus) and bonus commodities for the school year 2003 are available on the Internet at the School Support Services website. The Commodity Value Listing includes the commodity code, commodity name, status (bonus or non-bonus) at the time of delivery. For example, Code 519, the “519” refers to the commodity “Walnuts B,” and the status is bonus for the 2002/03

school year. When an item is available as a bonus **and** non-bonus, a different commodity code is issued for the bonus and non-bonus item. Code #011 Apple Slices B is bonus, and Code #018 Apple Slices is non-bonus.

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 mailed to Food Service Directors) _____
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. The delivery charge is expensed as a part of "Food Cost" on the year-end report (Lunch, Breakfast, and Milk cost). Bonus and entitlement commodities must be accounted for separately.

B. Bonus – Value
The USDA purchases other commodities referred to as "bonus." These commodities are not considered part of the regular base stick of entitlement (non-bonus) commodities. The majority of commodities are non-bonus. Examples of bonus commodities for the school year 2002-2003 are as follows:

Commodity Code	Description
011	Apple Slices B
017	Applesauce B
097	Cherries, Dried B
480	Sweet Potatoes B
603	Cherry Applesauce B
589	Trail Mix, Fruit/Nut B

C. Entitlement and Bonus Values
The commodity values are listed in the USDA Processed Commodity Inventory Management System. 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 eligible for
   d. Amount requested

   e. Service charge
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 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 MDE Recipient Entitlement Balance Report, also known as the Planned Assistance Level Report (PAL), provides SFAs with the status of their commodity entitlement. Each quarter SFAs may access the School Support Services 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, 2003, is calculated by multiplying its previous school year's June 30, 2002, total reimbursable lunches by the entitlement rate ($.1601 for 2001/2002, $.1802 for 2002/2003). 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. At this time, a negative balance in the fourth quarter is acceptable and would indicate efficient usage above the norm.
2. The value of the entitlement received is calculated directly from the delivering warehouses or supplier invoices. This number is periodically tested by the MDE and has been accurate in all instances to date. The MDE posts on its website a complete price list of commodities at market value to school officials. This price list should only be used for determining commodity inventory levels. For the operating reports (SM-4012-A), the SFA (school district) should use the price paid for products. In the case of USDA donated commodities, the SFA should use the price the SFA paid for delivery and/or processing. For year-end reports, include only the warehouse service charges (Line 9 Food Cost). Do not record USDA value for donated food commodities on operating reports.
3. The completion of Year End Report SM-4012-A is required. It may have a direct impact on funds received by the SFA. Therefore, the report should be tested for accuracy and validity. All SFAs receive detailed instructions annually. The supplemental payment is given to public schools for lunches from the State of Michigan provided the lunch costs exceed federal reimbursement. The supplemental payment is included in 31(d) beginning with the 2000-2001 school year. If additional copies are needed, please contact Pat Arend, Account Technician, at (517) 373-2438. Data from the Year End Report is also used in calculating the state payment for school breakfast and the 31(d) payment. This cost figure is directly dependent on the validity of the cost allocation (See "Program Cost" portion of the form SM-4012-A). This procedure should be tested for accuracy and compliance with MDE requirements.

F. Expenditure Values for Donated Bonus and Non-Bonus Commodities: SFAs should use the fourth quarter PAL report figures (value of commodities delivered to them during the school year) as expenditure values of commodity foods. The fourth quarter PAL report can be accessed on the School Support Services web site in July.

G. During school year 2003, a cooperative consisting of 16 school districts is participating in a direct diversion pilot project. The Great Lakes Coop is diverting USDA commodity beef, chicken/eggs, mozzarella cheese, peanut butter, and some flour directly to processors. For questions, contact Marla J. Moss at (517) 241-4054.

IV. 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 #10.550. Bonus and entitlements should be reported separately on both the SEFA and the Form B. The National School Lunch Program should be reported under CFDA #10.555.

V. TRANSFERS OF USDA DONATED COMMODITIES BETWEEN SFAs

The MDE and the USDA do not allow transfers of commodity foods between SFAs unless preauthorized by the MDE. To obtain permission, the SFA must request form SM-2781 USDA Commodities Transfer. The SFA will receive a file copy of this form for its records.

VI. FINDINGS

A. References in the audit report to an instance of waste, spoilage, and pilferage of USDA donated food commodities should be identified as a finding and reported in the Schedule of Findings and Questioned Costs.

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

VII. EXCESSIVE INVENTORY FOR USDA DONATED FOOD COMMODITIES

The application/agreement for the National School Lunch Program/Commodity Distribution stipulates that the SFA (public school district) request and accept commodities on a 30-day basis only, according to the rates of distribution established by the state. Rates are assigned or adjusted by the state office based upon particular variables including, but not limited to:

A. Quantity of commodity expected

B. Quantity of commodity actually received

C. Level of acceptability

D. Use and status of product (bonus prune puree, for example)
Allowable rates of distribution vary: commodity meat items can be ½ pound to 1 pound per month; fruits and vegetables range from as requested to 1 case per 54 eligibles per month. If a district has 1,000 eligibles, it would not be unusual to have 2,000 pounds of ground beef, and 50 cases of tomato paste on hand. Schools are expected to have no more than a 30-day supply of commodities on hand. Although the balance may be excessive, the agreement further states,

"Items not fully utilized in the 30-day period for which they are accepted will be reordered only in the amount required for the succeeding 30-day period."

VIII. CONTACT PERSON

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

Tzeilen Hwang
MDE, Office of School Support Services
(517) 373-8642
OR
Marla J. Moss
MDE, Office of School Support Services
(517) 241-4054
OR
Dawn Lake
MDE, Office of Audits
(517) 373-4591

Commodity Value Listing
School Year 2002-2003

Code	Commodity Name	Bonus	Case Wt.	Value$/Lb	Value$/Case
002	Almonds Roasted	B	25.0#	$1.3006	$32.52
010	Apple Juice 12/46 oz.		37.5#	$0.2359	$8.85
018	Apple Slices 6/#10		39.0#	$0.3643	$14.21
011	Apple Slices 6/#10	B	39.0#	$0.3643	$14.21
037	Apple Slices FRZ (Detroit only)		30.0#	$0.2613	$7.84
014	Apples Fresh		38.5#	$0.2694	$10.37
020	Applesauce 6/#10		40.5#	$0.2535	$10.27
017	Applesauce 6/#10	B	40.5#	$0.2535	$10.27
046	Apricots 6/#10	B	40.5#	$0.4646	$18.82
606	Beans Black Turtle CND 6/#10		40.5#	$0.3163	$12.81
767	Beans Blackeye CND 6/#10		40.5#	$0.2496	$10.11
074	Beans Blackeye CND 6/#10	B	40.5#	$0.2496	$10.11
052	Beans CND Red Kidney 6/#10		40.5#	$0.2942	$11.92
636	Beans Garbanzo CND 6/#10		40.5#	$0.2756	$11.16
055	Beans Green 6/#10		38.0#	$0.2841	$10.80
062	Beans Green FRZ 30# CS		30.0#	$0.3554	$10.66
039	Beans Great North CND 6/#10		40.5#	$0.2300	$9.32
003	Beans Refried 6/#10		42.0#	$0.2755	$11.57
631	Beans Small Red 6/#10		40.5#	$0.2652	$10.74
090	Beans Vegetarian 6/#10		40.5#	$0.2710	$10.98
217	Beef 36# CS		36.0#	$1.1161	$40.18
163	Beef FRZ 40# CS		40.0#	$1.2755	$51.02
115	Beef NJ 24/29 oz.		43.5#	$1.4314	$62.27
146	Blueberries Cult 30# CS	B	30.0#	$0.5623	$16.87
141	Blueberries Wild IQF	B	30.0#	$0.7296	$21.89
743	Blueberry Dried	B	10.0#	$5.5000	$55.00
684	Carrots 6/#10		39.5#	$0.3164	$12.50
028	Carrots FRZ 30# CS		30.0#	$0.2718	$8.15
169	Cheese Cheddar Shredded 6/5#		30.0#	$1.4580	$43.74
112	Cheese Mozzarella FRZ 3/20#		60.0#	$1.2312	$73.87
585	Cheese Mozzarella FRZ 8/6#		48.0#	$1.4225	$68.28
121	Cheese Mozzarella FRZ 48#/CASE		Variable	$1.2090	N/A
685	Cheese Mozzarella Shredded 30#		30.0#	$1.4876	$44.63
215	Cheese Processed 6/5#		30.0#	$1.4420	$43.26
154	Cheese Processed Sliced 6/5#		30.0#	$1.4614	$43.84
097	Cherries Dried 4/4#	B	16.0#	$4.4264	$70.82
608	Chix Fajita 6/5#		30.0#	$1.6729	$50.19
192	Chix FRZ Diced 4/10#		40*	$1.8790	$75.16
131	Chix FRZ Diced 4/10#	B	40*	$1.8790	$75.16
166	Chix Grill Patty Soc – 30#/CASE		Variable	$0.5396	N/A
209	Corn Cob 30# CS		30.0#	$0.4679	$14.04
204	Corn FRZ 30# CS		30.0#	$0.4423	$13.27
201	Corn LQD 6/#10		39.75#	$0.3646	$14.49
059	Corn VAC CND 6/#10		28.125#	$0.5643	$15.87
496	Cranberry Dried 5/5#	B	25.0#	$1.6234	$40.59

289	Cranberry Sauce 6/#10	B	48.0#	$0.3657	17.55
227	Eggs Whole FRZ 6/#5		30.0#	$0.4789	$14.37
269	Flour AP 4/10#		40.0#	$0.1406	$5.62
261	Flour BHW 50		50.0#	$0.1412	$7.06
134	Flour Bakery Mix 6/5#		30.0#	$0.3084	$9.25
264	Flour Bread 50#		50.0#	$0.1316	$ 6.58
325	Fruit Mix 6/#10		39.75#	$0.5170	$20.55
290	Grape Juice 12/46 oz.		38.0#	$0.3964	$15.06
295	Grapefruit Juice 12/46 oz.		37.0#	$0.2321	$8.59
298	Ham Cooked – 40#/CASE		Variable	$1.6000	N/A
311	Macaroni 20# CS		20.0#	$0.2306	$4.61
320	Milk NFD Bulk 25 KG	B	55.115#	$1.0156	$55.97
330	Oats Rolled 12/3#		36.0#	$0.4132	$14.88
345	Orange Juice 12/46 oz.		37.5#	$0.2730	$10.24
337	Oranges Fresh		36.5#	$0.2924	$10.67
353	Peach Cup FRZ 96/4 oz.		24.0#	$0.8949	$21.48
354	Peaches Cling Diced 6/#10		39.75#	$0.4639	$18.44
106	Peaches Cling Diced 6/#10	B	39.75#	$0.4639	$18.44
044	Peaches SLC Cling 6/#10		39.75#	$0.4693	$18.65
344	Peaches SLC Cling 6/#10	B	39.75#	$0.4693	$18.65
576	Peanut Butter 6/5#		30.0#	$0.8503	$25.51
196	Pears Diced 6/#10		39.5#	$0.4443	$17.55
054	Pears Halves 6/#10		39.5#	$0.4650	$18.37
371	Pears Halves 6/#10	B	39.5#	$0.4650	$18.37
157	Pears SLC 6/#10		39.5#	$0.4520	$17.85
377	Pears SLC 6/#10	B	39.5#	$0.4520	$17.85
385	Peas 6/#10		39.5#	$0.3719	$14.69
387	Peas FRZ 30# CS		30.0#	$0.3524	$10.57
193	Pineapple Chunks 6/#10		39.75#	$0.5442	$21.63
292	Pineapple Tidbits 6/#10		39.75#	$0.6016	$23.91
724	Pineapple Tidbits B 6/#10	B	39.75#	$0.6016	$23.91
105	Pork 36 FRZ 36# CS		36.0#	$0.7623	$27.44
765	Pork C Sloppy Joe Mix 4/10#	B	40.0#	$1.3823	$55.29
763	Pork C Taco Fill B 4/10#	B	40.0#	$1.3796	$55.18
404	Pork FRZ		40.0#	$0.7623	$30.49
400	Pork Nat Juice 24/29 OZ		43.5#	$1.0867	$47.27
410	Potato Rounds 6/5#		30.0#	$0.3591	$10.77
416	Potato Wedges 6/5#		30.0#	$0.3039	$9.12
419	Potato Baking Fresh 50#		50.0#	$0.2650	$13.25
409	Potato Baking Fresh 50#	B	50.0#	$0.2650	$13.25
408	Potato DEHY 6/5#	B	30.0#	$0.4601	$13.80
657	Potatoes DEHY SLC 4/#5	B	20.0#	$0.6714	$13.43
568	Potatoes Granules 10/48 OZ	B	30.0#	$0.6214	$18.64
415	Potatoes Oven 6/5#		30.0#	$0.3014	$9.04
445	Raisins 144/1.3 oz.	B	12.0#	$0.8700	$10.44
552	Rice Long Grain 25#		25.0#	$0.1396	$3.49
454	Rotini Macaroni 20# CS		20.0#	$0.2544	$5.09
340	Salad (Veg) Oil 6/1 gal.		46.2#	$0.2978	$13.76
464	Salmon CND 24/14.75 OZ	B	22.125#	$0.8118	$17.96

479	Salsa 6/#10		39.75#	$0.3924	$15.60
465	Shortening 12/3#		36.0#	$0.5006	$18.02
155	Shortening Liquid 6/1 gal.		46.2#	$0.2748	$12.70
470	Spaghetti 20# CS		20.0#	$0.2269	$4.54
441	Spaghetti Sauce 6/#10		39.75#	$0.2536	$10.08
478	Strawberries FRZ	B	30.0#	$0.5518	$16.55
484	Strawberries SLC	B	30.0#	$0.4988	$14.96
104	Sweet Potatoes 6/#10		40.5#	$0.4214	$17.07
480	Sweet Potatoes 6/#10	B	40.5#	$0.4214	$17.07
490	Tomato Paste 6/#10		41.625#	$0.4556	$18.96
527	Tomato Sauce 6/#10		39.75#	$0.2500	$9.94
507	Tomato Sauce 6/#10	B	39.75#	$0.2500	$9.94
491	Tomatoes 6/#10		38.25#	$0.3165	$12.11
512	Tomatoes Diced 6/#10		38.25#	$0.2989	$11.43
589	Trail Mix Fruit/Nut 5/5#	B	25.0#	$1.5764	$39.41
053	Tuna CND 6/66.5 OZ		24.937#	$1.3381	$33.37
493	Tuna CND 6/66.5 oz.	B	24.937#	$1.3381	$33.37
610	Turkey Breast Deli – 39#/CASE		Variable	$1.3900	N/A
035	Turkey Ground E 40# CS		40.0#	$0.4938	$19.75
553	Turkey Ham Smoked FRZ-41#/case		Variable	$0.8969	N/A
110	Turkey-Roasts – 45#/CASE		Variable	$1.0750	N/A
504	Turkey-Roasts - 45#/CASE	B	Variable	$1.0750	N/A
531	Turkey Taco Filling - 30#/CASE		Variable	$1.1084	N/A
519	Walnuts	B	30.0#	$1.8319	$54.96
750	Walnuts English PC 24/1#	B	24.0#	$2.0874	$50.10

*Extended by pound on SM-4221 delivery receipt

PROCESSED FOOD

Code	Commodity Name	Bonus	Case Wt.	Value$/Case
663	Apricot Applesauce	B	24.0#	$6.39
029	BBQ Sauce E 4/1 gal.		38.16#	$1.44
622	Beans Refried 25# CS		25.0#	$4.61
129	Beef Patty, PLEVA, Raw 20#		20.0#	$26.30
168	Beef Patty, PLEVA CKD 140/2.5 oz		22.97#	$39.78
718	Beef Spaghetti Sauce	B	30.0#	$20.09
656	Beef Steak Flame Brld 116/CS		17.4#	$35.03
710	Blueberry Applesauce Cups	B	24.0#	$5.79
099	Blueberry Pie Filling	B	42.0#	$16.86
107	Bread Stix Pre-baked 180/1.8 oz.		20.2#	$1.91
650	Breaded Mozzarella Sticks		12.0#	$7.73
726	Breaded Mozzarella Sticks		24.0#	$21.48
645	Breaded Pork Patty		20.45#	$11.43
727	Breakfast Sausage Roll		10.0#	$3.68
715	Breakfast Sausage Roll 240/2 oz.		30.0#	$11.03
438	Burrito PROK/CHS 60/5.3 oz.		19.88#	$5.73
064	Buttermilk Dressing Lo-Cal		35.6#	$1.84
655	Cheddar Cheese Sauce 6/5#		30.0#	$21.94
728	Cheese Omelet		18.9#	$6.23
232	Cheese SHRD Sharp Yellow America		20.0#	$23.30

603	Cherry Applesauce 96/4 oz.	B	24.0#	$6.37
729	Cherry Pie Filling	B	42.0#	$18.54
561	Chili with Beans 30# CS		30.0#	$13.53
187	Chick Nuggets 40#CS PRC		40.0#	$13.31
662	Chicken Rings		12.76#	$4.90
139	Chix Patty BRD TYSON 115/		26.01#	$10.23
611	Colby Cheese Omelet 225/2 oz.		29.53#	$12.83
214	Coleslaw Dressing		35.52#	$2.38
747	Cran-Raspberry Applesauce Cup	B	24.0#	$18.65
599	Egg Diced 20# CS		20.0#	$10.30
730	Egg Diced 20# CS		20.0#	$8.37
731	Egg Patty		23.44#	$6.67
609	Egg Patty Grilled 240/1.5 oz.		18.75#	$8.37
236	Eggs Scrambled Heat & Serve		20.0#	$10.35
194	Flour Tortilla 6” 288/		16.0#	$2.08
144	Flour Tortilla 8” 288/		22.0#	$2.86
732	French Bread Pizza		20.63#	$14.34
247	French Lo-Cal 4/1 gal.		35.8#	$.40
762	French Toast Sticks		16.25#	$2.65
094	Frontier French 4/1 gal.		36.28#	$4.09
768	G-Force Bar	B	16.5#	$12.91
297	Golden Italian 4/1 gal.		33.8#	$1.25
283	Golden Italian Lo-Cal 4/1 gal.		35.8#	$.98
272	Honey Mustard Dip		18.32#	$.38
615	Macaroni & Cheese 30#CS		30.0#	$11.11
326	Muffin Apple Raisin 96/2 oz.	B	12.0#	$1.18
713	Muffin Blueberry	B	10.8#	$1.50
733	Muffin Blueberry	B	12.0#	$1.92
268	Muffin Blueberry Lo-Fat 96/2 oz.	B	12.0#	$.87
429	Muffin Carrot Raisin 96/2 oz.	B	12.0#	$1.18
355	Muffin Cherry 96/2 oz.	B	12.0#	$1.56
734	Muffin Cherry	B	12.0#	$2.11
593	Muffin Chocolate Chip 96/2 oz.	B	12.0#	$0.87
680	Muffin Orange Berry 96/2 oz.	B	12.0#	$4.15
329	Muffin Raisin Spice 96/2 oz.	B	12.0#	$1.18
735	Muffin Raisin Spice 96/2 oz.	B	12.0#	$1.73
687	Orange Juice PC-Carton		24.0#	$3.30
688	Orange Juice PC-Cups		13.08#	$1.71
275	PB J EZ Jammers		12.6#	$4.25
761	Peach Applesauce Cups 96/4 oz.	B	24.0#	$7.66
621	Peach Turnover		18.75#	$3.05
737	15” Pizza		23.28#	$11.32
388	Pizza Bagel w/Pepperoni 60/5.3 oz.		20.625#	$8.12
736	Pizza Bagel		28.2#	$18.13
389	Pizza Bagel Pepperoni Mylar 60/5.3 oz.		20.625#	$8.12
274	Pizza Boat 72/2.3 oz.		23.85#	$13.24
108	Pizza Boat Mylar 72/5.3 oz.		23.85#	$13.24
738	Pleva Breakfast Patty CKD		20.0#	$17.88
667	Pork Rib-B-Q		24.0#	$17.64

739	Pork Sausage Link		18.75#	$16.77
522	Pork Sausage Patty PLEVA 128/1.5 oz.		12.0#	$11.87
401	Pork Rib Nibblers		15.0#	$9.19
740	Pre-Cooked Hamburg Patty		19.14#	$24.65
741	Pre-Cooked Scrambled Eggs		23.0#	$8.59
414	Quesadilla Pork/CHS 60/4.8 oz.		18.0#	$5.73
418	Ranch Dip 2/1 GAL		16.88#	$1.61
347	Ranch Dressing 4/1 gal.		33.2#	$3.54
359	Salad Dressing 4/1 gal.		33.2#	$2.73
458	Salad Dressing Lo-Cal 4/1 gal.		33.2#	$1.01
370	Shake Chocolate Dairy 50/8 oz.	B	28.0#	$4.22
764	Soy PBJ Uncrustable 72/4 oz.		18.0#	$3.38
548	Spaghetti Sauce w/Beef FRZ		30.0#	$19.15
711	Spaghetti Sauce w/Pork		30.0#	$14.18
653	Strawberry Cup		24.0#	$12.87
654	Stuffed Pizza Dipper		25.0#	$22.21
627	Sub Mini Bun 96/5” CS		11.88#	$1.01
590	Sub Sandwich Bun 96/6” CS		18.9#	$1.61
719	Taco Filling Beef	B	30.0#	$26.97
559	Taco Meat Beef 30#CS		30.0#	$22.98
545	Taco Sauce AP 4/1 GAL		35.12#	$3.67
742	Texas Toast		16.88#	$14.34
619	Toast Glazed Cinnamon 150/3.25 oz.		30.47#	$8.38
661	Toast Texas Cheese 72/5 oz.		22.5#	$10.31
635	Toast Texas Cinnamon 84/2.8 oz.		14.7#	$1.07
714	Tortilla Pieces – Individual 2 oz.		6.25#	$1.31
518	Tortilla Pieces 8# CS		8.0#	$1.69
506	Turkey Breast Log CKD LB		20.0#	$9.90
406	Turkey Ground PROC		40.0#	$24.32
620	Turkey Mini Corn Dog Nuggets 10#CS		30.0#	$8.70
666	Uncrustable Peanut Butter/Jelly Sandwich		21.6#	$8.39

Please Note: The value figures for processed items reflect **only** the value of the USDA commodities contained in each product.

DOD PRODUCE VALUES

Code	Commodity	Case Wt.	Value/Case
084	Apples Fresh DOD	40.0#	$19.81
103	Carrots Fresh DOD	24.0#	$16.93
690	Grapes Red Fresh DOD	20.0#	$20.64
806	Nectarines Fresh DOD	22.0#	$12.14
267	Oranges Fresh DOD	35.0#	$13.61
443	Pears Fresh DOD	40.0#	$18.13
699	Peaches Fresh DOD	22.0#	$14.17
700	Plums Fresh DOD	28.0#	$12.14
467	Potatoes Fresh DOD	50.0#	$13.64
697	Tomatoes Fresh 60 CT. DOD	20.0#	$11.26

CHILD NUTRITION CLUSTER

CFDA #10.553, #10.555, #10.556, #10.559

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

ATTACHMENT

Criteria for a Reimbursable Meal

Date of Last Significant Change: 2001/02

I. FEDERAL OVERVIEW

A. Federal Agency
Food and Nutrition Services (FNS), United States Department of Agriculture (USDA)

B. Authorization
National School Lunch Act of 1946, as amended; Child Nutrition Act of 1966, as amended

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, private 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 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 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 provided by the public, private, or residential childcare institution. "Available" means a federally reimbursed lunch, breakfast, and/or a snack program is not available in the school building attended by pre-K or kindergarten students.

II. STATE OVERVIEW

Coordinated Review Effort (CRE)

A. 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. The CRE 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 children eligible for free, reduced price and paid lunches, respectively; and counted, recorded, consolidated, and reported through a system which consistently yields correct claims.
      a. Certification: That applications, as submitted by families, are accurately reviewed and the eligibility determinations given are appropriate. This also includes direct certification. Direct certification is a process whereby school food authorities are provided data from the Family Independence Agency via the MDE that indicates free eligibility for listed students based on food stamp case numbers.
      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 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 tallied together 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 of service and claimed in the proper category.
e. Changes in Eligibility Status: That changes in eligibility that reflect an increase in benefits be 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.
   a. Meal Components on Day of Review/Inspection/Food Based: 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. Refer to USDA/MDE guidance for appropriate portion sizes for each grade grouping.
   b. Menu/Food Based: That the menu published by the SFA lists all five required food items for each lunch for each day and production records to document food items served.
   c. Meal Components on Day of Review/Inspection/NuMenus: 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.
   d. Menu/NewMenus: That the menu published by the SFA lists all menu items for each lunch for each day and production records to document food items served.

B. 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: 91.6% for fiscal year 2000, 92.9% for fiscal year 2001, 92.8% for fiscal year 2002, and 93.5% for fiscal year 2003.
   7. Purchasing
   8. Civil rights
   9. Sanitation
   10. Verification system

11. Other

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.

III. 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. Program Renewal – Certification Packet
Each year the MDE mails the Program Renewal Packet to each district already participating in the National School Lunch, Breakfast, After School Snack, and Special Milk Programs. Three forms – Schedule A, Attachment 5, and Attachment 5a – should be returned to the MDE and a copy kept on file for review. An After School Snack Application and a Permanent Agreement Addendum were submitted by districts opting to participate in the After School Snack Program for the 1998-99 school year. A Permanent Agreement Addendum and Schedule A Addendum for After School Snack were submitted for subsequent school years by districts opting to participate in the After School Snack Program.

B. Application – Agreement/Policy Statement Forms
Any new program desiring to participate in the National School Lunch, Breakfast, After School Snack, and Special Milk Programs must complete an Application – Agreement/Policy Statement packet. In subsequent years, it only needs to submit a Program Renewal Certification form; the "permanent" Application – Agreement/Policy Statement forms should be moved each year to current year files.

C. Application for Free and Reduced Price School Meals
1. Prototype materials, including Applications for Free and Reduced Price School Meals (Form SM-4458-A) and a letter to parents, are mailed to each district. Each district is required to photocopy both sides of the form and letter and then provide one to each student at the beginning of the school year. A district may develop its own letter and have it approved for use by the MDE. These forms are completed by any parents or guardians believing that their income level or family financial situation may quality their children for free or reduced price meals under the National School Lunch, Breakfast, After School Snack, and Special Milk Programs. Each form returned must include the following information:
   a. Child's name, food stamp or FIP case number, adult's signature, or
   b. Child's name, names of all household members, social security number only of an adult household member (the number on the Electronic Benefit Transfer [EBT] card issued for food stamp recipients is not acceptable for use on the School Meals Application. The food stamp case number is alphanumeric; the EBT card number is numeric), "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 or FIP 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 (30 days maximum). This process can take place until a new application (for current year) is approved or disapproved; however, by October 1 of each year, applications must be from the current school year.

D. Verification Procedure for Applications and Free and Reduced Price School Meals
Each school year, the district is required to perform income verification for 3% (random sampling), or 1.5% (focused sampling) of all applications on file October 31st. Upon completion of these verification procedures, the district must complete a "Verification Summary Report." This document (with all the verification records) is to remain on file within the district. The deadline for completion of this report is December 15.

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(I)(1)(iii)(C)). A district may send a "Parental Consent Form to Release Information" 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.

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 sending the "Justification for Exceeding the National Attendance Factor" form to the MDE Fiscal Reporting Program for Food and Nutrition.

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(1)(b) 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 report will be sent to the SFA showing the comparison and suggesting any needed changes so the 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(1)(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 menu planning approach by MDE is required. Contact Barbara Campbell of the School Meals Program for details (517) 373-4337.

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 printed on the district's commodity warehouse order form and will change each January, based on the October claim date.

J. Procurement of Food
In accordance with OMB Circular A-102, procurement that is expected to be over $25,000 in aggregate value must be awarded on the basis of competitive bids (formal advertising). When foods are to be purchased under $25,000 in aggregate value, price quotations should be obtained from at least three sources and documented on file.

K. Foods of Minimal Nutritional Value
Foods of minimal nutritional value 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. Foods of minimal nutritional value 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. Foods of minimal value include carbonated beverages, fruit ices, gum, and certain candies.

L. Inventory
Inventories of the USDA commodities must be completed and documented monthly unless a perpetual inventory system is used. The commodity order form from the commodity warehouse cannot be used as a substitute for the inventory requirement. At a minimum, the inventory must reflect: beginning balance, receipts, withdrawals, and ending balance (7 CFR Part 250.6(b)).

M. Accounting for and Reporting of USDA Donated Commodities
Federal financial assistance under the Single Audit Act includes monetary and non-monetary forms of assistance, such as the USDA donated commodities. The district should include and report the USDA commodities and rebates received in the Schedule of Expenditures of Federal Awards and in the financial statements based on the USDA commodity value reported in "Food Scoop" (a monthly publication issued by the MDE). Full disclosure should be made for the USDA commodities reported in the financial statements for revenue, expenditures, deferred revenue, fund balance, and inventory. For further details regarding the accounting and reporting of commodities, see the compliance supplement entitled, "Accounting and Reporting of USDA Donated Food Commodities." (Part III-1 of this manual)

N. Excess Commodities
Federal commodities cannot be destroyed or disposed of by any means without prior authorization of the MDE (FNS Instruction 770.1 Rev. 1).

O. Commodity Pricing
Prices to be used for calculating the value of inventory of government commodities appear periodically in "Food Scoop" (published August through June). The cost of delivery charges from the warehouse should be used to value "food used" as reported on the year-end report (SM-4012-A or SM-4012-R).

P. Net Cash 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 201.14(b)).

Q. Annual On-Site Review
A complete review of the counting and claiming procedures 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. MDE Food Service Administrative Policy #5 SY 02-03 provides guidance and a sample review form for on-site reviews.

R.

Reporting Requirements		Due Dates
SM-4458	Application – Agreement (new programs)	August 15*
SM-4458-A	Policy Statement (new programs)	August 15*
SM-4458 (renewal)	Program Renewal Certification	August 15
SM-4012-A and SM-4012-R	Year End Repot	3rd Friday in July
SM-4012-SL	Monthly Claim for Reimbursement	10th of Month
SM-4015	Verification Summary Report	December 15
SM-2909	On-Site Review/Inspection	February1

*To be approved for participation at the beginning of the school year; however, new applications are accepted at any time during the year.

IV. 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 compliance supplement, are to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines. The following are specific requirements that should be considered when auditing National School Lunch and School Breakfast Programs:

A. Types of Services Allowed
1. Review the Meal Pattern Guidelines in *A Menu Planner for Healthy School Meals* for guidance on eligible meals.
2. Review lunch menus to make sure that:
   a. If food-based, all five food items are offered daily (meat/meat alternate, bread/bread alternate, vegetable/fruit – two vegetables, two fruits or a fruit and a vegetable, and milk) and that grade appropriate numbers of servings of bread/bread alternate are offered each week (e.g., 15 servings for high school).

b. If NuMenus, at least an entrée, side dish, and fluid milk are offered. Review computer generated nutrient analysis to verify that the menu complies with the Dietary Guidelines and that the software used is one that has been approved by USDA Food and Nutrition.

3. Review School Breakfast menus for criteria spelled out in the *Menu Planner*.
4. Review production records which must be kept on a daily basis. It is recommended that SFAs use the state prototype. All columns of the form must be completed.
5. Observe meal service, if possible, to determine that each meal served and claimed for reimbursement contains the required food items/components. In the regular service, the student 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. Either lunch option is equally reimbursable.

B. Eligibility

1. Review the eligibility requirements in the "Free and Reduced Price Meals: Guidance, Application, Processing and Verification Handbook."
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 discriminated against by overt identified.

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

Effective July 1, 2001, USDA implemented new procurement regulations. School districts must use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law. State and local procurement must be equal to or more stringent than federal procurement rules. Since School Code 380.1274 is more stringent than the federal procurement threshold, school districts must apply the state/local threshold.

Study the purchasing in the food service to assure:

1. That the food service has a standard of conduct consistent with 7 CFR 3016.36(b)(3)**.
2. That the process provides open and free competition consistent with 7 CFR 3016.36(c)(1)**.
3. That the equal employment opportunity provision was adhered to consistent with 7 CFR 3016.36(b)**.
4. Procurements by small purchase procedures are properly documented. For purchases in excess of $17,532, a sealed bid, formal advertisement, and a reasonable bid specification are used by the district. Also, assure that the district did not use a "cost plus a percentage of cost method."
5. 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 (CPI, Market Basket, etc.).
6. Bid specifications used by the district cannot limit the supplier companies' operation or structure on geographic preference consistent with 7 CFR 3016.369(c)(2)**. Open and fair competition must be maintained in accordance with 7 CFR 3016.36(c)(1)**.

**Please search actual references 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 Operated Food Services
1. Verify that the signed contract is consistent with the issued 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 board has given its approval and that a copy of the renewal has been submitted to 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. Ensure meal benefit application, verification and on-site review processes are performed by school district personnel, not employees of the food service management company.

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. Review the year-end report for reasonableness. This also includes reviewing the calculation used to determine the cost per meal on the year-end report and a study of the process used to allocate cost.
3. Review the last Status Report J2037-U-SL.

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, 2002	$15,000
PLUS: Current Year Expenditures	$25,000
LESS: Current Year Cash Receipts	(30,000)*
Accrued (Deferred) Revenue June 30, 2003	$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.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials
1. Catalog of Federal Domestic Assistance, Section 10.555, National School Lunch Program
2. Free and Reduced Price Meals: Guidance, Application Processing and Verification Handbook, published by the Michigan Department of Education

3. Accounting and Reporting of USDA Donated Food Commodities
4. Administrative Manual for School Food Service, published by the Michigan Department of Education
5. A Menu Planner for Healthy School Meals, FNS Publication FNS-303 (www.fns.usda.gov/tn/resources/index.htm)
6. Eligibility Guidance for School Meals Manual, USDA, Audit 2001 (www.fns.usda.gov/cnd)

B. Personnel
1. For information regarding school meal regulations and policies, findings of school food authority (CRE) reviews, or concerns about the administrative review of any school lunch program, please contact Barbara Campbell, School Meals Supervisor, at (517) 373-2077.
2. For information regarding processing contracts, calculating commodity entitlement values, please contact Marla J. Moss, Food Distribution Program Manager, at (517) 241-4054.
3. For information on payment of claims for reimbursement for school meals, please contact Pam Miller, Department Specialist, at (517) 373-1074.
4. For information regarding food service management companies, please contact Cheryl Schubel, Consultant, at (517) 241-2597.
5. For information on Child and Adult Care Food Program requirements or reimbursement, please contact Julie Stark, CACFP Manager, at (517) 373-2313.

Criteria for a Reimbursable Meal

- **With traditional meal planning, how many food components and food items must a lunch include? How many for breakfast? What about enhanced menu planning?**

The chart in Appendix 1 uses similar wording here for both traditional and enhanced systems. For traditional food-based menu planning, it states:

Provides the required food components and food items in the correct serving sizes to meet the appropriate traditional meal pattern.

- ***Four food components for lunch***
- ***Five food items for lunch***
- ***Three or four food components for breakfast***
- ***Four food items for breakfast***

For enhanced food-based menu planning, the wording is the same with the following exception, the word "enhanced" (instead of "traditional") comes before "meal pattern."

The wording is different because the two systems use different meal patterns. As we've seen earlier, the patterns for the enhanced system are newer and have been specifically designed to help schools meet the nutrition goals.

On pages 31 through 51, you will find more information on lunch and breakfast requirements for food-based menu planning – both traditional and enhanced. You will also find answers to questions such as:

- **How are food items counted for "crediting" under traditional and enhanced systems? Is there a difference?**
- **Do all foods served in a meal, including condiments, count toward meeting the nutrient standards for the meal?**
- **What kinds of adjustments are needed for school weeks that are longer or shorter than the typical five days?**

Source: **A Menu Planner for Healthy School Meals, USDA, FNS Publication, FNS-303, 1998. (www.fns.usda.gov/tn/resources/index.htm)**

APPENDICES

APPENDIX 1:
Major Features of Food-Based Menu Planning: Comparing Traditional and Enhanced

	TRADITIONAL	ENHANCED
1.	**Nutrition Goals** Menus must meet nutrition goals when averaged over a school week and analyzed by the state agency during a state nutrition review.	Same as traditional
2.	**Nutrient Standards and Age/Grade Groups** For school-age students (K-12) LUNCH: There are two established age/grade groups: Grades K-3 and Grades 4-12. There is also an optional recommended age/grade group: Grades 7-12. BREAKFAST: There is one established age/grade group: Grades K-12. For pre-school children LUNCH AND BREAKFAST: There are two pre-school age groups: Ages 1-2 years and Ages 3-4 years.	For school-age students (K-12) LUNCH: There are two established age/grade groups: Grades K-6 and Grades 7-12. There is also an optional recommended age/grade group: Grades K-3. BREAKFAST: There is one established age/grade group: Grades K-12. There is also an optional recommended age/grade group: Grades 7-12. For pre-school children LUNCH AND BREAKFAST: There are two pre-school age groups: Ages 1-2 years and Ages 3-4 years.
3.	**Criteria for a Reimbursable Meal** Provides the required food components and food items in the correct serving sizes to meet the appropriate *traditional* meal pattern. --Four food components for lunch --Five food items for lunch --Three or four food components for breakfast --Four food items for breakfast	Provides the required food components and food items in the correct serving sizes to meet the appropriate *enhanced* meal pattern. --Four food components for lunch --Five food items for lunch --Three or four food components for breakfast --Four food items for breakfast

4. Meal Structure for Lunch
The following are minimum requirements for school-age students by age/grade group for each of the four components: Meat/Meat Alternate, Grains/Breads, Vegetables/Fruits, and Milk.

Meat/Meat Alternates	Meat/Meat Alternates
--Grades K-3: 1 ½ oz. --Grades 4-12: 2 oz. --Optional (recommended): Grades 7-12: 3 oz.	--Grades K-6: 2 oz. --Grades 7-12: 2 oz. --Optional (recommended): Grades K-3: 1 ½ oz.

Grains/Breads
--Grades K-3: 8 servings per week; minimum 1 serving per day
--Grades 4-12: 8 servings per week; minimum 1 serving per day
--Optional (recommended): Grades 7-12: 10 servings per week; Minimum 1 serving per day

Vegetables/Fruits
At least two different fruits and/or vegetables must be offered.
--Grades K-3: ½ cup per day
--Grades 4-12: ¾ cup per day
--Optional (recommended): Grades 7-12: ¾ cup per day

Milk
For all age/grade groups:
8 oz. fluid milk as a beverage

Grains/Breads
--Grades K-6: 12 servings per week; minimum 1 serving per day
--Grades 7-12: 15 servings per week; minimum 1 serving per day
--Optional (recommended): Grades K-3: 10 servings per week; minimum 1 serving per day

Vegetables/Fruits
At least two different fruits and/or vegetables must be offered.
--Grades K-6: ¾ cup per day plus additional ½ cup per week
--Grades 7-12: 1 cup per day
--Optional (recommended): Grades K-3: ¾ cup per day

Milk
For all age/grade groups:
8 oz. fluid milk as a beverage

5. Meal Structure for Breakfast

The following are minimum requirements for school-age students by age/grade group for each of the three or four components: Meat/Meat Alternate and/or Grains/Breads; Juice/Fruit/Vegetable; and Milk.

Meat/Meat Alternate and/or Grains/Breads
--Grades K-12: Two servings of Meat/Meat Alternate (1 oz. per serving) or two servings of Grains/Breads or one of each

Juice/Fruit/Vegetable
--Grades K-12: ½ cup

Milk
--Grades K-12: 8 oz. fluid milk as a beverage or on cereal or both

Meat/Meat Alternate and/or Grains/Breads
--Grades K-12: Two servings of Meat/Meat Alternate (1 oz. per serving) or two servings of Grains/Breads or one of each
--Optional (recommended): Grades 7-12: Same as Grades K-12 plus one additional serving of Grains/Breads

Juice/Fruit/Vegetable
--Grades K-12: ½ cup
(Same for Grades 7-12, Optional)

Milk
--Grades K-12: 8 oz. fluid milk as a beverage or on cereal or both
--(Same for Grades 7-12, Optional)

6. Offer versus Serve for Lunch

Required for senior high schools

High school students must take no fewer than three of the required five food items. They get to choose which item(s) to decline.

Same as traditional

Optional for lower grades. (School food authorities decide whether to have OVS.)	
7. Offer versus Serve for Breakfast	
Optional for senior high schools	Same as traditional
Optional for lower grades.	
Students may decline one food item from any food component.	
8. Standardized Recipes	
A record and copy of recipes used must be available during state nutrition review and analysis.	Same as traditional
9. Processed Foods	
A record of products used must be on file.	Same as traditional
Child Nutrition label or other documentation will assist in determining food credit of food components and serving sizes.	
Nutrition facts labels and/or manufacturers nutrient data sheets will be needed during state nutrition review.	
10. Production Records	
Program regulations require schools to keep food production and menu records.	Same as traditional
11. Child Nutrition Labeling	
Child Nutrition (CN) labels on products show the product's contribution toward meal pattern requirements.	Same as traditional

APPENDIX 2:

Major Features of Nutrient-Based Menu Planning: Nutrient Standard Menu Planning (NSMP) and Assisted NSMP

- NSMP and Assisted NSMP use computerized nutrient analysis to plan menus. When averaged over a school week, this menu analysis must meet the nutrient standards for specific age/grade groups.
- NSMP and Assisted NSMP are basically the same. With Assisted NSMP, however, an outside consultant or other agency (such as the state agency or another school district) does the menu planning and nutrient analysis based on local preferences.

1. **Nutrition Goals**
   - Menus must meet nutrition goals when averaged over a school week.
   - Requires computerized nutrient analysis of planned menus for: RDA (Recommended Dietary Allowances) for key nutrients; calories; and Dietary Guidelines measures. USDA-approved software must be used for the computerized nutrient analysis.

2. **Nutrient Standards and Age/Grade Groups**
   - *Minimum of two established age/grade groups:* Grades K-6 and Grades 7-12 (plus optional third group for Grades K-3). There are different nutrient standards for each of these three groups.
   - Optional *established age groups* and nutrient standards.
   - Optional *customized age groups* and nutrient standards.

3. **Criteria for a Reimbursable Meal**
   - Contains at least three menu items.
   - Meets the nutrient standards for the appropriate grade or age groups when averaged over one school week's menu.

4. **Meal Structure for Lunch**

   A minimum of three menu items must be offered: an entrée, milk, and at least one side dish.
   - Offer an entrée: the entrée is a single food item or a combination of foods served as the main dish.
   - Offer fluid milk as a beverage.
   - Offer at least one side dish; may be any food item except a condiment or a food of minimal nutritional value that is not part of a menu item.

5. **Meal Structure for Breakfast**

   A minimum of three menu items must be offered: milk and at least two side dishes.
   - Offer fluid milk as a beverage or on cereal or both.
   - Offer at least two side dishes; may be any food items except a condiment or a food of minimal nutritional value that is not part of a menu item.

6. **Offer versus Serve for Lunch**

   Required for senior high schools; optional for lower grades.
   - Schools must offer students at least three menu items: an entrée, fluid milk, and another menu item.
   - Students must select at least two of the three menu items. One of the two menu items selected must be an entrée.
   - If more than three menu items are offered as a meal unit, students may decline no more than two menu items of the meal unit. (Students can never decline the entrée.)

7. **Offer versus Serve for Breakfast**
   - Optional for all grade levels.
   - Students may decline a minimum of one menu item out of the three or more required menu items offered.

8. **Standardized Recipes**
   - Required for all menu items that have two or more ingredients or that require any preparation.

9. **Processed Foods**
   - Record of products used must be on file.
   - Nutrient analysis of product must be in the USDA database or entered into the local database.

10. **Production Records**
    - Program regulations require schools to keep food production and menu records.

11. **Child Nutrition Labeling**
    - CN labeling does not apply to NSMP and Assisted NSMP because these systems do not use meal patterns. However, schools can serve CN-labeled products in meals planned with NSMP or Assisted NSMP.

TITLE I

CFDA #84.010

I. Federal Overview

II. State Overview

III. Flexibility Provisions

IV. District Considerations

V. Audit Considerations

VI. Reference Materials and Personnel

ATTACHMENTS

Title I School Selection and Allocation of Funds Worksheet

Title I Comparability Worksheet

Title I Documentation Worksheet for Professional Development

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

A. Federal Agency

Compensatory Education 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.

II. STATE OVERVIEW

The 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 professional 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	DUE DATE
2002-03 CONSOLIDATED APPLICATION (electronic form in Michigan Electronic Grants System)	Prior to the beginning of the fiscal obligation period

The 2002-03 Consolidated Application contains a general description of the Title I program, budget information, and a narrative plan including academic goals and strategies, student assessments, professional development, and other areas. Separate budgets must be prepared for carryover and regular Title I funds. 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.

BUDGET AMENDMENT	DUE DATE
Use budget pages in 2002-03 Consolidated Application	As required, but no later than 9/30/XX for regular funds, and 6/30/XX for carryover 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 entire budget.

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	DS-4044	11/30/XX for regular funds or 8/30/XX for carryover funds

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

III. FLEXIBILITY PROVISIONS

Flexibility is available to grantees. In some cases, districts are permitted to **transfer** amounts between ESEA programs, with the exception of Title I, Part A funds. Also, districts are allowed to **consolidate administrative funds** of various ESEA programs or **combine ESEA funds in a school-wide program**. In this situation, to determine major programs and to prepare the Schedule of Expenditures of Federal Awards, the transfers, consolidations, and combining of funds 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. Consolidation of Administrative Funds and Coordinated Service Project
Federal expenditures should be allocated to the ESEA programs that provided funds proportionately to the amounts provided by each program. Any transactions selected should be tested for compliance with the requirements applicable to the consolidated administrative cost pool or coordinated services project, rather than the individual program.

C. Combining of Funds in a School-Wide Program
The amount transferred to school-wide programs should be considered expenditures at the point in time the transfer is made. Because ESEA funds transferred to the school-wide program are used to support a comprehensive school-wide plan, individual expenditures at the school-wide program should not be tested for compliance with federal laws and regulations that are normally applicable to expenditures of federal funds. However, expenditures should be tested to determine if they are in accordance with the school-wide plan. (Refer to Section 1114 of Title I, Part A of P.L. 107-110.) The amount transferred can either be shown separately or included in the total expenditures for the program. If included in the total expenditures, the amount transferred (from and to) may be disclosed in a footnote to the Schedule of Expenditures of Federal Awards for clarification purposes.

D. In conducting an audit, auditors should determine whether any written waivers have been granted by the U.S. Department of Education or MDE.

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 letter confirms the beginning date.
   2. Districts must have an annual fiscal obligation beginning date.
   3. Districts cannot obligate funds until the applications are received in the Michigan Electronic Grants System. All applications must receive final approval.
   4. The fiscal obligation ending date for regular (first year) funds is September 30, not June 30.
   5. The ending date of 9/30/03 does not allow for the subsequent school year's (03-04) expenditures (i.e., 9/15/03 payroll). Summer school expenditures can be charged to regular (first year) funds.
   6. The fiscal obligation ending date for carryover (second year) funds is June 30.

B. Eligible Attendance Areas (determined annually) – Title I funds may be expended only in eligible attendance areas.
   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, 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 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. In an LEA with a total enrollment of fewer than 1,000 students K-12, all schools are eligible. Reference: P.L. 107-110, Sec. 1113. Also, see attached worksheet on Title I School Selection and Allocation of Funds.

C. Allocations to Eligible Attendance Areas (determined annually)
   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 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.
   3. The poverty-based formula does not apply to an LEA with a total enrollment of fewer than 1,000 students K-12. Reference: P.L. 107-110, Sec. 1113(a)(6). Also, see worksheet on Title I School Selection and Allocation of Funds.

D. Parent/Staff Involvement
   A district must provide opportunities for consultation with parents and teachers of eligible pupils, including those from non-public 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. Parents of participating children must be involved in discussions on the use of these funds.

E. Non-Public School Involvement
   1. Pupils who are residents of a local district's eligible attendance areas and attend a non-public school, regardless of where the non-public school is located, must be offered service on an equitable basis with the public school's eligible pupils.
   2. Non-public allocations are based on the same poverty formula used for public schools.
   3. Non-public low-income students must be identified by Title I school attendance area and allocated the same amount of funds as low-income public school students in that attendance area.
   4. A documented offer and acceptance or rejection must be present. If the non-public 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 scores 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. Schools that are identified for improvement must spend at least ten percent of the Title I allocation to the school on professional development each of the two years immediately following their identification. Also see Attachment C, Title I Documentation for Professional Development.

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 or required by law. In school-wide programs, Title I funds must be used in accordance with the school's Title I school-wide 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 FTE teachers. Reference: P.L. 107-110, Sec. 1120A(b).
   2. Comparability
      a. 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.

b. Comparability is determined by comparing the per pupil expenditures for instructional staff or the instructional staff/pupil ratios between equivalent grade span schools within the district. The variation between the average per pupil expenditures or the instructional staff/pupil ratios for the buildings being compared may not exceed ten percent. Reference: P.L. 107-110, Sec. 1120A(c). Also see worksheet on Title I Comparability

3. 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. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose Title I time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
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.)

V. TITLE I STAFF QUALIFICATIONS

A. Title I teachers hired after the beginning of the 2002-03 school year must meet state certification requirements for the grade levels and subject areas they teach.

B. Title I instructional paraprofessional 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 school-wide 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.

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 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. 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, 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. Expenditures are consistent with the approved application.
c. Staff salaries are supported by contemporaneous documentation that schedules have been followed or time logs or certifications documenting time spent on Title I activities.
d. Indirect costs charged to the program meet the following criteria:
   (1) The correct rate category (restricted or unrestricted) was 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.

B. Eligibility and Allocation of Funds
1. Review adequacy and system of determination of attendance areas having the highest concentrations of low-income families.
2. Review allocation of funds to schools for compliance with Title I formula. Review worksheet on Title I School Selection and Allocation of Funds.

C. Matching, Level of Effort, and/or Earmarking Requirements
1. There are no matching requirements.
2. Maintenance of effort is done at the state level.
3. Review documentation/procedures that exist to ensure the supplement versus supplant requirement has been met.
4. Comparability
   a. Determine whether the district has established procedures for determining and maintaining comparability.
   b. Determine if the district determines its comparability status every two years. Review Title I Comparability Worksheet.
   c. Determine if the district's computation of comparability is accurate.

D. 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.

E. Cash Management
1. Check to determine that cash was not requested in excess of the immediate cash needs.

F. Special Tests and Provisions
1. Carryover – Determine whether an LEA with an allocation of $50,000 or more has carried over no more than 15% of basic and concentration funds, unless a waiver was granted. If a waiver was granted, a letter from the Office of Field Services granting the waiver should be on file in the district. 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.

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 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.
4. School-Wide Programs – Determine if the LEA planned a school-wide program. If so, perform the following procedure: Determine whether the school met the eligibility requirements in the first year of implementing a school-wide project. The school's poverty percentage must be at least 40% in the first year of implementation.
5. Schools Identified for Improvement – Determine if professional development expenditures have been documented for schools identified for improvement. Schools that are identified for improvements must spend at least ten percent of their Title I allocation each year for the two-year period following their identification. Also see Attachment C, 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, but not as an appropriate use of carryover Title I funding.
   d. **A cut-off date of June 30 for all carryover funds took effect beginning with carryover funds into 1999-2000 for Title I. Regular programs end September 30 of each year.**

VI. 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, Part A and Title I, Part 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. School Program Study Guide – Title I (or available on the web at: www.michigan.gov/mde, then click on Site Map, the Field Services, then On-Site Review Materials)
6. Fiscal Year 19XX Administrative Information Memorandum No. X – issued periodically by the Michigan Department of Education
7. Federal Grants Management Handbook – Grants Management Advisory Service, Thompson Publishing Group

B. Personnel

Linda Brown, Assistant Director
Office of Field Services
Michigan Department of Education
(517) 373-3921
Fax: (517) 335-2886
BrownLQ@michigan.gov

SPECIAL EDUCATION CLUSTER

CFDA #84.027A AND 84.173A

I. Federal Overview

II. State Overview

III. Compliance Review

IV. 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.

ATTACHMENT

Education Department General Administrative Rules – Equipment

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

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

B. Authorization
P.L. 105-17, the Individuals with Disabilities Education Act (IDEA), as amended. The 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 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 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. COMPLIANCE REVIEW

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 IDEA, Part B, including Pre-school and Part C, Infants and Toddlers funds for the costs of providing special education and related services to children, infants, and toddlers with disabilities (Section 613, 619 and 638 of P.L. 105-17). Special education includes specially designed **instruction** to meet the unique needs of a child with a disability, including classroom **instruction, instruction** in hospitals and institutions, **instruction** in physical education, home **instruction**, and **instruction** in other settings. Related services include physical and occupational therapy, and such other supportive services as are required to assist a child with a disability to benefit from special education. A portion of these funds, under conditions specified in the law, may also be used to benefit non-disabled children and for the

development and implementation of integrated and coordinated services systems, and statewide projects under Title I (Sections 602(22), 602(25) and 613(a)(2)(D) and (a)(4) of P.L. 105-17).

An LEA may use IDEA preschool 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 the state's discretion, providing a free appropriate public education to two-year-old children with disabilities who will reach age three during the school year)(34 CFR Section 301.3(a); Sections 602(22) and (25) of P.L. 107-17).

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; heath 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.

Time/salaries spent working on Special Education programs must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose Special Education time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

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

B. 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. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as

determined by the SEA, because the child has left the jurisdiction of the agency, has terminated or no longer needs such program of special education; or (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment (Section 613(a)(2)(A) and (B) of P.L. 105-17).

Test: 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. Compare either (a) the total non-federal approved expenditures from the "Local and Intermediate School District Special Education Actual Cost and Supplemental Program Schedules" (Form SE-4096) submitted during the year being audited with the expenditure for the prior year, or (b) the average per capita amount of state and local funds budgeted for expenditure in the current fiscal year against prior year expenditures. Inquire of the district whether one of the four exceptions enumerated above apply. Report cases where the non-federal expenditure is less than the prior year and none of the four exceptions apply.

C. Period of Availability of Federal Funds – Costs charged to each grant must be within the grant period in the grant approval letter.

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

D. Financial Reporting – Review the prior year DS4044 expenditure reports 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.

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.
5. Sample the public school's request for funds using the "Grants Project Expenditure Report/Request for Funds" (Form DS-4492A) to verify that the public school did not request payments in excess of immediate cash needs (30 days).
6. For employees split between two fund sources, review a sample of time and activity reports for compliance with OMB Circular A-87.
7. For contractual expenditures, determine that a contract exists in accordance with IRS regulations and that expenditures are allowable.

E. Subrecipient Monitoring – ISDs that transfer federal funds to subrecipients must monitor those subrecipients.

Test: Review the ISD's 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.

IV. 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 Section 84.173
2. Public Law 105.17 of 1997, 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, Finance and Program Management, Federal Grants Unit, at (517) 373-2949.
2. Questions regarding these audit procedures can be directed to Mr. Norm Lupton, Finance and Program Management, at (989) 201-6095 (cell phone).
3. Questions regarding the DS-4044 should be directed to Gini Spagnuolo at (517) 373-1963 or Debby Roberts at (517) 335-0534, Administrative Services.
4. General accounting questions can be directed to the Office of Administrative Services at (517) 373-2879.

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)].

SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES ACT
CFDA #84.186

I. Overview

II. Audit Considerations

III. Changes Under Reauthorization

IV. Contact Persons

ATTACHMENT

Statement of Non-public School Participation

Date of Last Significant Change: 2002/03

I. OVERVIEW

The Office of Drug Control Policy (ODCP) administers the Title IV, Part A, Subpart 1 – Safe and Drug-Free Schools and Communities Act (SDFSCA) program on behalf of the Michigan Department of Education (MDE). Ninety-three percent of the allotment under this section is awarded to LEAs according to a predetermined formula. (The remaining seven percent is retained by the state for administration, development of a uniform management information system, for development, training, technical assistance, and coordination activities, etc.)

II. AUDIT 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 private 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. ODCP has identified exemplary and promising programs recognized by the U.S. Department of Education for use by LEAs. Other federally recognized programs also are permitted, as well as self-developed programs. LEAs that select self-developed programs must have evidence and data supporting the program's success for at least one year but preferably two years.

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. Types of Services Allowed or Not Allowed – 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.
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. Expended 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 private 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.

Time/salaries spent working on these activities must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

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.

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 (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 (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.

NOTE: Not more than *2 percent* of the LEA's allocation may be allocated as an administrative cost. Also, not more than 40 percent of the total of allocated funds may be used for hiring and mandatory training of school security personnel, including school resource officers, who interact with students in support of violence and drug prevention programs. Of this designated amount, no more than 50 percent may be used for acquiring and installing relevant equipment and technologies. Examples of administrative costs can be found in the Michigan Department of Education's School Accounting Manual.

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 SEA such information that the state requires to complete the state report required by subsection (a), including a description of how parents were informed of, and participated in, violence and drug prevention efforts. This information under paragraph shall be made readily available to the public.

Each year the LEA must submit a year-end 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 should submit a year-end 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 ODCP. A program review/monitoring guide is available from the ODCP. Should there be compliance issues, the state will issue a report outlining level of compliance, strengths, and weaknesses, and work with the LEA to develop a corrective action plan.

NOTE: Please be advised that many districts do not comply with reporting requirements by the ODCP-imposed deadline of September 30.

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 private non-profit 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, a LEA shall submit an application to the SEA. Application deadline for the FY 2002-2003 year was October 2, 2002; extensions to December 1, 2002, were provided. 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 private 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 SDFSCA, but recognizes that evaluation is an ongoing process that involves a number of variables.

Waiver – A local educational agency may apply to the state for a waiver of the requirement of subsection (a)(1)(C) to allow innovative activities or programs that demonstrate substantial likelihood of success.

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 private 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 (see Addendum A form). 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 2002-2003 applications were due May 2, 2002. Delinquent applications were accepted until December 1, 2002, due to difficulties experienced in submitting applications using the new on-line grants system. Applications received after the December date were not accepted. Uncommitted funds as of December 1, 2002, were reallocated.

All approvals are handled through the Michigan Education Grants System. Letters and a grant award notification form are mailed to each superintendent and Title IV, Part A, Subpart 1 school coordinator.

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; no line item transfers are permitted.

The budget detail contains the approved expenditures. Should an LEA wish to make a change in either area, a program or budget revision must be submitted and approved. No line item transfers without prior approval or amendment.

L. Disapproval Process
ODCP 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 ODCP 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. Facsimile machines, computers, printers, and other items valued at less than $5,000 are considered supplies.

N. Carryover Funds
Consortia or local educational agencies may carry over up to 25 percent of their previous year's formula or supplemental fund allocation without approval. Requests to retain an amount greater than 25 percent must be accompanied by a letter of request for approval, explaining the need to carry over funds, and demonstrate good cause to the ODCP. ODCP must provide written approval for carryover funds. It is imperative that carryover funds and regular funds are budgeted and tracked separately.

O. Violence-Free School Plan
Pursuant to a state requirement, LEAs receiving Title IV, Part A, SDFSCA funds must have a Violence-Free School Plan that has been prepared in cooperation with and approved by local law enforcement, the prosecutor's office, juvenile court, students, and parents. Consortia must also assure that each participating school or public school academy complies with this requirement. Annually, schools must review and update the plan, as necessary, or develop a new plan. Plans are retained by the fiscal agent for auditing or monitoring by the ODCP.

P. Gun-Free Report
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 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.

Q. School Safety
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 us, 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. CHANGES UNDER REAUTHORIZATION

A. Supplemental Funds. FY 2001-2002 was the final year of regular supplemental grant awards. LEAs or consortia thereof may have carryover funds remaining that may be carried forward to the FY 2002-2003 school year.

B. 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).

C. Emphasis on scientifically based prevention programs and activities (Section 4115).

D. Waiver. Section (1)(C)(3) of the "Principles of Effectiveness," Section 4115, allows for "innovative activities or programs that demonstrate *substantial likelihood of success*." ODCP 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 ODCP approves one of these programs, it fully expects the program to be implemented as designed and approved (fidelity).

E. 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

Judith M. Pasquarella, Administrative Manager
Education Division, Office of Drug Control Policy
Michigan Department of Community Health
320 South Walnut Street, 2nd Floor
Lansing, Michigan 48913
(517) 373-4700

Patricia Rattler, Program Officer
U.S. Department of Education
Safe and Drug-Free Schools Program
(202) 401-0113

TITLE III - OF THE GOALS 2000 EDUCATE AMERICA ACT OF 1994

CFDA #84.276A

I. Federal Overview

II. State Overview

III. School Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

A. Federal Agency

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

B. Authorization

Title III of the Goals 2000, Educate America Act of 1994, Public Law 103-227

C. Beneficiary Eligibility

1. Funds were available under Goals 2000 to assist states, communities, and schools develop and implement comprehensive education improvements. These improvements were designed to help children make progress toward high academic standards, and they involved broad-based participation from parents, educators, and the community during development and implementation.
2. For more information, consult the Catalog of Federal Domestic Assistance.

II. STATE OVERVIEW

The Goals 2000 statute provided for a competitive distribution of 90 percent of the funds received by the state to local and intermediate school districts and public school academies.

III. SCHOOL CONSIDERATIONS

The U.S. Department of Education did not provide guidance documents for the Goals 2000 Grant Program. However, grant awards were subject to applicable provisions of the Department of Education General Administrative Regulations (EDGAR), 34 CFR Parts 76, 77, 79, 80, 10, 82, 85, and 86.

A. Funding Periods

Applicants awarded Goals 2000 funds were provided with a grant award letter specifying the fiscal obligation period. The date on which funds could begin to be obligated generally coincided with the date the grant award was made by the Michigan Department of Education.

B. Participation of Private Non-Profit Schools

The Goals 2000 statute required applicants to provide a meaningful opportunity for the equitable participation of teachers and administrators from non-public schools in professional development funded under Goals 2000. 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 staff. Public schools and intermediate school districts were required to document the planning activities that occurred between the public and non-public entities and to keep on file items such as copies of letters inviting non-public participation. Grant funds could be used to provide non-public staff with professional development, stipends, and materials related directly to the professional development activity. Funds could not be used for non-public substitute teacher costs. In addition to providing for the direct participation of non-public staff, the program required grant recipients to make available to non-public schools, upon request, information regarding content or student performance standards, curricular materials, and assessment developed with these funds. It should be noted that private schools had the right to decline the invitation to participate in the Goals 2000 Program.

C. Evaluation Reports
An evaluation report of each project was due to the Michigan Department of Education 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. Subgrantees were expected to participate in various statewide Goals 2000 evaluation projects as they are implemented.

D. Financial Reports
Schools that received Goals 2000 funds were required to file the "Final Expenditure Report" (Form DS-4044) within 60 days of the end of the project. Goals 2000 was also subject to the single audit requirements that govern federal education programs.

E. Retention of Records
Federal regulations required schools to retain records related to Goals 2000 for three years after the final expenditure report for the project was filed.

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

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

H. Monitoring
The MDE periodically monitored the use of Goals 2000 funds by local and intermediate school districts and public school academies. MDE provided the district a copy of the written report.

I. Supplement Not Supplant
Goals 2000 funds could only be used to supplement local eligible expenditures and could not be used to supplant any funds from non-federal sources.

J. Consortium Applications
Goals 2000 proposals were frequently submitted by an applicant serving as the fiscal agent for one or more additional eligible applicants. The fiscal agent maintained the responsibility for all fiscal and administrative actions through the duration of the project.

K. Time/salaries spent working on Title III must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose Title III time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

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.

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. Goals 2000 funds could be used to purchase equipment if the use of the equipment has been approved by the department.
      b. A maximum of 5% of the total funds approved could be used for administration of the grant program. Indirect costs are considered to be administrative use of funds.
      c. Indirect costs are allowable under Goals 2000 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) was 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 Goals 2000 activities.

B. Matching/Level of Effort
   1. Evaluate the adequacy of the policies and procedures established by the school to ensure that funds were 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. Special Tests and Provisions
   1. Evaluate the adequacy of the policies and procedures used by the public school for insuring the participation of private schools in the development and implementation of the grant proposal.
   2. Determine whether the school district followed these policies and procedures.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials
   1. Public Law 103-227, Goals 2000: Educate America Act of 1994, Title III
   2. Catalog of Federal Domestic Assistance, Section 84.276A, Goals 2000, State and Local Education Systemic Improvement Group
   3. OMB Circular A-133 Compliance Supplement, Section 84.298, Federal, State and Local Partnership for Educational Improvement

4. Compliance and Complaint Procedures Handbook, a Michigan Department of Education publication

B. Personnel

Mary Ann Chartrand, Supervisor
Grants Administration and Coordination
Michigan Department of Education
(517) 373-1806
ChartrandM@michigan.gov

Dwight Sinila, Education Consultant
Grants Administration and Coordination
Michigan Department of Education
(517) 241-4657
SinilaD@michigan.gov

TITLE V, PART A - INNOVATIVE PROGRAMS

CFDA #84.298

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

A. Federal Agency

School Improvement 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 LEAs in the state for the benefit of school children, ages 5-17, enrolled in public and private non-profit 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 are 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 are 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 are 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 are 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.

Time/salaries spent working on Title V must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose Title V time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

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, 2002, through September 30, 2003, provided that an application has been submitted to the MDE in substantially approvable form. Funds that are not expended by September 30, 2003, are available for use in a carryover period extending from October 1, 2003, through June 30, 2004. A carryover budget must be submitted if the district is requesting a carryover of funds.

B. Participation of Private Non-Profit Schools
   Private non-profit schools must be provided with the opportunity to participate in the Title V, Part A, program on an equitable basis. Districts may not apply for or use the funds allocated for private non-profit schools that choose not to participate in the Title V, Part A, program. Allocation amounts for private non-profit schools choosing to participate are listed on the school's allocation chart. Funds must remain in the control of the district or other public agency.

C. 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.

D. 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.

E. 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.

F. 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.

G. 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.

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

I. 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.

J. 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.

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 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. 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 private schools to ensure that the services provided to children enrolled in private, non-profit 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

Linda Brown, Assistant Director
Office of Field Services
Michigan Department of Education
(517) 373-3921
Fax: (517) 335-2886
BrownLQ@michigan.gov

TITLE III OF THE ELEMENTARY AND SECONDARY
EDUCATION ACT TECHNOLOGY LITERACY CHALLENGE FUND GRANTS (TLCF)

CFDA #84.318

I. Federal Overview

II. State Overview

III. School Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Note: The TLCF program expired on September 30, 2002. The new technology program is Title II, Part D, Enhancing Education Through Technology. The CFDA number for the new program will be 84.318.

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

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

B. Authorization
Title III, of the Elementary and Secondary Education Improving America's Schools Act of 1994, known as the Technology for Education Act of 1994.

C. Beneficiary Eligibility
The TLCF program provided 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 agencies (SEA) could retain up to 5 percent of their allotment for technical assistance and administration. The remaining 95 percent was awarded competitively to local education agencies (LEAs) or to LEAs that were part of consortia.

III. SCHOOL CONSIDERATIONS

This program was authorized by Title III, Part A, Subpart 2 of the Elementary and Secondary Education Act of 1965, as amended (ESEA) (20 USC 6841-6847). The Education Department General Administrative Regulations in 34 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 awarded TLCF funds were provided with a grant award letter specifying the fiscal obligations period. The date on which funds could begin to be obligated generally coincided with the date the grant award was made by the Michigan Department of Education.

B. Participation of Private Non-Profit Schools
The TLCF legislation required 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 were required to document the planning activities that occurred between the public and non-public entities and to keep on file items such as copies of letters inviting non-public participation. Grant funds could be used for:

1. Funding Focus
   a. Hardware to assist applicants in purchasing computer related technology systems and upgrading or replacing obsolete equipment.
   b. Connectivity to assist districts whose internal and external connectivity (voice, video, and data) is either nonexistent or incomplete.
   c. 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.

d. 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.
e. Special Notes:
   1) Projects that focus on hardware, connectivity, and content development/software purchase must include a training component to ensure sustained use of the technology provided by the grant. A minimum of 20 to 40 percent of the funding request should be allocated for training.
   2) Grant funds may be used to provide non-public staff with professional development, stipends and materials related directly to the professional development activity. Funds may not be used for non-public substitute teacher costs.
   3) Private schools always have the right to decline the invitations to participate in the TLCF grant program.

C. Time/salaries spent working on TLCF must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose TLCF time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

D. Evaluation Reports
An evaluation report of each project was due to the Michigan Department of Education 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.

E. Financial Reports
Schools that received TLCF grant funds are required to file the "Final Expenditure Report" (Form DS-4044). The TLCF grant 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 TLCF grants for three years after the final expenditure report for the project is filed (EDGAR 34 CFR §74.53).

G. 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 private non-profit 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.

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

I. Monitoring
The MDE periodically monitored the use of TLCF grant funds by local and intermediate school districts and public school academies.

J. Supplement not Supplant
TLCF grant funds could only be used to supplement local eligible expenditures and could not be used to supplant any funds from non-federal sources.

K. Consortium Applications
An applicant serving as the fiscal agent for one or more additional eligible applicants often submitted TLCF grant proposals. The fiscal agent maintained 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.

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. TLCF grant funds may be used to purchase the equipment described in the approved grant application.
    b. A maximum of 5% of the total funds approved may be used for the administration of the grant program. Indirect costs are considered to be administrative use of funds.
    c. Indirect costs are allowable under the TLCF grant 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) was 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 TLCF 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. Special Tests and Provisions

1. Test the adequacy of the policies and procedures used by the public school for insuring the participation of private schools in the development and implementation of the grant proposal.
2. Determine whether the school followed these policies and procedures.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials

1. Title III, Part A, Subpart 2 of the Elementary and Secondary Education Improving America's Schools Act of 1995.
2. Catalog of Federal Domestic Assistance, Section 84.318, Technology Literacy Challenge Fund Grants (TLCF).
3. OMB Circular A-133 Compliance Supplement, Section 84.298, Federal, State, and Local Partnership for Educational Improvement.
4. Compliance and Complaint Procedures Handbook, a Michigan Department of Education publication.

B. Personnel

Mary Ann Chartrand, Supervisor
Grants Administration and Coordination
Michigan Department of Education
(517) 373-1806
ChartrandM@michigan.gov

COMPREHENSIVE SCHOOL REFORM PROGRAM

CFDA #84.332A

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

A. Federal Agency
Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization
Title I, Part F, No Child Left Behind (NCLB) Act of 2001, Public Law 107-110

C. Beneficiary Eligibility
Local school districts implementing comprehensive school reform demonstration programs in schools that meet state-determined eligibility criteria.

II. STATE OVERVIEW

The MDE, Office of Field Services, is responsible for state administration of the Comprehensive School Reform (CSR) Program. First-year grants are awarded to school districts on a competitive basis in accordance with selection criteria approved by the State Board of Education. These grants are awarded for the implementation of specific comprehensive school reform programs to improve student achievement in designated schools. The funds are used primarily for technical assistance and professional development in accordance with the approved budget for the grant. Second- and third-year continuation grants are awarded based on evidence of progress in implementing the comprehensive school reform demonstration program identified for each participating school.

MDE activities for the CSR Program include management of the grant application and award process, technical assistance to schools and districts, and coordination of program evaluation activities. The MDE relies on the single audit to determine that CSR funds are used only for approved activities within the correct project period and to verify reported expenditures.

FORM DESCRIPTION	**FORM NUMBER**	**DUE DATE**
ANNUAL CSR APPLICATION	FS-4921	3/31/XX

Includes the proposed budget, budget detail, list of participating schools, school eligibility information, name of comprehensive school reform program being implemented in each school, and narrative description of school and district implementation plan.

FINAL EXPENDITURE REPORT	DS-4044	11/30/XX

III. 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 CSR requirements.

A. Funding Periods
1. Approval letter confirms the beginning date.
2. District may not obligate funds before the approved beginning date.
3. The fiscal obligation ending date is 9/30/XX.

B. Allowable Expenditures
CSR funds must be used primarily for technical assistance and professional development as specified in the district's approved grant budget and budget detail. Funds may also be spent on instructional material necessary for implementation of the particular model. CSR funds may not

be used to supplant non-federal or other federal funds. Funding of district or school staff time is not permitted, unless that time is beyond the regular contractual day or year and is used for staff development or other activities related to the implementation of the CSR Program. The exception is that a maximum of 5 percent of the grant may be used for evaluation, including evaluation staff, if included in the approved grant budget.

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 to help the auditor perform compliance procedures in an efficient and effective manner in accordance with professional standards and federal guidelines.

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
   1. Review expenditure records and supporting documentation to ensure:
      a. Funds have been used in designated schools to implement comprehensive school reform activities in accordance with the approved budget for each school.
      b. District-level expenditures are consistent with the approved grant budget.

B. Reporting Requirements
   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 that allocation of costs within the reports is appropriate, including the DS-4044, "Final Expenditure Report."

C. Cash Management
   1. Check to determine that cash was not requested in excess of immediate cash needs.
   2. Further information regarding cash management can be found in the Title VI Compliance Supplement of this manual.

VI. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials
   1. Public Law 107-110, No Child Left Behind Act of 2001, Title I, Part F
   2. Guidance on the Comprehensive School Reform Program, August 1, 2002
   3. Catalog of Federal Domestic Assistance, Section 84.332, Comprehensive School Reform

B. Personnel

Linda Brown, Assistant Director
MDE Office of Field Services
(517) 373-3921, Fax: (517) 335-2886
BrownLQ@michigan.gov

SCHOOL RENOVATION, IDEA, AND TECHNOLOGY
GRANT PROGRAM

UNDER SECTION 321 OF P.L. 106-554
CFDA #84.352A

I. Federal Overview

II. State Overview

III. School Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Significant Change: New Program 2002/03

I. FEDERAL OVERVIEW

A. Federal Agency
Office of Elementary and Secondary Education, U.S. Department of Education

B. Authorization
2001-2002 School Renovations, IDEA, and Technology Grant Program, Public Law 106-544, Section 321

C. Beneficiary Eligibility
1. Funds are available under the 2001-2002 School Renovation, IDEA, and Technology Grant Program. These funds will benefit students attending school in education facilities in need of repair. Certain special education students will benefit by receiving supportive assistive technology devices or cost of services in excess of those provided to regular education students. Students with limited access to technology will also benefit from this program.
2. For more information, consult the Catalog of Federal Domestic Assistance.

II. STATE OVERVIEW

The 2001-2002 School Renovation, IDEA, and Technology Grant Program statute provides for a competitive distribution of 99 percent of the funds received by the state to local and intermediate school districts and public school academies. This is a one-time-only grant program.

III. SCHOOL CONSIDERATIONS

The U.S. Department of Education does provide guidance documents for the 2001-2002 School Renovation, IDEA, and Technology Grant Program. The guidance document for this program can be found at: http://www.ed.gov/offices/OESE/SST/sr.html#guidance. 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 2001-2002 School Renovation, IDEA, and Technology Grant Program funds are provided with a grant award letter specifying the fiscal obligation period. The date in which funds may begin to be obligated generally coincides with the date the grant award is made by the Michigan Department of Education.

B. Participation of Private Non-Profit Schools
The 2001-2002 School Renovation, IDEA, and Technology Grant Program statute requires applicants to provide a meaningful opportunity for the equitable participation of non-public schools in Grant Category I, Urgent School Repairs. To be eligible for participation, the private, non-profit schools must have 40% of their students living in poverty. 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 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. It should be noted that private schools have the right to decline the invitation to participate in the 2001-2002 School Renovation, IDEA, and Technology Grant Program.

C. Time/salaries spent working this program must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

D. Evaluation Reports
An evaluation report of each project is due to the Michigan Department of Education 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. Subgrantees are expected to participate in any 2001-2002 School Renovation, IDEA, and Technology Grant Program evaluation as it is implemented.

E. Financial Reports
Schools that receive 2001-2002 School Renovation, IDEA, and Technology Grant Program funds are required to file the "Final Expenditure Report" (Form DS-4044) within 60 days of the end of the project. 2001-2002 School Renovation, IDEA, and Technology Grant Program 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 2001-2002 School Renovation, IDEA, and Technology Grant Program for three years after the final expenditure report for the project is filed.

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

H. 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.

I. Monitoring
The MDE periodically monitors the use of 2001-2002 School Renovation, IDEA, and Technology Grant Program funds by local and intermediate school districts and public school academies. MDE provides the district a copy of the written report.

J. Supplement Not Supplant
2001-2002 School Renovation, IDEA, and Technology Grant Program funds can only be used to supplement local eligible expenditures and cannot be used to supplant any funds from non-federal sources.

K. Consortium Applications
Consortium applications are not permitted.

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.

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. 2001-2002 School Renovation, IDEA, and Technology Grant Program, **Category 1**, Urgent School Repair funds may be used to repair buildings and may require multiple contractors. Attention should be given to appropriate bidding procedures. Additional attention needs to be given to ensure supplanting does not occur, especially in the area of district supervision of the project. Public school academies may use funds to purchase a building and the land upon which it sits.
      b. **Category 2A,** IDEA funding is used for activities under Part B of IDEA in order for children with disabilities to make progress meeting the goals listed in their IEP. Documentation for acquisitions will include bid documents, in appropriate circumstances, purchase orders, and canceled checks. Inventories of acquisitions will be maintained.
      c. **Category 2B,** Technology funding must be used to supplement assistance from the E-rate program or the federal Technology Literacy Challenge Fund Program. Activities in Category 2B must be carried out in conjunction with a school repair and/or renovation project in its final stages of completion or those to be completed during this grant program ending June 30, 2003. Attention needs to be given to ensure the repair and/or renovation projects occurred during the grant period. Contractor's documents, school board resolutions, and financial documents can be used to validate renovation projects.
      d. Indirect costs are allowable under 2001-2002 School Renovation, IDEA, and Technology Grant Program up to the restricted indirect cost rate approved for the district by the MDE.
         (1) Indirect costs charged to the program must 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 on indirect cost rates.)
      e. A public school academy may use grant funds under this program to lease or purchase a building. Caution must be observed to ensure that grant funds applied to a public school academy's lease or purchase of a building complies with the non-supplanting requirements. For additional detail on non-supplanting, see School Renovation, IDEA, and Technology Grants Program, CFDA #84.352A, Guidance for Fiscal Year 2002, page 7.
      f. Staff salaries are supported by contemporaneous documentation that schedules have been followed or time logs or certifications documenting time spent on these 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. Special Tests and Provisions
1. Evaluate the adequacy of the policies and procedures used by the public school for insuring the participation of private schools in the development and implementation of the grant proposal, Category 1, Urgent School Repairs only.
2. Determine whether the school district followed these policies and procedures.

V. REFERENCE MATERIALS AND PERSONNEL

A. Reference Materials
1. Catalog of Federal Domestic Assistance, Section 84.352A, 2001-2002 School Renovation, IDEA, and Technology Grant Program
2. OMB Circular A-133 Compliance Supplement, Section 84.298, Federal, State, and Local Partnership for Educational Improvement
3. Compliance and Complaint Procedures Handbook, a Michigan Department of Education publication
4. School Renovation, IDEA, and Technology Grants Program, CFDA #84.352A, Guidance for Fiscal year 2002, a U.S. Department of Education publication

B. Personnel

Mary Ann Chartrand, Supervisor
Grants Administration and Coordination
Michigan Department of Education
(517) 373-1806
ChartrandM@michigan.gov

Dwight Sinila, Education Consultant
Grants Administration and Coordination
Michigan Department of Education
(517) 373-1806
SinilaD@michigan.gov

TITLE II, PART A

TEACHER AND PRINCIPAL TRAINING AND RECRUITING
CFDA #84.367

I. Federal Overview

II. State Overview

III. District Considerations

IV. Audit Considerations

V. Reference Materials and Personnel

Date of Last Significant Change: 2002/03

I. FEDERAL OVERVIEW

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

C. Authorization
Title II, Part A, No Child Left Behind Act (NCLB) of 2001, Public Law 107-110

D. 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 Field Services, 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, funds may be used for any of the following activities:

1. Recruit and retain highly qualified teacher, principals, and pupil services personnel
2. Retain highly qualified teachers and principals in schools with low achievement through:
   a. Teacher mentoring from exemplary teachers, principals, or superintendents
   b. Induction and support for teachers and principals in their first three years
   c. Incentives to teachers and principals with record of success in improving achievement of low-achieving students
3. Recruit and hire highly qualified teachers:
   1. In academic subjects where there is a shortage
   2. To reduce regular and special education class size, particularly in the early grades
4. Train and hire regular and special education teachers, including special education teachers to team-teach.
5. Train and hire teachers of special needs children and specialists in core academic subjects to individualize instruction
6. Recruit professionals from other fields and highly qualified paraprofessionals, and provide alternative routes to certification
7. Provide increased opportunities in the teaching profession for minorities, individuals with disabilities, and other underrepresented individuals
8. 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
9. 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

10. Provide teacher advancement initiatives emphasizing multiple career paths and pay differentiation
11. Improve quality of principals and superintendents, such as management and instructional leadership academies

Time/salaries spent working on Title II must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B. Acceptable methods for co-funded staff include written schedules if it is documented that they were followed on a regular basis (e.g., teachers and paraprofessionals) or periodic representative sample logs for staff whose Title II time is variable (e.g., directors, secretaries, counselors). OMB Circular A-87 requires that where 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 period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

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, 2002, through September 30, 2003, provided that an application has been submitted to the MDE in substantially approvable form. Funds that are not expended by September 30, 2003, are available for use in a carryover period extending from October 1, 2003, through June 30, 2004. A carryover budget must be submitted if the district is requesting a carryover of funds.

B. Participation of Private Non-Profit Schools
Private non-profit 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. Funds must remain in the control of the district or other public agency.

C. 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.

D. 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.

E. 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.

F. 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.

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

H. 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.

I. 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.

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.

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 areas 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.)
4. Staff salaries are supported by contemporaneous documentation that schedules have been followed or time logs or certifications documenting time spent on Title II activities.

B. 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.

C. Special Tests and Provisions
1. Evaluate the adequacy of the policies and procedures used by the school for determining the needs of staff in private schools to ensure that the professional development services provided to private 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.

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

Linda Brown, Assistant Director
Office of Field Services
Michigan Department of Education
(517) 373-3921
Fax: (517) 335-2886
BrownLQ@michigan.gov

MEDICAID

CFDA #93.778

I. Background

II. Federal Overview

III. Audit Considerations

IV. Reference Materials and Personnel

Date of Last Significant Change: 2002/03

I. BACKGROUND

The Michigan Department of Community Health (MDCH) provides Medicaid School Based Services funding to school districts either directly or indirectly, as reimbursement for providing health and health related services.

A. The medical services or "fee-for-service" component of the Medicaid School Based Services program is not subject to the Single Audit Act amendments of 1996. The district is considered by "vendor" rather than a "subrecipient" for funds received under the "fee-for-service" component of the Medicaid School Based Services Program; therefore, the "fee-for-service" component should be recorded as local source revenue by the district. According to the Michigan School Accounting Manual, the appropriate major class code is "173 - Fees."

B. The Transportation and Medicaid Administrative Outreach components of the Medicaid School Based Services program <u>are</u> subject to the Single Audit Act requirements because the school district is considered a "subrecipient" of the Michigan Department of Community Health with respect to those components. The Transportation and Medicaid Administrative Outreach claims funds received by the district should be recorded as federal revenues by the district using the appropriate federal unrestricted major class code from the Michigan School Accounting Manual (either "412" or "418" depending on how the funds are received by the district).

II. FEDERAL OVERVIEW

A. Authorization
The federal law that authorizes the Medicaid program is Title XIX of the Social Security Act (Title XIX), enacted in 1965 and subsequently amended (42 USC 1386, et. seq.). The Medicare Catastrophic Coverage Act, as amended in 1988, allows for Medicaid payments for health services provided to eligible children under the Individuals with Disabilities Education Act (IDEA). IDEA obligates schools to identify and provide the "related services" that are required to help a child with a disability, benefit from special education, transportation services, and school-based health services that qualify for Medicaid reimbursement (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 Outreach, such as application assistance and referral, and coordination and monitoring of health services.

B. Federal Agency
U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration.

C. Eligibility
Those eligible for the Medicaid School Based Services program are individuals with physical and/or mental disabilities, ages 0-26, who meet the requirements of the Michigan Department of Education, Office of Special Education and Early Intervention Services, who are:
1. Medicaid eligible
2. Enrolled in special education programs and services
3. Receiving services identified on an Individualized Education Plan (IEP) or Individualized Family Service Plan (IFSP).

D. Federal Match

Medicaid is an entitlement program that requires a state/local match. In Michigan, the program is designed so that funds used for health and health-related activities that have historically been provided by school districts can be used as the state/local match. In this way, federal funds are obtained without additional program expenditures by the state or school districts. In other words, schools use pre-existing activities to draw federal Medicaid funds.

The funds received for the Transportation and Medicaid Administrative Outreach claims component of the Medicaid School Based Services program should be recorded as federal revenues and reported on the Schedule of Expenditures of Federal Awards. The fiscal year 2002-2003 federal share of approved costs or Federal Financial Participation (FFP) rate for Michigan is 55.42% for most "fee-for-service" health services.

For the Administrative Outreach activity, the federal match varies based on the activity in which the staff is engaged and the type of professional providing the services. The rate of reimbursement for eligible administrative cost is 50%. For certain health services provided by specific skilled professional medical personnel, the federal match is 75%. Family planning services are allowed a 90% federal match. The federal financial participation rate for transportation claimed as administration is 50%. Because the state and local match are provided at the time that the service is provided, 100% of the funds received for the Transportation and Medicaid Administrative Outreach claims are considered federal funds subject to the single audit requirements.

Although the funds received by the school district for the "fee-for-service" component are part of the federal funds received, the funds should be considered as local source revenue in the district's accounting records. The school district is considered a "vendor" rather than a subrecipient of the Michigan Department of Community Health when providing these medical services (i.e., similar to medical services provided in a doctor's office or hospital). The "fee-for-service" funds are not subject to the single audit requirements.

During the development of the Medicaid School Based Services program, it was determined that the federal funds received by the Michigan Department of Community Health would be divided between the schools and the State of Michigan General Fund, at a rate of 60% and 40%, respectively, to offset costs associated with the program.

III. AUDIT CONSIDERATIONS

The U.S. Department of Health and Human Services has designated the Medicaid program as **high risk**. If this program is selected for testing, the following "basic" procedures should be performed and documented. These suggested audit procedures are not to be considered all-inclusive and should not be used in place of Medicaid claims requirements set forth by the State of Michigan, or as a substitute for professional judgment.

A. Pupil Transportation Costs for Medicaid School Based Services
   1. Auditors should select a sample of pupils for whom the district received Medicaid transportation reimbursement.
   2. Auditors should validate that transportation was required on the Individualized Educational Plan (IEP)/Individualized Family Service Plan (IFSP), and that the student received at least one medical service for the day that transportation was claimed (using the clinician's records).
   3. Auditors should verify that transportation was provided in a vehicle for exclusive use of special education students. This can be in a district operated or contracted vehicle (i.e.,

Medicaid will not reimburse for transportation provided in a regular or general education school bus.).

4. Auditors should verify that transportation provided by families under special arrangements with the school district have met the needs of the special education students, and was required on the IEP/IFSP.
5. Auditors should determine that the claim complies with OMB Circular A-87 requirements for determining allowable costs, as well as any other applicable requirements for claiming administrative cost under Medicaid, and that the expenditures were not claimed for other federal programs (i.e., development of a cost allocation methodology to ensure that Medicaid only pays for that portion of the specialized mode of transportation allocable to Medicaid beneficiaries).
6. Auditors should verify that the school district maintains an adequate transportation log that indicates the name of the student and the type of vehicle used to transport the student.

B. Medicaid Administrative Outreach Claims

Program Update:

In 2000, the U.S. Department of Health and Human Services (HHS) Centers for Medicare and Medicaid Services (CMS) imposed a federal reimbursement disallowance of approximately $225 million for the administrative outreach component of Michigan's SBS Program. The State of Michigan formally appealed the disallowance and began discussions to resolve the issue.

In May 2002, the State of Michigan and HHS came to an agreement, as a result of the appeal. This legal settlement requires the MDCH to carry out various tasks within specified timetables, including making significant revisions to the Outreach policy component and instituting strict monitoring of the new program in order for payments from the CMS to resume. The new policies and procedures were approved by the CMS on October 31, 2002, retroactive to October 18, 2002, for the purposes of resumption of payments to the school districts. The actual implementation date of the new policy is tentatively scheduled for the quarter beginning October 1, 2003, after the required formal public comment period and official publication by the MDCH.

Medicaid Administrative Outreach payments resumed beginning January 2003 for the school districts' claims that were deferred for fiscal years 2000 through 2002. For ISDs participating in consortia, these funds are currently being held by the lead ISDs on behalf of the member districts in the consortia, pending any further CMS disallowances. The settlement gives the CMS the authority to review one full year of claims after the new policy is implemented to determine if further disallowances are warranted, a process they call "back casting." Since claims are submitted to the DCH approximately three months after the quarter ends, these back casting decisions will not likely be known until spring of 2005 or thereafter.

The expenditures from prior periods that support the revenue currently being received and recognized in accordance with generally accepted accounting principles must be audited. For those instances where deferred revenue is recognized, a footnote should be added with respect to the amount recognized, the status of the distribution to the non-lead/local districts, and the uncertainties that exist with respect to the possibility of further disallowances.

The MDE, MDCH, and MDE A-133 Referent Group will continue to work proactively to determine a consistent, statewide approach to auditing this program.

The following interim guidance remains in effect until the new policy is implemented:

The Medicaid Administrative Outreach program is considered a cost reimbursement program where local districts and ISDs are reimbursed for approved Medicaid related activities. The Medicaid Administrative Outreach activities, based on the policy in effect from February 1996 through September 2003, may include:

1. Public awareness and information
2. Facilitating access to Medicaid programs
3. Identification and referral
4. Initial health review and evaluation
5. Family notification
6. Training
7. Health provider networking
8. Interagency coordination
9. Quality assurance
10. Care planning and coordination
11. Client assistance to access services
12. Immunization coordination
13. Family planning referral

The claims for this program are commonly prepared in Michigan through several billing companies (Deloitte Consulting, LLC, MedBill Corp., I-Med, Mecca Tech, and Public Consulting Group). At this time only one ISD, Oakland, does not contract with a billing company for this program. The service delivery agencies (LEAs or ISDs) submit quarterly cost reports to the billing companies. The service delivery agencies also work with their billing companies to compile reports of staff activities from time studies. The billing companies use the cost reports to calculate the claims by applying the time study results to the cost reports, and submit the claims to the Medicaid program quarterly. The billing companies conduct training and administer the quarterly time studies.

The auditor should determine the accuracy of the billing as well as revenue reported on the Schedule of Expenditures of Federal Awards. This has been accomplished, in part by requiring the billing companies to obtain independent audits of their processes, in accordance with Statement on Auditing Standards (SAS) No. 62 (Agreed Upon Procedures Report) or Statement on Auditing Standards (SAS) No. 70 (Report on the Processing of Transactions by Service Organizations) as amended by SAS No. 88 (Service Organizations) reports.

There are several consortia of ISDs that have been formed in which the lead ISDs receive funding for Medicaid Administrative Outreach claims on behalf of their respective local districts and other ISDs, as applicable. (Where this document references lead ISDs, it should also be applied to the one local district acting without a lead ISD.) In the past, the Medicaid Administrative Outreach expenditures were audited at the lead ISD level. This has resulted in a consistent, efficient audit approach. The U.S. Department of Health and Human Services has designated the Medicaid programs as high risk. (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. OMB designated Medicaid as high-risk in the 1997 compliance supplement.) The Michigan Department of Education, Michigan Department of Community Health, and MDE A-133 Referent Group considered the effect of the high-risk designation of the audit approach. It was decided that, given the way the program is managed, that auditing the expenditures at the lead ISD level is still the best approach. When a service delivery agency recognizes $300,000 or more of expenditures for programs described in this supplement, it would typically be considered a high risk Type A program and would be subject to the requirements of OMB Circular A-133. Local school district and non-lead ISD auditors who audit the Medicaid

Administrative Outreach program should consult with the lead ISD auditor to avoid duplication, if possible. (Local school districts and non-lead ISD auditors should be aware that they have the responsibility of testing this program similar to other Type A or B programs.)

C. Lead ISD auditors should consider the following when testing this program:
   1. Lead ISD auditors must audit, on a sample basis, the quarterly Eligible Cost Summary Reports (cost reports) submitted by the service delivery agencies. 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. Verify the names of clinicians from the cost reports against the provider listing. Only the clinicians who are listed on the personnel staff rosters of the schools that provide Medicaid services should be charged on the cost reports.
      b. Verify that activities that are part of the district medical service are not claimable as an administrative service (i.e., the Medicaid Administrative Outreach component must be supported by a system which has the capability to isolate the costs which are directly related to the support of the Medicaid program from all other costs incurred by the school district and which will ultimately be claimed as administration).
      c. Verify the amount of salaries and benefits of the clinicians 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.
      d. Verify that clinician salaries are billed at the 75% match rate only for those activities that require the clinicians to use their skilled professional knowledge.
      e. Verify that costs claimed as direct costs do not duplicate those costs reimbursed through application of the approved indirect cost rate.
      f. Verify that the school district was not reimbursed in excess of actual cost and that off-set revenue has been adequately applied (i.e., insurance and other fees collected from non-governmental sources must be off set against claims for Medicaid funds).
      g. Verify that duplication of charges do not exist for items selected for testing. Example: Verify that the salaries charged as Medicaid Administrative Outreach claims have <u>not</u> been charged to Title I, Special Education, or other federal programs.
      h. Verify that the expenditures used by the school district for Medicaid Administrative Outreach activities have not been used to match other state and federal programs.
      i. Test the certifications on the cost reports by making sure that they are signed by the appropriate individual.
   2. Auditors should verify the Medicaid revenue by determining if the billing company has used proper methodology to develop the bill for Medicaid Administrative Outreach claims. Planning the audit may require the auditor to gain an understanding of internal controls at the billing company that may affect the financial statements. When planning the audit of the financial statements, the auditor should determine the significance of the internal controls at the billing company to the internal control system of the service delivery agency. If the auditor determines that the internal control policies and procedures at the billing company are significant to the internal control system at the service delivery agency, the auditor should gain a sufficient understanding of those controls to plan the audit, as required by SAS No. 55, as amended by SAS No. 78 (Consideration of Internal Control in a Financial Statement Audit). Auditors may rely on a SAS No. 62 or SAS No. 70, as amended by the SAS No. 88 report issued by the billing company's auditors, or they may elect to review the billing company's methodology, time studies, and cost allocation plans. If relying on a SAS No. 62 or SAS No. 70, as amended by SAS No. 88 report, auditors should determine the impact of the report's findings on the nature and extent of the audit procedures required at the service delivery level. If not relying on a SAS No. 62 or SAS No. 70, as amended by SAS No. 88

report, the auditor should contact the billing company to make arrangements to review the time studies and cost allocations to determine that adequate internal controls exist and that the claims were accurately calculated. Time studies and cost allocation plans should be consistent with OMB Circular A-87 requirements.

3. Lead ISDs are responsible for proper accounting of all revenue and expenditures and for retention of all documents. Auditors should make sure that all transactions related to Medicaid Administrative Outreach claims are recorded properly in the Schedule of Expenditures of Federal Awards.
4. Medicaid funds that pass through lead ISDs are forwarded to other ISDs and local districts (subrecipients). Lead ISD auditors should consider the following when auditing the program:
   a. There should be an agreement as to how the Medicaid Administrative Outreach funds are to be dispersed. The auditor should obtain the agreement and verify that the agreement provisions were followed. The auditor should also determine that the internal controls over this process are adequate.
   b. The auditor should determine that the lead ISD has implemented adequate subrecipient monitoring procedures. Given the nature of the program, and the fact that it is currently audited at the lead ISD level, it is imperative that the lead ISDs implement procedures to monitor the local districts and ISDs for the purpose of gaining the necessary assurances that the financial and time study information provided to the billing companies is accurate. This can be accomplished through a review of the single audit report (if one is required), site visits, limited scope audits, or other means as deemed appropriate.

The LEAs and ISDs should report only the federal Medicaid Administrative Outreach and Transportation revenue that is recognized (using the modified accrual basis of accounting) in the Schedule of Expenditures of Federal Awards. The expenditures reported should also equal the Medicaid Administrative Outreach and Transportation revenue. The expenditures reported on the quarterly cost reports will not agree with the expenditures reported on the Schedule of Expenditures of Federal Awards (i.e., cost report expenditures include other costs that are sorted out by the billing company).

Lead ISDs should report all of the federal Medicaid Administrative Outreach and Transportation revenue that is recognized (using the modified accrual basis of accounting) in the Schedule of Expenditures of Federal Awards, including the revenue that is forwarded to subrecipient ISDs and LEAs. The expenditures reported should also equal the Medicaid Administrative Outreach and Transportation revenue. Consideration should also be given to including an additional footnote to the Schedule of Expenditures of Federal Awards, pertaining to the Medicaid Administrative Outreach and Transportation expenditures reported in the schedule (i.e., not agreeing with the general ledger or the amounts reported on the cost reports).

D. Service delivery agency (local district and ISD) auditors should consider the suggested audit procedures outlined above in Section C, Items 1, 2, and 3 when testing this program.

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. OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments
   5. OMB Circular A-133 Compliance Supplement

6. State Medicaid Plan for School Based Services
7. Medicaid and School Health: A Technical Assistance Guide, August 1997
8. "An Opportunity," Michigan Policy for the Administrative Outreach Program Published for Michigan Public Schools, April 2, 1996

B. Personnel

For further guidance on programmatic issues pertaining to Medicaid School Based Services, please contact:

Eric Gresnick, School Based Services Policy Specialist
Policy and Legal Affairs Administration
Michigan Department of Community Health
400 South Pine Street, P.O. Box 30479
Lansing, Michigan 48909-7979
(517) 241-8398
gresnicke@michigan.gov

Jane E. Reagan, MPA, Department Specialist
Office of Special Education and Early Intervention Services
Michigan Department of Education
John A. Hannah Building, 608 West Allegan Street, P.O. Box 30008
Lansing, Michigan 48909
(517) 335-2250
reaganj@michigan.gov

Auditing questions may be referred to:

Michigan Department of Community Health
Office of Audits
Quality Assurance and Review Section
P.O. Box 30479
Lansing, Michigan 48909-7979
(517) 335-5323
or
Capital Commons Center
400 S. Pine
Lansing, Michigan 48933

AN OVERVIEW OF THE MICHIGAN DEPARTMENT OF EDUCATION GRANTS SYSTEM

I. Objective

II. Overview

III. Description of Grants System

IV. Vendor File

V. MEIS and Grants Cash Management and Reporting System Security

VI. System Components

VII. Contact Persons

ATTACHMENTS

Grant Award Notification

Grant Project Expenditure Report/Request for Funds – DS-4492

Grants Cash Management and Reporting System DS-4492 Grant Request Instructions

Final Expenditure Report and Instructions – DS-4044 (Example Showing All Expenditures on the Project Funded by MDE (NO LOCAL SHARE)

Final Expenditure Report and Instructions – DS-4044 (Example Showing Local Share of Expenditures)

Grants Cash Management and Reporting System DS-4044 Final Expenditure Report

Grants Section Auditors Report – R-7120

Grant Budget Worksheet

Date of Last Significant Change: 2002/03

I. OBJECTIVE

To provide information to public school personnel, including public school academies, other subrecipients, independent auditors, and other interested parties who interact with the MDE grants system.

II. OVERVIEW

The MDE provides funding to Michigan educational organizations through a variety of grants, both state and federal in origin. The U.S. Department of Education is the largest grantor agency, followed closely by the U.S. Department of Agriculture.

III. DESCRIPTION OF GRANTS SYSTEM

MDE uses a computerized system to account for and disburse federal and state assistance to subgrantees funded through the Department. The system currently consists of an integration of two computer systems: (1) the state government-wide MAIN (Michigan Administrative and Information Network) and (2) a LAN-based, client server driven system which utilizes the Internet to facilitate MDE grant payment transactions, account for the funding, and interface payment requests into the MAIN accounting system.

IV. VENDOR FILE

The MAIN system requires use of a vendor file maintained centrally by the Department of Management and Budget (DMB). All public schools are on the central vendor file; however, any other new payees must be registered in order to receive any payment. In order to register an organization, it is necessary to complete, sign, and return a vendor registration packet to the address shown below. Most organizations receiving grants through MDE will be grantees that are recipients of non-1099 reportable grant funds. Such organizations must still register. Organizations that do not register will experience a serious delay in receiving checks.

The vendor packet should be obtained from, completed and returned to:

State of Michigan
Department of Management and Budget (DMB)
Office of Financial Management, Vendor Registration
P.O. Box 30710
Lansing, Michigan 48909
(517) 373-4111
Toll Free: 1-888-734-9749
or visit the website, Contract and Payment Express!
Internet Vendor Registration
http://www.cpexpress.state.mi.us

Questions about obtaining or completing the vendor packet must be directed to DMB at the telephone number listed above. Registration of vendors cannot be done by MDE staff.

V. MEIS AND GRANTS CASH MANAGEMENT AND REPORTING SYSTEM SECURITY

Any recipient wishing to request grant funds (DS-4492) or report final expenditures (DS-4044) must have first obtained a MEIS (Michigan Education Information System) account, complete and be granted security into the grants system.

The MEIS is the portal through which you can access a number of reporting systems. To access MEIS, go to: http://www.meis.mde.state.mi.us. Access MEIS User Management by clicking on the gold key and follow the instructions given.

After obtaining a MEIS account, the Level 3 designee must complete a Grants Cash Management and Reporting System Security Access form. To obtain this form, go to: http://www.meis.mde.state.mi.us. Scroll down until you find "Cash Management and Reporting System Information." Click on this link. Print and follow the instructions for completion.

The Level 3 designee responsible for "signing" the DS-4492 and DS-4044 forms must have security access granted from Grants Cash Management and Reporting System staff. Levels 1 and 2 security can be granted by the Level 3 designee.

All Level 3 designee security must be current. Any individual leaving a district must contact the Grants Cash Management and Reporting System staff and ask that his/her security for that district be removed. MEIS account numbers and Level 3 designee security cannot be shared. New Level 3 designees must obtain their own MEIS account and grants system security. Sharing of security of any kind is in violation of the security agreement and is cause for removal from MEIS and grants.

Auditors can go to the website noted in paragraph two above and request a MEIS account number. Once an account is opened, they can request that their auditee give them read-only access to their grant information stored in MEGS. This will allow the auditor access to copies of grant applications, approvals, and other reports for grants awarded through the MEGS system. **Due to system security requirements, MEIS account numbers are not transferable; therefore, each person within a firm (that would be accessing information) is required to have his/her own account number.**

VI. SYSTEM COMPONENTS

A. 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.

B. State of Michigan Appropriation Act
Prior to commitment of funds to public schools, the State Legislature must appropriate all federal funds. Additionally, any state funded appropriations must also be contained in the State Appropriations Act.

C. Grant Identification – There are a number of codes that are used by the MDE to facilitate accounting for grant funds:
   1. Source Code/Grant Number – A federal grant award is assigned one or more six-digit alpha/numeric "source/grant number" codes to permit tracking the funds through the grant cycle. Similarly, each state-funded grant appropriation is assigned a source code/grant number. The relative positions of the six digits and the numbers themselves have significance to users:
      a. YY0100 to YY4790 equals federal funds
      b. YY4800 to YY8190 equals state funds

c. The first two digits represent the fiscal year of the federal and/or state appropriation. It should be noted that a source code/grant number does NOT change in the second (carryover) year of a project.

2. Project Number – Each grant notification from the MDE contains a project number that is a unique identifier for the particular project. It is a 16-digit field and the first 6 digits are always the source code as described above. The various offices within MDE have varying systems for assigning the remaining 12 digits; some use only 1 and others use all of the digits.
3. CFDA Number – Code 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. Example: 99.501 General Funds is a state program.
4. State Code – This four-digit field is an **optional field** that is designed as part of the Bulletin 1022 for use by all public schools in Michigan. It is the fifth dimension in the coding structure that consists of three digits that identify the grant and a fourth digit that identifies the fiscal year in which the public school is expending the funds. Following is an example of how the state code is used to help public schools account for grants that have carryover provisions: the state code for a FY 2000-2001 Title I grant operated during 2000-2001 is 6011, the state code for a carryover project from the same grant operated during 2000-2001 would be 6022. Please note that the source code would not change, it would remain 011530. The Bulletin 1022 contains a complete list of state codes.
5. Recipient Code – The recipient code is a code designed to identify the subgrantee in an EDP environment. All Michigan public schools have five digit codes starting with the first two digits being the county number (for example, Ingham County is 33). Subgrantees who are not public schools have codes longer than five digits but which still start with the appropriate two digit county code. The third digit for public school academies is generally a "9".

D. Grant Award Notification

Typically, the MDE program area sends a notification letter to the public school stating all the terms and conditions of the award. This letter always contains the project number that, as the reader will remember, includes the source code as the first six digits (see Attachment A).

E. Requesting Funds

School districts and other subgrantees are able to request funds via the Internet (Form DS-4492). The system is secure and provides school districts and other subgrantees with the project number, approved amount, amount previously paid, and the balance remaining displayed on-line. The system requires school districts and other subrecipients to enter project-to-date expenditures on-line. School districts and other subrecipients are provided the details explaining their payment via e-mail. (Attachment B)

A. Cash Management

The Federal Cash Management Information Act requires that neither the state nor any subgrantee 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 subrecipients to enter project-to-date expenditures on-line to meet this requirement.

B. Final Expenditure Report
A final expenditure report (Form DS-4044) is required on each project and is due 60 days after the end of the grant. The system provides the capability for any subrecipient to report final expenditures to the MDE after a project ending date. The subrecipient has the capability to enter actual expenditures incurred, by Bulletin 1022 function code, on-line and transmit to MDE via the Internet. MDE program staff, as well as financial staff, has the functionality to access this report on-line. The subrecipients authorized official must sign (on-line) to certify the expenditures. (Attachment C)

C. Grants Section Auditors Report – R7120
The MDE provides this report as a service to CPA firms in confirming the amount of cash received by recipients. The grants system produces this report, which lists the project name, project number, amount approved, current payment, cumulative payment, and balance remaining. (Attachment D)

D. Grants Management Report – R7140
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.

E. The grants system provides information sufficient for the MDE grants accounting staff to complete the "Annual Data Collection Report" required by GEPA (General Education Provisions Act).

F. Budget Worksheet
This form includes a budget summary and a budget detail for each fiscal year's funds. It should be submitted annually for each award (see Attachment E).

G. Grants System Accounting Functions
1. Expenditure Accounting
2. Project/Program/Grant Accounting
3. Vendor Tracking
4. Payment Processing
5. Cash Monitoring
6. Financial Reporting
7. Cost Accounting and Allocation
8. Accounts Payable/Voucher Processing
9. Contract Management
10. Appropriation Accounting
11. Inter-Agency Grant Accounting
12. Budget Control/Monitoring

VII. CONTACT PERSONS

Debby Roberts
(517) 335-0534
RobertsDK@michigan.gov

Gini Spagnuolo
(517) 373-1963
SpagnuoloG@michigan.gov

Office of Financial Management and Administrative Services
Grants Cash Management and Reporting
Michigan Department of Education

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 Significant Change: 2002/03

I. AUDIT REQUIREMENTS

P.A. 300, 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 (MPSERS) to fund employee retirement benefits. MPSERS funding is an actuarial determination set at 12.99% for the 2002-03 state fiscal year. Rate changes are on October 1 of each year.

All public school districts, except the seven universities, must contribute 12.99% 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 MPSERS to determine if the compensation is reportable or non-reportable for retirement purposes. The statutory definition of reportable compensation for retirement purposes does not agree with IRS statute; therefore, a definition of reportable compensation for retirement purposes is provided below.

II. MPSERS 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 all amounts deducted from the pay of a public school employee, including amounts deducted pursuant to the Member Investment Plan.

B. Compensation includes longevity pay regularly paid to all employees, overtime pay, vacation, sick leave (including FMLA), and holiday pay paid when the employee is absent from work, and items of deferred compensation exclusive of employer contributions to the retirement system. Merit pay that can be measured and documented, weekly workers' compensation, professional services leave (if the district is reimbursed) wages, 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 for unused annual leave or sick leave, bonus payments, hospitalization, or life insurance premiums, other fringe benefits paid by and from the funds of employers of public school employees, terminal payments, retirement incentive payments, expense payments, long-term disability, service credit purchased by the employer, sabbatical leave payments, super longevity, awards and settlements unless approved by MPSERS, and remuneration paid for the specific purpose of increasing the final average compensation—annuities or cash in lieu of any fringe benefits.

D. Final average compensation does not include an amount over the compensation for the preceding year except increases provided by the normal salary schedule for the reporting unit. 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. Teachers are always considered employees of a school district, except teachers employed at a public school academy who are hired through an outside source (Attorney General Opinion #6915).

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.

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
   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. All fringe benefits such as hospitalization and life insurance premiums or cash or annuities paid in lieu of premiums
5. Payments received directly or indirectly, for actual or anticipated expenses such as an automobile or housing allowance
6. Any payment made as the result of termination of employment
7. In-kind compensation
8. Retirement incentive payments
9. Payments made for the specific purpose of increasing the final average salary
10. 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
11. Cash payments made in lieu of excluded benefits
12. Long-term disability payments
13. Service credit purchased by the employer on behalf of the employee
14. Sabbatical leave payments
15. Cafeteria plans (flexible benefit plans)
16. Super longevity
17. School board member payments
18. 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

1-800-381-5111 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. Tax Increment Financing

IX. Property Taxable Values

ATTACHMENT

Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan

Date of Last Significant Change: 2001/02

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) – 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 accountant 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(2) of the State School Aid Act and Single Audit Act of 1984, as amended. When these schools expend $300,000 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.

E. 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.

F. Section 31a
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 2002-2003 Section 31a funds were not used to supplant funds from other sources used for at-risk pupils in 2001-2002.
3. Verify the information submitted in Part II of the 2002-2003 Section 31a Program Report (EC-4731-B).

G. 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.

H. 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 Form B 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.

I. 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," 1990, 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 Relating to Education are reprinted in the Michigan Administrative Code.

A. R 340.851
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 public school to ensure that all transactions 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 Form B should be in accordance with Generally Accepted Accounting Principles (GAAP).

IV. SCHOOL BOND LOAN

A. State loans to school districts pertain to P.A. 108 of 1961, as amended (MCL 388.954a and c). Sections (4a) and (4c) explain the treatment of "Unexpended Balances of Proceeds of Bond Sale" and the powers and duties of the Superintendent of Public Instruction. (An Executive Order transferred the powers and duties of the Superintendent of Public Instruction, pertaining to the School Bond Loan Program, to the State Treasurer.)

B. Section 4a

The act states, in part, "An unexpended balance of the proceeds of sale of any school district bonds…issued, remaining after completion of the project, to the extent of 15% of the amount of the issue…may be used for school construction, equipment, and site acquisition and development…"

The following steps should be considered and are essential for compliance with the law:

1. Any request for approval must be made immediately following completion of the project and all obligations and/or encumbrances incurred for the projects have been paid. Such a request must be submitted to the State Treasurer in a format as prescribed by the Michigan Department of Treasury, School Bond Loan Program Section.
2. The use of residue funds must be approved by the State Treasurer prior to the beginning of any proposed projects.
3. The school district seeking approval must demonstrate a compelling justification for not immediately paying all of the unexpended balance into the bond and interest redemption fund established for the bonds.
4. Also, any funds remaining after completion of the project, if the district does not request approval from the superintendent, or funds in excess of 15%, shall be paid immediately into the Debt Retirement Fund established for the bonds and shall be used for the:
   a. Redemption of callable bonds OR
   b. Purchase of bonds on the open market at not more than fair market value (before the first call date only) OR
   c. Reduction of the amount required to be levied to meet current debt service requirements.

C. P.A. 108 of 1961, as amended, Sections 2, 8, and 9 (MCL 388.952, 388.958, and 388.959). The purpose of the act is to provide state loans for the payment of principal and interest upon school bonds and to provide for the repayment to the state. Following are requirements for borrowing from/repayment to the School Bond Loan Fund (SBLF):

Loans made to the school district:

1. Section 2(1): When a school district must levy in excess of 7 mills on each dollar of its assessed valuation for qualified bond issues sold before October 1, 1991, to meet its debt service requirement, the district may elect to borrow from the state at least the percentage over 7 mills allowed them in the 1990-91 fiscal year for debt service. For bond issues sold after October 1, 1991, the levy must equal 7 mills or the computed millage under Subsection (2), whichever is greater.
2. Section 2(2): The computed millage referred to in Subsection (1) is the number of mills as computed by the State Treasurer that the school district would have to levy in the year the computation is made and each succeeding year to be able to pay the principal and interest on all of its qualified bonds and loans made to the school district under this act, taking into account loans made to the school district under this act for debt service, by not later than 60 months after the final maturity date of all of its qualified bonds outstanding as of the date of the computation, but shall be not less than 7 mills. The State Treasurer shall make the computation based on the following assumptions:

a. An assumed interest rate on loans made under this act equal to the average interest rate on School Bond Loan Fund notes and bonds over the immediately preceding five-year period.
b. A projected total taxable valuation for the school district that assumes a taxable valuation growth rate or decline rate equal to the school district's average yearly taxable valuation growth rate or decline rate over the immediately preceding five-year period.

3. Section 8: If, for any reason, a school district will be unable to pay the principal and interest on its qualified bonds when due, then the school district shall borrow and the state shall loan to it an amount sufficient to make the payment.

D. Repayment of Loans to the State:
Section 9: The proceeds of each levy shall be used first for the payment of the principal and interest requirements on the qualified bonds which shall become due prior to the time of the next tax collection, and any balance shall be paid the state until the principal and interest due the state shall have been paid. All loans made to the district by the state are repaid with interest at rates to be annually determined by the State Treasurer.

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 General Long-Term Debt Account Group (GLTDAG) 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 an 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 an other 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 an 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."

E. For audit requirements, refer to Attachment A at the end of this supplement.

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/or 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, or 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 SCHOOL CODE OF 1976

Non-compliance with the School Code of 1976 (updated through Public Act 291 of 1995) 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. 380.1211 – **Mills levied for school operating purposes; limitation; reduction of mills from which homestead and qualified agricultural 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. 380.1212 – **Sinking fund; creation; purpose; tax levy; audit; submission of proposition to school electors; election; ballot; approval.**
   3. 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 Part VII of Act No. 34 of the Public Acts of 2001, being Sections 141.2701 to 141.2707 of the Michigan Compiled Laws.

4. 380.1216 – **Use of money raised by tax.**
   Except as provided in Part 7a and Part 3a of the School Code of 1976 and in Section 1 of Part VII of the Revised Municipal Finance Act (Act 34 of the Public Acts of 2001 being MCL 141.2701), 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. 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, Act No. 367 of the Public Acts of 1982, being Sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

B. Part 17 – Bonds and Notes
   Sections 380.1351 through 380.1372 address bonds and note. Section 380.1363 indicates that school districts shall be governed by the Municipal Finance Act (Act No. 202 of the Public Acts of 1943, as amended). Effective March 1, 2002, the Municipal Financial Act has been repealed and has been replaced by the Revised Municipal Finance Act (Act 34 of the Public Acts of 2001).

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. TAX INCREMENT FINANCING

A. Who uses tax increment financing?

Michigan authorizes tax increment financing under four statutes:

1. Downtown Development Authorities (DDA), P.A. 197 of 1975
2. Tax Increment Finance Authorities (TIFA), P.A. 450 of 1980
3. Local Development Financing Authorities (LDFA), P.A. 281 of 1986
4. Brownfield Redevelopment Financing Authorities (BRF), P.A. 381 of 1996

B. What is tax increment financing?

A tax increment finance plan allows a local government to pay for public improvements in a designated area by "capturing" property taxes levied on the increase in property values in the area from the plan's initial year. A municipality creates a DDA, TIFA, LDFA, or BRF authority, appoints a governing body, and defines a geographic district. The board may establish "plan" areas with the district boundaries. The plan usually includes a development plan (which spells out the projects and duration of the plan) and a tax increment financing plan (which establishes the plan's initial year and the plan boundaries). The increase in the taxable assessed value above the initial year level is referred to as the "captured assessed value" (CAV). All or a portion of the property taxes levied on the CAV (the tax increment revenue) are kept by the authority to pay for the projects in the development plan.

C. How is tax increment revenue calculated?

To determine the amount of tax increment revenue for a TIF plan in any one year, the CAV is multiplied by the number of mills that the plan retains. DDAs and TIFAs must include all real and personal property in the plan boundaries. LDFAs include "eligible property." The authority receives the taxes levied on the CAV, subject to a) statutory restrictions, b) any restrictions specified in the TIF plan, and c) any agreements in which the authority agrees not to capture certain millage. There are three significant statutory restrictions on the capture of taxes:

1. LDFA and BRF plans may not capture debt millage (school or non-school).
2. Proposal A restricted the amount of school taxes that may be captured (local school operating, local school debt, intermediate school, and State Education Tax). Effective calendar year 1994, DDA, TIFA, and LDFA may only capture school taxes equal to the lesser of:
   a. School taxes levied on captured value in the development plan boundaries.
   b. The amount necessary to make required payments on "eligible obligations," "eligible advances," and "other protected obligations." (Public Act 248 of 2000 allows the capture of up to 50 percent of school taxes in LDFA certified technology parks, aka "Smart Zones," for up to 15 years.)
3. BRF plans may capture school operating taxes only from eligible property and only for eligible activities in a work plan or remedial action plan approved before January 1, 2003, by the Department of Environmental Quality (DEQ) for environmental clean-up activities, or by the Michigan Economic Growth Authority for infrastructure improvements. Under the BRF Act, ISD taxes are not defined as school taxes.

Since Proposal A made nearly all public schools in effect "in-formula" public schools, almost all public schools will have their state aid increased, dollar for dollar, for taxes captured from the "basic" 18-mill levy (or the 1993 millage rate, if less than 18) on non-homestead *ad valorem* property.

D. Suggested Audit Procedure:

1. Check the Form 2604 to determine if there are TIF plans (DDA, LDFA, TIFA, or BRF) 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 2 and go to audit step 3.
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 2001 Property Taxes and State Reimbursement Amount," OR
   - Michigan Department of Treasury Form 2967, entitled, "Tax Increment Financing Plan Report for Capture of 2001 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 2001 form is July 31, 2002. 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, lines 24 and 25) to the "2001 School District Taxable Value Report" (Form DS-4410-B). The county treasurers file the 2001 DS-4410-B report with MDE and with each district in May 2002.

   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 them or the local treasurer to determine the amount, if any, of 2001 *ad valorem* non-homestead local school operating taxes captured by the BRF authority and the amount of the 2001 non-homestead captured assessed value for school operating tax purposes. The amount of 2001 non-homestead captured assessed value should equal the 2001 local school operating taxes captured divided by the 2001 non-homestead school operating millage rate (e.g., 0.018). 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 DS-4401-B amounts. For questions regarding the BRF Act, please contact Diane Wright, Michigan Department of Treasury, (517) 373-2408.
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 Suzanne DeVlieger, 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 Suzanne DeVlieger, MDE.

IX. PROPERTY TAXABLE VALUES

A. "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. Tax values 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.

B. Suggested Audit Procedures

1. Reconcile the total taxable value on the DS4410 to the State Aid Status Report. The DS4410 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. Therefore, to aggregate the district's taxable value, the auditor may need DS4410 forms from more than one county.
2. Inquire of the school district whether there are any taxable value adjustments that have been reported to them but are not reported on the DS4410.
3. Any discrepancies should be noted in the management letter with instructions for the district to notify the county treasurer and Suzanne DeVlieger, MDE.

C. Contact Persons

Suzanne DeVlieger, Department Technician
Michigan Department of Education
(517) 335-4059
DevliegerS@michigan.gov

PUPIL MEMBERSHIP

I. Objectives

II. Overview

III. Audit Considerations

IV. Reference Materials

V. Contact Person

ATTACHMENT

Confirmation Request Form

Date of Last Significant Change: 1999/00

I. OBJECTIVES

A. To determine that state revenue reported in the general purpose financial statements:
   1. Meets the measurable and available criteria in the fiscal period;
   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 materials 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 the pupil membership accounting and reporting process.

II. OVERVIEW

State School Aid, which approximates $11 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 80% of a district's operating revenue. Section 18(2) 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 an ISD's 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 audit in accordance with Statement on Auditing Standards No. 73 (Using the Work of a Specialist).

III. 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 for a high risk of 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(5) 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 the auditor's expectation.

IV. REFERENCE MATERIALS

A. Pupil Accounting Manual. This is available from the local district or ISD or at: http://www.michigan.gov/mde (Money Matters)

B. Pupil Auditing Manual. The Department of Education issued a Pupil Auditing Manual to all ISDs on August 25, 1999. This is available at: http://www.michigan.gov/mde (Money Matters)

C. The State School Aid Act of 1979 (amended annually). Amendments may be obtained from the State Documents Room at (517) 373-0169. The compiled law may be obtained from the Law Library at (517) 373-0630 or the House Fiscal Agency at (517) 373-8080. The Act is also available on-line at: http://www.michiganlegislature.org/mileg.asp?page=getObject&objName=mcl-chap388.

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.

V. PERSONNEL

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 to 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.

Auditor	Years of Experience	Education	Training (Date, Title)
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

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 preformed 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 an MDE audit program? ____ 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 Form DS-4061 reviewed for reasonableness and tested for clerical accuracy? ____ 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 complete 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: _____

ABBREVIATIONS

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
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
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
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
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

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 auditee 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. Charles J. Miller
Director, Post Audit Group
United States Department of Education
400 Maryland Avenue, S.W., Room 4W231
Washington, D.C. 20202-4102

**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 lack of a General Fixed Assets Account Group.

AUTHORITATIVE LITERATURE

AICPA Audit Guide, SOP 98-3

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), or Yellow Book, published by
General Accounting Office (Document #020-000-00-265-4)

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)

USEFUL INTERNET ADDRESSES

AICPA	http://www.aicpa.org
Catalog of Federal Domestic Assistance	http://www.gsa.gov/fdac/
Federal Audit Clearinghouse	http://harvester.census.gov/sac/
General Accounting Office (GAO)	http://www.gao.gov/
Governmental Accounting Standards Board	http://www.gasb.org
Michigan Department of Education	http://www.michigan.gov/mde
US Office of Management and Budget	http://www.whitehouse.gov/OMB
US Department of Education	http://www.ed.gov
Association of School Business Officials International	http://www.asbointl.org
MDE GASB 34 Guidance	http://www.michigan.gov/mde (under Money Matters)
President's Council on Integrity and Efficiency (PCIE) Quality Control Review (QCR)	http://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

Steven B. Barr, CPA, Controller Utica Community Schools 11303 Greendale Sterling Heights, MI 48312	Phone: 810.795.2300 Fax: 810.826.3245 sb1mucs@ucs.misd.net
Jeanette Bateman, CPA BKR Dupuis & Ryden 111 East Court Street, Suite 1A Flint, MI 48502-1647	Phone: 810.766.6066 Fax: 810.767.8150 jbateman@bkrdupuisryden.com
Julie Davis, Financial Analyst Grand Rapids City School District 1331 Franklin, SE Grand Rapids, MI 49506	Phone: 616.771.2068 Fax: 616.771.2104 davisj@grps.K12.mi.us
Bruce J. Dunn, CPA Maner, Costerisan & Ellis, PC 544 Cherbourg Drive, Suite 200 Lansing, MI 48917-5010	Phone: 517.323.7500 Fax: 517.323.6346 bdunn@mcecpa.com
Patricia Duperron, CPA BDO Seidman 99 Monroe Avenue, NW, Suite 800 Grand Rapids, MI 49503	Phone: 616.774.7000 Fax: 616.776.3680 pduperron@bdo.com
Ronald G. Eaton, CPA Robertson, Eaton & Owen, PC 121 North Main Street Adrian, MI 49221	Phone: 517.265.6154 Fax: 517.265.2572 reaton@tc3net.com
Eric V. Formberg, CPA Plante and Moran 2601 Cambridge Court, Suite 500 Auburn Hills, MI 48326	Phone: 248.375.7232 Fax: 248.375.7101 Eric.Formberg@plantemoran.com
Kim H. Lindsay, CPA Lewis & Knopf, CPAs 5206 Gateway Center, Suite 100 Flint, MI 48507	Phone: 810.238.4617 Fax: 810.238.5083 KLindsay@Lewis-Knopf.com
Mari McKenzie, CPA Yeo and Yeo, PC 3023 Davenport PO Box 3275 Saginaw, MI 48605 (48602 for street address)	Phone: 989.793.9830 Fax: 989.793.0186 marmck@yeoandyeo.com

Ric Peterson, CPA Michigan School Business Officials 1001 Centennial Way, No. 200 Lansing, MI 48917-9279	Phone: 517.327.5920 Fax: 517.327.0768 rpeterson@admin.melg.org
Scott Powers, CPA, Director of Accounting Lansing School District 519 West Kalamazoo Lansing, MI 48933	Phone: 517.325.6306 Fax: 517.325.6315 spowers@lsd.k12.mi.us
Gary Rasmussen, CPA Brickley DeLong, PC 500 Terrace Plaza PO Box 999 Muskegon, MI 49443-0999 (49440 for street address)	Phone: 231.726.3157 Fax: 231.722.0269 grasmuss@brickleydelong.com
Roxanne Nicholas, Auditor Michigan Department of Education PO Box 30008 Lansing, MI 48909	Phone: 517.241.4817 Fax: 517.335.4817 NicholasRR@michigan.gov
Glenda Rader, Accountant Michigan Department of Education PO Box 30008 Lansing, MI 48909	Phone: 517.335.0524 Fax: 517.241.0196 RaderG@michigan.gov
Kathleen A. Weller, CPA Director of Audits Michigan Department of Education PO Box 30008 Lansing, MI 48909	Phone: 517.335-6858 Fax: 517.335-4817 WellerK@michigan.gov
Rose Zuker, Accounting Specialist Michigan Department of Education PO Box 30008 Lansing, MI 48909	Phone: 517.335.2429 Fax: 517.241.0196 ZukerR@michigan.gov
Dawn Lake, Single Audit Coordinator Michigan Department of Education PO Box 30008 Lansing, MI 48909	Phone: 517.373.4591 Fax: 517.335-4817 LakeD@michigan.gov